UGI ENERGY SERVICES, LLC
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
and MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
for the years ended September 30, 2023 and 2022

UGI ENERGY SERVICES, LLC AND SUBSIDIARIES

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UGI ENERGY SERVICES, LLC AND SUBSIDIARIES

GLOSSARY OF TERMS AND ABBREVIATIONS

Terms and abbreviations used in this document are defined below:

UGI Energy Services and Related Entities

AmeriGas - AmeriGas Propane, L.P., an indirect wholly owned subsidiary of UGI

Aurum Renewables - Aurum Renewables LLC

Company - UGI Energy Services, LLC and its consolidated subsidiaries collectively

Energy Services - UGI Energy Services, LLC, a wholly owned subsidiary of Enterprises, or collectively, UGI Energy Services, LLC and its consolidated subsidiaries

Enterprises - UGI Enterprises, LLC, a wholly owned subsidiary of UGI

ESFC - Energy Services Funding Corporation, a wholly owned subsidiary of Energy Services

MBL Bioenergy - MBL Bioenergy, LLC, a joint venture partnership with the sole purpose of developing RNG projects in South Dakota.

Pennant - Pennant Midstream, LLC, an indirect wholly owned subsidiary of Energy Services

PennEast - PennEast Pipeline Company, LLC, formed to construct an approximate 120 mile natural gas pipeline from Luzerne County Pennsylvania to the Trenton-Woodbury interconnection in New Jersey. In September 2021 the partners of PennEast announced that further development of the pipeline project had ceased.

Pine Run - Pine Run Gathering, LLC

Stonehenge - Stonehenge Appalachia, LLC, a midstream natural gas gathering business

UGI - UGI Corporation

UGI Dakota, LLC - A wholly owned subsidiary of Energy Services that holds a 99.99% membership interest in MBL Bioenergy

UGI Moraine East - UGI Moraine East Gathering LLC, a wholly owned subsidiary comprising the assets acquired in the Stonehenge Acquisition

UGI PennEast, LLC - A wholly owned subsidiary of Energy Services that holds a 20% membership interest in PennEast

UGI Pine Run, LLC - A wholly owned subsidiary of Energy Services that holds a 49% membership interest in Pine Run

UGI Utilities - UGI Utilities, Inc., a wholly owned subsidiary of UGI comprising PA Gas Utility and Electric Utility

UGID - UGI Development Company, a wholly owned subsidiary of Energy Services

Other Terms and Abbreviations

AFUDC - Allowance for Funds Used During Construction

AOCI - Accumulated Other Comprehensive Income (Loss)

ARO - Asset Retirement Obligation

ASC - Accounting Standards Codification

ASC 606 - ASC 606, “Revenue from Contracts with Customers”

ASC 820 - ASC 820, "Fair Value Measurement"

ASC 980 - ASC 980, "Regulated Operations"

ASU - Accounting Standards Update

CMG - Columbia Midstream Group, LLC

Energy Services Amended Term Loan Credit Agreement - The first amendment to the Energy Services Term Loan Credit Agreement, entered into on February 23, 2023, comprising an $800 million variable-rate term loan with a final maturity of February 2030

Energy Services Credit Agreement - A five-year unsecured revolving credit agreement, as amended, entered into by Energy Services on March 6, 2020, providing for borrowings up to $260 million, including a letter of credit subfacility of up to $50 million, scheduled to expire in March 2025.

Energy Services Term Loan Credit Agreement - A seven-year $700 million variable rate senior secured term loan agreement entered into on August 13, 2019, by Energy Services which was amended on February 23, 2023 and referred to thereafter as the *Energy Services Amended Term Loan Credit Agreement*

FERC - Federal Energy Regulatory Commission

Fiscal 2021 - The fiscal year ended September 30, 2021

Fiscal 2022 - The fiscal year ended September 30, 2022

Fiscal 2023 - The fiscal year ending September 30, 2023

Fiscal 2024 - The fiscal year ending September 30, 2024

Fiscal 2025 - The fiscal year ending September 30, 2025

Fiscal 2026 - The fiscal year ending September 30, 2026

Fiscal 2027 - The fiscal year ending September 30, 2027

Fiscal 2028 - The fiscal year ending September 30, 2028

GAAP - U.S. generally accepted accounting principles

ICE - Intercontinental Exchange

LNG - Liquefied natural gas

MBL Bioenergy - MBL Bioenergy, LLC

NOL - Net operating loss

NPNS - Normal purchase and normal sale

NYMEX - New York Mercantile Exchange

Pennant Acquisition - Energy Services' Fiscal 2022 acquisition of the remaining 53% equity interest in Pennant

PennEnergy - PennEnergy Resources, LLC

PJM - PJM Interconnection, LLC

Receivables Facility - A receivables purchase facility of Energy Services with an issuer of receivables-backed commercial paper

ROU - Right-of-use

RNG - Renewable natural gas

SCAA - Storage Contract Administrative Agreement

Stonehenge Acquisition - Acquisition of Stonehenge Appalachia, LLC, which closed January 27, 2022

Term SOFR - Secured Overnight Financing Rate

U.S. - United States of America

USD - U.S. Dollar

VIE - Variable Interest Entity

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Report of Independent Auditors

To the Member and Management of UGI Energy Services, LLC

Opinion

We have audited the consolidated financial statements of UGI Energy Services, LLC and Subsidiaries (the Company), which comprise the consolidated balance sheets as of September 30, 2023 and 2022, and the related consolidated statements of comprehensive income, cash flows and changes in member's equity for the years then ended, and the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company at September 30, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Ernst + Young LLP

December 15, 2023

UGI ENERGY SERVICES, LLC AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Millions of dollars)

	September 30, 2023	September 30, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 28	$ 62
Restricted cash	42	43
Accounts receivable (less allowances for doubtful accounts of $2 and $2, respectively)	116	243
Accounts receivable - related parties	20	27
Inventories	25	59
Derivative instruments	6	61
Prepaid expenses and other current assets	59	61
Total current assets	296	556
Property, plant and equipment:		
Gross property, plant and equipment	2,401	2,311
Accumulated depreciation	(432)	(377)
Net property, plant and equipment	1,969	1,934
Goodwill	337	337
Intangible assets, net	236	250
Derivative instruments	6	49
Investments in equity method investees	264	110
Other assets	43	45
Total assets	$ 3,151	$ 3,281
LIABILITIES AND MEMBER'S EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 12	$ 10
Short-term borrowings	103	—
Accounts payable	84	211
Accounts payable - related parties	15	12
Derivative instruments	17	29
Other current liabilities	29	51
Total current liabilities	260	313
Long-term debt	808	700
Deferred income taxes	275	301
Derivative instruments	23	16
Other noncurrent liabilities	40	14
Total liabilities	1,406	1,344
Member's equity	1,745	1,937
Total liabilities and member's equity	$ 3,151	$ 3,281

See accompanying notes to consolidated financial statements.

UGI ENERGY SERVICES, LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Millions of dollars)

	Year Ended September 30, 2023	Year Ended September 30, 2022
Revenues	$ 1,853	$ 2,322
Costs and expenses:		
Cost of sales (excluding depreciation and amortization shown below)	1,596	1,897
Operating and administrative expenses	132	129
Depreciation and amortization	86	79
Other operating income, net	(17)	(4)
	1,797	2,101
Operating income	56	221
Income (loss) from equity method investees	6	(12)
Interest expense	(45)	(41)
Income before income taxes	17	168
Income tax benefit (expense)	13	(24)
Net income	$ 30	$ 144
Other comprehensive income:		
Net gains on derivative instruments (net of tax of $(4) and $(13), respectively)	9	32
Reclassifications of net (gains) losses on derivative instruments (net of tax of $7 and $(1), respectively)	(16)	4
Other comprehensive (loss) income	(7)	36
Comprehensive income	$ 23	$ 180

See accompanying notes to consolidated financial statements.

UGI ENERGY SERVICES, LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Millions of dollars)

	Year Ended September 30,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 30	$ 144
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	86	79
Deferred income tax benefit, net	(22)	(4)
Changes in unrealized gains and losses on derivative instruments	230	14
(Income) loss from equity method investees	(6)	12
Distributions received from equity method investees	—	19
Settlement of interest rate swap, net of amortization	19	—
Other, net	7	9
Net change in:		
Accounts receivable	120	(145)
Inventories	34	(23)
Accounts payable	(134)	84
Derivative instruments collateral (paid) received	(134)	8
Other current assets	2	(10)
Other current liabilities	(22)	10
Net cash provided by operating activities	210	197
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for property, plant and equipment	(126)	(38)
Acquisitions of assets, net of cash acquired	—	(242)
Investments in equity method investments	(119)	(34)
Other, net	—	11
Net cash used by investing activities	(245)	(303)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Distributions	(215)	—
Increase in short-term borrowings	57	—
Receivables Facility net borrowings	46	—
Issuances of debt, net of discount and issuance costs	792	—
Repayments of debt	(680)	(7)
Net cash used by financing activities	—	(7)
Cash, cash equivalents and restricted cash decrease	$ (35)	$ (113)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH:		
End of year	$ 70	$ 105
Beginning of year	105	218
Cash, cash equivalents and restricted cash decrease	$ (35)	$ (113)
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for:		
Interest	$ 21	$ 40
Income taxes	$ 1	$ 20

See accompanying notes to consolidated financial statements.

UGI ENERGY SERVICES, LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBER'S EQUITY
(Millions of dollars)

	Member's Equity
Balance at September 30, 2021	$ 1,757
Net income	144
Changes in AOCI balance (Note 12)	36
Balance at September 30, 2022	$ 1,937
Net income	30
Cash distributions	(215)
Changes in AOCI balance (Note 12)	(7)
Balance at September 30, 2023	$ 1,745

See accompanying notes to consolidated financial statements.

Note 1 — Nature of Operations

Energy Services is a Pennsylvania limited liability company and a wholly owned subsidiary of Enterprises. Enterprises is a wholly owned subsidiary of UGI. Energy Services is a sole member limited liability company with Enterprises owning 100% of the membership interest.

Energy Services conducts, directly and through subsidiaries and affiliates, energy marketing including RNG, midstream transmission, LNG storage, natural gas gathering and processing, natural gas and RNG production, electricity generation and energy services businesses primarily in the eastern region of the U.S., eastern Ohio, the panhandle of West Virginia and California. UGID owns electric generation facilities principally located in Pennsylvania. Energy Services and its subsidiaries' storage, LNG and portions of its midstream transmission operations are subject to regulation by the FERC.

Note 2 — Summary of Significant Accounting Policies

Basis of Presentation

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

Principles of Consolidation

The consolidated financial statements include all the accounts of Energy Services, its majority-owned subsidiaries and VIEs, if any, where it has concluded that it is the primary beneficiary. A VIE is defined as a legal entity that has equity investors that do not have sufficient equity at risk for the entity to support its activities without additional subordinated financial support or, as a group, the holders of the equity at risk lack (i) the power to direct the entity's activities or (ii) the obligation to absorb the expected losses or the right to receive the expected residual returns of the entity. A VIE is required to be consolidated by a company if that company is the primary beneficiary. The primary beneficiary is the entity that has a controlling financial interest in the VIE such that it has the power to direct the activities of the VIE that most significantly impact the VIE's financial performance.

We eliminate intercompany accounts and transactions when we consolidate. We account for privately held equity securities of entities without readily determinable fair values in which we do not have control, but have significant influence over operating and financial policies, under the equity method. Equity method earnings are included in "Income (loss) from equity method investees" on the Consolidated Statements of Comprehensive Income. Distributions received from equity method investments are included in cash flows from operating activities on the Consolidated Statements of Cash Flows. For a more detailed description of our equity method investments, see Note 14. Energy Services' wholly owned, special purpose subsidiary, ESFC, is consolidated for financial statement purposes (see Note 5).

Effects of Regulation

A subsidiary of the Company accounts for the financial effects of regulation in accordance with the ASC 980. In accordance with this guidance, incurred costs that would otherwise be charged to expense are capitalized and recorded as regulatory assets when it is probable that the incurred costs will be recovered through rates in the future. Similarly, we recognize regulatory liabilities when it is probable that regulators will require customer refunds through future rates or when revenue is collected from customers for expenditures that have not yet been incurred. Generally, regulatory assets and liabilities are amortized into expense and income over the periods authorized by the respective regulatory body. At September 30, 2023 and 2022, regulatory assets and regulatory liabilities were not material.

Fair Value Measurements

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

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

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

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

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

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

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

Derivative Instruments

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

Certain of our derivative instruments 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. We do not designate our commodity derivative instruments as hedges under GAAP. Changes in the fair values of these derivative instruments are reflected in net income. Cash flows from derivative instruments are included in cash flows from operating activities on the Consolidated Statements of Cash Flows.

For a more detailed description of the derivative instruments we use, our accounting for derivatives, our objectives for using them and other information see Note 11.

Revenue Recognition

In accordance with ASC 606, the Company recognizes revenue when control of promised goods or services is transferred to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. Certain revenues such as revenue from leases, financial instruments and other revenues are not within the scope of ASC 606 because they are not from contracts with customers. Such revenues are accounted for in accordance with other GAAP.

Revenue-related taxes collected on behalf of customers and remitted to taxing authorities, principally sales and use taxes, are not included in revenues. Gross receipts taxes are presented on a gross basis. The Company has elected to use the practical expedient to expense the costs to obtain contracts when incurred for contracts that have a term less than one year. The costs incurred to obtain contracts that have durations of longer than one year are not material. See Note 3 for additional disclosures regarding the Company's revenue from contracts with customers.

(Millions of dollars, except where indicated otherwise)

Accounts Receivable

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

Income Taxes

We join with UGI and its subsidiaries in filing a consolidated federal income tax return. In all periods presented, we joined with UGI as disregarded entities in filing state tax returns. We are charged or credited for our share of current taxes resulting from the effects of our transactions in the UGI consolidated federal income tax return and combined state income tax returns including giving effect to intercompany transactions. The result of this allocation is consistent with income taxes calculated on a separate return basis. Accordingly, income tax-related payments and accrued income tax balances principally reflect transactions with UGI resulting from this allocation. Investment tax credits associated with the Company's qualifying renewable natural gas property under the Inflation Reduction Act of 2022 are reflected in income taxes. We record interest on tax deficiencies and income tax penalties, if any, in "Income tax benefit (expense)" on the Consolidated Statements of Comprehensive Income. Interest income or expense recognized in "Income tax benefit (expense)" on the Consolidated Statements of Comprehensive Income was not material for all periods presented.

Cash, Cash Equivalents and Restricted Cash

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

The following table provides a reconciliation of the total cash, cash equivalents and restricted cash reported on the Consolidated Balance Sheets to the corresponding amounts reported on the Consolidated Statements of Cash Flows.

	2023	2022
Cash and cash equivalents	$ 28	$ 62
Restricted cash	42	43
Cash, cash equivalents and restricted cash	$ 70	$ 105

Inventories

Inventories principally comprise natural gas, liquefied natural gas and, to a lesser extent, propane. Our inventories are stated at the lower of cost or net realizable value. We determine cost using an average cost method.

Leases

Our leased assets principally comprise real estate which is accounted for as a finance lease. Rent expense associated with our finance lease results in the separate presentation of interest expense on the lease liability and amortization expense of the related right-of-use asset in operating and administrative expenses on our Consolidated Statements of Comprehensive Income. Our finance lease ROU assets as of September 30, 2023 and 2022 were $42 and $44, respectively, and are included in property, plant and equipment on the Consolidated Balance Sheets. We also lease certain equipment under operating leases. Rent expense associated with our operating leases, and associated ROU assets and liabilities, were not material for all periods presented. For additional information on our finance lease liabilities, see Note 5.

Property, Plant and Equipment and Related Depreciation

We record property, plant and equipment at the lower of original cost or fair value, if impaired. Capitalized costs include labor, materials and other direct and indirect costs, and for certain operations subject to cost-of-service rate regulation, AFUDC. We also include in property, plant and equipment costs associated with computer software we develop or obtain for use in our business. The amounts assigned to property, plant and equipment of acquired businesses are based upon estimated fair value at date of acquisition. When we retire or otherwise dispose of plant and equipment, we eliminate the associated cost and accumulated depreciation and recognize any resulting gain or loss in "Other operating income, net" on the Consolidated Statements of Comprehensive Income.

We record depreciation expense on plant and equipment on a straight-line basis over estimated economic useful lives. Our natural gas production assets are depreciated on the units of production method. We classify amortization of computer software and related IT system installation costs included in property, plant and equipment as depreciation expense. No depreciation expense is included in "Cost of sales" on the Consolidated Statements of Comprehensive Income.

Goodwill and Intangible Assets.

Intangible Assets. We amortize intangible assets over their estimated useful lives unless we determine their lives to be indefinite. Estimated useful lives of definite-lived intangible assets, primarily consisting of customer relationships, generally do not exceed 15 years except for customer relationships at CMG which have an estimated useful life of 35 years.

We test definite-lived intangible assets for impairment whenever events or changes in circumstances indicate that the associated carrying amounts may be impaired. Determining whether an impairment loss occurred requires comparing the carrying amount to the estimated fair value of the asset in accordance with ASC 820. There were no such indicators identified in Fiscal 2023 or Fiscal 2022.

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

From time to time, we assess qualitative factors to determine whether it is more likely than not that the fair value of such reporting unit is less than its carrying amount. We may bypass the qualitative assessment and perform the quantitative assessment by comparing the fair values of the reporting units with their carrying amounts, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized in an amount equal to such excess but not to exceed the total amount of the goodwill of the reporting unit. There were no accumulated goodwill impairment losses at September 30, 2023 and 2022 and there were no impairments of goodwill recognized in all periods presented. For further information on our goodwill and intangible assets, see Note 8.

Impairment of Long-Lived Assets

Impairment testing for long-lived assets or an asset group is required when circumstances indicate that such assets may be impaired. If it is determined that a triggering event has occurred, we perform a recoverability test based upon estimated undiscounted cash flow projections expected to be realized over the remaining useful life of the long-lived asset. If the undiscounted cash flows used in the recoverability test are less than the long-lived asset's carrying amount, we determine its fair value. If the fair value is determined to be less than its carrying amount, the long-lived asset is reduced to its estimated fair value and an impairment loss is recognized in an amount equal to such shortfall. When determining whether a long-lived asset has been impaired, management groups assets at the lowest level that have identifiable cash flows that are independent of other assets.

No provisions for impairments of long-lived assets were recorded for all periods presented.

Asset Retirement Obligation

The Company accounts for AROs in accordance with GAAP which requires that an ARO be recorded when a legal obligation to retire an asset exists, and such obligation can be reasonably estimated. The Company has determined that it has legal obligations associated with certain of its property, plant and equipment primarily those associated with its natural gas gathering assets.

The obligations associated with its natural gas gathering assets relate primarily to purging and sealing pipelines if abandoned and, in certain instances, the removal of such facilities. With respect to the Company's natural gas gathering and certain of its other assets, AROs were not recorded because the Company plans to operate and maintain these natural gas gathering and other facilities as long as supply and demand for natural gas and natural gas liquids exists, which the Company expects for the foreseeable future. Therefore, the Company believes that these assets have indeterminate lives, and no AROs were recorded at September 30, 2023 and 2022. The Company continues to evaluate its AROs and future developments that could impact its AROs.

Subsequent Events. Management has evaluated the impact of subsequent events through December 15, 2023, the date these financial statements were issued, and the effects of such evaluation have been reflected in the financial statements and related disclosures.

Note 3 — Revenue from Contracts with Customers

Energy Services 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. Energy Services generally has the right to consideration from a customer in an amount that corresponds directly with the value to the customer for performance completed to date. As such, we have elected to recognize revenue in the amount to which we have a right to invoice except in the case of certain of our peaking contracts for which we recognize revenue on a straight-line basis over the term of the contract, consistent with when the performance obligations are satisfied by Energy Services.

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

Energy Services revenues from contracts with customers are discussed below.

Energy Marketing. Energy Services operates energy marketing businesses that sell energy commodities, principally natural gas, including RNG, and electricity, to residential, commercial, industrial and wholesale customers.

Energy Services markets natural gas and electricity on full-requirements or agreed-upon volume bases under contracts with varying length terms and at fixed or floating prices that are based on market indices adjusted for differences in price between the market location and delivery locations. Performance obligations associated with these contracts primarily comprise the delivery of the natural gas and electricity over a contractual period of time. Performance obligations also include other energy-related ancillary services provided to customers such as capacity. For performance obligations that are satisfied at a point in time such as the delivery of natural gas, revenue is recorded when customers take control of the natural gas. Revenue is recorded for performance obligations that qualify as a series, when customers consume the natural gas or electricity is delivered, which corresponds to the amount invoiced to the customer. For transactions where the price or volume is not fixed, the transaction price is not determined until delivery occurs. The billed amount, and the revenue recorded, is based upon consumption by the customer.

Midstream. Energy Services provides natural gas pipeline transportation, natural gas gathering, natural gas processing and natural gas underground storage services, which generally contain a performance obligation for Energy Services to have availability to transport or store a product. Additionally, Energy Services provides stand-ready services to sell supplemental energy products and related services, primarily LNG and propane-air mixtures during periods of high demand that typically result from cold weather. Energy Services also sells LNG to end-user customers for use by trucks, drilling rigs and other motor vehicles and equipment, and facilities that are located off the natural gas grid.

Contracts for natural gas transportation and gathering services are typically long-term contracts with terms of up to 30 years, while contracts for storage are typically for one-year or multiple storage season periods. Contracts to provide natural gas during periods of high demand have terms of up to 15 years. Contracts to sell LNG for trucks, drilling rigs and other motor vehicles and equipment are typically short-term (less than one year). Depending on the type of services provided or goods sold, midstream revenues may consist of demand rates, commodity rates, and transportation rates and may include other fees for ancillary services. Pipeline transportation, natural gas gathering and storage services provided and services to stand ready to sell supplemental energy products and services each are considered to have a single performance obligation satisfied through the passage of time ratably based upon providing a stand-ready service generally on a monthly basis. Contracts to sell LNG to end-user customers contain performance obligations to deliver LNG over the term of the contract and revenue is recognized at a point in time when the control of the energy products is transferred to the customer. The price in the contract corresponds to our efforts to satisfy the performance obligation and reflects the consideration we expect to receive for the satisfied performance obligation, and, therefore, the revenue is recognized based on the volume delivered and the price within the contract. In cases where shipping and handling occurs prior to the LNG being delivered to the customer's storage vessel, we have elected to treat this as a cost of fulfillment and not a separate performance obligation. Revenues are typically billed and payment received monthly. Advance fees received from customers for stand-ready services are deferred as contract liabilities and revenue is recognized ratably over time as the performance obligation is satisfied over a period less than one year.

(Millions of dollars, except where indicated otherwise)

A subsidiary of Energy Services provides natural gas transportation services to customers who are generally billed at standard regulated tariff rates approved by FERC through a ratemaking process. Tariff rates include a component that provides for a reasonable opportunity to recover operating costs and expenses and to earn a return on net investment.

Electricity Generation. UGID sells power generated from electric generation assets in the wholesale electricity markets administered by PJM regional transmission organization. Power contracts with PJM consist of the sale of power, capacity and ancillary services, all of which are considered a bundle of various services. Performance obligations are satisfied over time, generally on a daily basis, as electricity is delivered to and simultaneously consumed by the customer. As such, UGID has elected to recognize revenue in the amount to which we have a right to invoice which is based on market prices at the time of the delivery of the electricity to the customers.

Revenue Disaggregation

The following table presents our disaggregated revenues during Fiscal 2023 and Fiscal 2022:

	2023	2022
Revenues from contracts with customers:		
Energy Marketing	$ 1,410	$ 1,917
Midstream:		
Pipeline	251	211
Peaking	137	153
Other	14	9
Electricity Generation	33	34
Total revenues from contracts with customers	1,845	2,324
Other revenues (a)	8	(2)
Total revenues	$ 1,853	$ 2,322

(a) Represents rental revenues from certain assets and gains and losses on commodity derivative instruments not associated with current-period transactions that are not within the scope of ASC 606 and are accounted for in accordance with other GAAP.

Contract Balances

The timing of revenue recognition may differ from the timing of invoicing to customers or cash receipts. Contract assets represent our right to consideration after the performance obligations have been satisfied when such right is conditioned on something other than the passage of time. Contract assets were not material at September 30, 2023 and 2022. Substantially all of our receivables are unconditional rights to consideration and are included in "Accounts receivable" on the Consolidated Balance Sheets. Amounts billed are generally due within the following month.

Contract liabilities arise when payment from a customer is received before the performance obligations have been satisfied and represent the Company's obligations to transfer goods or services to a customer for which we have received consideration. The balances of contract liabilities were $7 and $9 at September 30, 2023 and 2022, respectively, and are included in “Other current liabilities” and "Other noncurrent liabilities" on the Consolidated Balance Sheets.

Note 4 — Acquisitions

Acquisitions of Assets

Pennant. During the fourth quarter of Fiscal 2022, Energy Services completed the Pennant Acquisition and acquired the remaining 53% of the equity interests in Pennant for total cash consideration of approximately $61. The Pennant Acquisition was funded using available cash. The acquisition of the remaining interests has been accounted for as an acquisition of assets, and the purchase price has been primarily allocated to property, plant and equipment. See Note 14 for additional information related to the acquired interest in Pennant.

Stonehenge. In January 2022, Energy Services completed the Stonehenge Acquisition and acquired all of the equity interests in Stonehenge for total cash consideration of approximately $190. The Stonehenge business includes a natural gas gathering system, located in western Pennsylvania, with more than 47 miles of pipeline and associated compression assets. The Stonehenge Acquisition is consistent with our growth strategies, including expanding our midstream natural gas gathering assets within the Appalachian basin production region. The Stonehenge Acquisition was funded using available cash. This transaction has been accounted for as an acquisition of assets, and the purchase price has been primarily allocated to property, plant and equipment. We refer to Stonehenge and its assets as “UGI Moraine East.”

Note 5 — Debt

Significant Financing Activities Since September 30, 2022

Energy Services Credit Agreement. On May 12, 2023, the Company entered into the second amendment to the Energy Services Credit Agreement, which provides that the Term SOFR rate (as defined in the Energy Services Credit Agreement) shall replace LIBOR as a reference rate. After giving effect to the second amendment, the Energy Services Credit Agreement shall bear interest at a floating rate of, at the Company's option, either (i) Term SOFR plus the Applicable Rate (as defined in the Energy Services Credit Agreement) plus a credit spread adjustment of 0.10%, or (ii) the base rate plus the applicable margin that is based on the leverage of the Company.

Energy Services Amended Term Loan Credit Agreement. On February 23, 2023, the Company entered into the Energy Services Amended Term Loan Credit Agreement, the first amendment to the Energy Services Term Loan Credit Agreement, dated August 13, 2019. The Energy Services Amended Term Loan Credit Agreement provides, among other items, that (i) the outstanding principal amount of the loans shall be increased by $125 to $800, (ii) the maturity date of the loans shall be extended to February 22, 2030, (iii) Term SOFR (as defined in the Energy Services Amended Term Loan Credit Agreement) shall replace LIBOR as a reference rate and (iv) borrowings under the Energy Services Amended Term Loan Credit Agreement shall bear interest at a floating rate of, at Energy Services’ option, either (x) Term SOFR plus the applicable margin plus a credit spread adjustment of 0.10% or (y) the base rate, as defined in the Agreement, plus the applicable margin. The applicable margin shall be 3.25% per annum for Term SOFR loans and 2.25% per annum for base rate loans. Borrowings under the Energy Services Amended Term Loan Credit Agreement are payable in equal quarterly installments of $2, commencing in March 2023, with the balance of the principal being due and payable in full at maturity.

The Energy Services Amended Term Loan Credit Agreement contains customary covenants and default provisions and requires compliance with certain financial covenants including a minimum debt service coverage ratio as defined in the Agreement.

In March 2023, in connection with the Energy Services Amended Term Loan Credit Agreement, the Company terminated and settled its existing interest rate swap associated with the Energy Services Term Loan Credit Agreement at a $32 gain. This gain has been deferred in AOCI and is being amortized to interest expense over the remaining term of the initial interest rate swap ending July 2024. The Company entered into a new interest rate swap, effective March 31, 2023, that fixes the underlying market-based interest rate on this variable-rate term loan at 4.53% through September 2026.

(Millions of dollars, except where indicated otherwise)

Credit Facilities and Short-term Borrowings

Energy Services has a revolving credit facility under the Energy Services Credit Agreement, which expires in March 2025 and includes a $50 sublimit for letters of credit. Borrowings outstanding under this agreement, if any, are classified as "Short-term borrowings" on the Consolidated Balance Sheets. At September 30, 2023, there were $57 borrowings outstanding under this facility and the Company's available borrowing capacity under the facility was $203. The weighted average interest rate on borrowings outstanding at September 30, 2023 was 7.67%. There were no borrowings outstanding under this facility as of September 30, 2022.

Accounts Receivable Securitization Facility. Energy Services has a Receivables Facility with an issuer of receivables-backed commercial paper. On October 20, 2023, the expiration date of the Receivables Facility was extended to October 18, 2024. The Receivables Facility provides Energy Services with the ability to borrow up to $200 of eligible receivables during the period October 20, 2023 to April 30, 2024, and up to $100 of eligible receivables during the period May 1, 2024 to October 18, 2024. Energy Services uses the Receivables Facility to fund working capital, margin calls under commodity futures contracts, capital expenditures, dividends and for general corporate purposes.

Under the Receivables Facility, Energy Services transfers, on an ongoing basis and without recourse, its trade accounts receivable to its wholly owned, special purpose subsidiary, ESFC, which is consolidated for financial statement purposes. ESFC, in turn, has sold and, subject to certain conditions, may from time to time sell, an undivided interest in some or all of the receivables to a major bank. Amounts sold to the bank are reflected as "Short-term borrowings" on the Consolidated Balance Sheets. ESFC was created and has been structured to isolate its assets from creditors of Energy Services and its affiliates, including UGI. Trade receivables sold to the bank remain on the Company's balance sheet and the Company reflects a liability equal to the amount advanced by the bank. The Company records interest expense on amounts owed to the bank. Energy Services continues to service, administer and collect trade receivables on behalf of the bank, as applicable.

Information regarding the amounts of trade receivables transferred to ESFC and the amounts sold to the bank are as follows:

	2023	2022
Trade receivables transferred to ESFC during the year	$ 1,946	$ 2,221
ESFC trade receivables sold to the bank during the year	$ 535	$ 152
ESFC trade receivables - end of year (a)	$ 62	$ 101

(a) At September 30, 2023, the amounts of ESFC trade receivables sold to the bank was $46, and is reflected as "Short-term borrowings" on the Consolidated Balance Sheets. At September 30, 2022, there were no ESFC trade receivables sold to the bank.

Long Term Debt

Long-term debt comprises the following at September 30:

	2023	2022
Variable-rate term loan due through February 2030 (a)	$ 794	$ —
Variable-rate term loan due through August 2026 (a)	—	677
Other (b)	41	40
Total long-term debt	835	717
Less: unamortized discount and debt issuance costs	(15)	(7)
Less: current maturities	(12)	(10)
Total long-term debt due after one year	$ 808	$ 700

(a) At September 30, 2023 and 2022, the effective interest rates on the term loan were 7.82% and 5.13%, respectively. We have entered into a pay-fixed, receive-variable interest rate swap to effectively fix the underlying variable rate at 4.53% on these borrowings through September 2026. Term loan borrowings are due in equal quarterly installments of $2, with the balance of the principal being due in full at maturity. Under certain circumstances, Energy Services is required to make additional principal payments if the consolidated total leverage ratio, as defined, is greater than defined thresholds. This term loan is collateralized by substantially all of the assets of Energy Services, subject to certain exceptions and carveouts including, but not limited to, accounts receivable and certain real property. On February 23, 2023, the Company entered into the Energy Services Amended Term Loan Credit Agreement which, among other items, extended the maturity date to February 2030. *See Significant Financing Activities Since September 30, 2022* above for additional information.

(Millions of dollars, except where indicated otherwise)

(b) Amounts consist of a finance lease liability with a weighted average remaining lease term of approximately 27 years at September 30, 2023. The weighted average discount rate on this lease liability was 6.4% for both periods presented. The associated ROU assets as of September 30, 2023 and 2022 were $42 and $44, respectively, and are included in property, plant and equipment on the Consolidated Balance Sheets.

Scheduled principal repayments of long-term debt and finance leases for each of the next five fiscal years are as follows: Fiscal 2024 - $12; Fiscal 2025 - $8; Fiscal 2026 - $8; Fiscal 2027 - $8; and Fiscal 2028 - $8.

Restrictive Covenants. Our long-term debt and the Energy Services Credit Agreement generally contain customary covenants and default and cross-default provisions which may include, among other things, restrictions on the incurrence of additional indebtedness and also restrict liens, guarantees, investments, loans and advances, payments, mergers, consolidations, asset transfers, transactions with affiliates, sales of assets, acquisitions and other transactions. The agreement contains standard provisions which require compliance with certain financial ratios. Energy Services was in compliance with all debt covenants as of September 30, 2023.

Note 6 — Income Taxes

The provisions for income taxes consist of the following:

	2023	2022
Current income tax expense:		
Federal	$ 6	$ 23
State	3	5
Total current income tax expense	9	28
Deferred expense (benefit):		
Federal	(15)	13
State	(7)	(17)
Total deferred income tax benefit	(22)	(4)
Total income tax (benefit) expense	$ (13)	$ 24

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

	2023	2022
Statutory federal tax rate	21.0 %	21.0 %
Difference in tax rate due to:		
Tax impacts of PennEast impairment	(70.5)	(1.0)
Unrecognized income tax benefits	94.8	—
Investment tax credits	(52.3)	—
Effect of state tax legislation, net of federal benefit	(41.0)	(12.7)
Mark-to-market derivative deferred tax adjustment	(18.8)	—
State income taxes, net of federal benefit	8.6	7.1
U.S. federal and state provision to return adjustment	(7.6)	—
Property, plant, and equipment deferred tax adjustment	4.1	—
Research credits	(2.1)	—
Other, net	0.7	(0.3)
Effective tax rate	(63.1)%	14.1 %

(Millions of dollars, except where indicated otherwise)

In July 2022, tax legislation was enacted in Pennsylvania reducing the state's corporate net income tax rate from 9.99% to 4.99% over a nine year period, beginning with an initial reduction to 8.99% commencing in Fiscal 2024. The legislation resulted in a $7 and $20 benefit being recorded in Fiscal 2023 and Fiscal 2022, respectively based on the Company's analysis of future reversals of net deferred tax liabilities.

At September 30, 2023 and 2022, the Company had income taxes receivable of $40 and $29, respectively, included in "Prepaid expenses and other current assets" on the Consolidated Balance Sheets.

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

	2023	2022
Gross deferred tax liabilities:		
Excess book basis over tax basis of property, plant and equipment	$ 268	$ 243
Derivative financial instruments	—	48
Goodwill and other intangible assets	29	22
Investments in equity method investees	14	—
ROU assets	10	11
Total gross deferred tax liabilities	321	324
Gross deferred tax assets:		
Derivative financial instruments	(21)	—
State net operating loss carryforwards	(3)	(4)
Inventory capitalization	(1)	(3)
Investments in equity method investees	—	(19)
Lease liabilities	(11)	(11)
Other	(14)	(13)
Total gross deferred tax assets	(50)	(50)
Deferred tax assets valuation allowance	—	22
Net deferred tax liabilities	$ 271	$ 296

We join with UGI and its subsidiaries in filing a consolidated federal income tax return. We are charged or credited for our share of current taxes resulting from the effects of our transactions in the UGI consolidated federal income tax return including giving effect to intercompany transactions. UGI's federal income tax returns are settled through the tax year 2019.

In Fiscal 2023 and Fiscal 2022, we joined with UGI as disregarded entities in filing state tax returns. We are charged or credited for our share of current taxes resulting from the effects of our transactions in the UGI combined state income tax returns including giving effect to intercompany transactions. We file separate company income tax returns in a number of states but are subject to state income tax principally in Pennsylvania. Pennsylvania income tax returns are generally subject to examination for a period of three years after the filing of the respective returns.

Valuation allowances against deferred tax assets decreased in Fiscal 2023 due to capital losses from the PennEast investment being recharacterized as ordinary losses.

The Company's unrecognized tax benefits including amounts related to accrued interest, which if subsequently recognized would be recorded as a benefit to income taxes, amounted to $17 and $0 at September 30, 2023 and 2022, respectively. Generally, a net reduction in unrecognized tax benefits could occur because of the expiration of the statute of limitations in certain jurisdictions or as a result of the settlements with tax authorities. The expected change in unrecognized tax benefits and related interest in the next twelve months as the result of the expiration of certain statues is immaterial.

(Millions of dollars, except where indicated otherwise)

A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows:

	2023	2022
Unrecognized tax benefits - beginning of year	$ —	$ —
Increases for tax positions taken in prior years	17	—
Unrecognized tax benefits - end of year	$ 17	$ —

Note 7 — Property, Plant and Equipment

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

	2023	2022	Estimated Useful Life
Land	$ 20	$ 20	
Buildings and improvements	70	70	30 - 40 years
Storage and distribution facilities	438	434	15 - 40 years
Electricity generation assets	190	216	22 - 40 years
Pipeline and related assets	1,577	1,523	25 - 40 years
Other	26	31	3 - 13 years
Construction in process	80	17	
Gross property, plant and equipment	$ 2,401	$ 2,311	

Depreciation expense totaled $75 and $68 for Fiscal 2023 and Fiscal 2022, respectively.

Note 8 — Goodwill and Intangible Assets

Changes in the carrying amount of goodwill were not material in all periods presented.

Intangible assets comprise the following at September 30:

	2023	2022
Customer relationships	$ 280	$ 295
Land development rights and other	—	26
Accumulated amortization	(44)	(71)
Intangible assets, net	$ 236	$ 250

Amortization expense of intangible assets was $10 and $13 for Fiscal 2023 and Fiscal 2022, respectively. Estimated amortization expense of intangible assets is $10 in each of the next five fiscal years.

Note 9 — Commitments and Contingencies

There are currently no pending claims or legal actions that could have a material adverse effect on our financial position or results of operations.

(Millions of dollars, except where indicated otherwise)

Note 10 — Fair Value Measurements

Derivative Instruments

The following table presents on a gross basis, our financial assets and liabilities including both current and noncurrent portions, that are measured at fair value on a recurring basis within the fair value hierarchy as described in Note 2.

	Asset (Liability)			
	Level 1	Level 2	Level 3	Total
September 30, 2023				
Derivative instruments:				
Assets:				
Commodity contracts	$ 104	$ 9	$ —	$ 113
Interest rate contracts	$ —	$ 3	$ —	$ 3
Liabilities:				
Commodity contracts	$ (179)	$ (12)	$ —	$ (191)
September 30, 2022				
Derivative instruments:				
Assets:				
Commodity contracts	$ 368	$ 30	$ —	$ 398
Interest rate contracts	$ —	$ 31	$ —	$ 31
Liabilities:				
Commodity contracts	$ (263)	$ (14)	$ —	$ (277)

The fair values of our Level 1 exchange-traded commodity futures and non exchange-traded commodity futures and forward contracts are based upon actively quoted market prices for identical assets and liabilities. The remainder of our derivative instruments are designated as Level 2. The fair values of certain non-exchange traded commodity derivatives designated as Level 2 are based upon indicative price quotations available through brokers, industry price publications or recent market transactions and related market indicators. The fair values of our Level 2 interest rate contracts are based upon third party quotes or indicative values based on recent market transactions.

Note 11 — 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. Although our commodity derivative instruments extend over a number of years, a significant portion of our commodity derivative instruments economically hedge commodity price risk during the next twelve months. For 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 certain market risks:

Commodity Price Risk

In order to manage market price risk relating to fixed-price sales contracts for natural gas and electricity, the Company enters into NYMEX and over-the-counter natural gas futures, forward and options contracts, ICE natural gas basis swap contracts, and electricity futures and forward physical contracts. The Company also uses NYMEX and over the counter electricity futures contracts to economically hedge the price of a portion of its anticipated future sales of electricity from its electric generation facilities. Also, Energy Services, from time to time, uses NYMEX futures contracts to economically hedge the gross margin associated with the purchase and anticipated later near-term sale of propane. At September 30, 2023 and 2022, volumes associated with these propane contracts were not material.

Interest Rate Risk

Energy Services has a variable-rate term loan that is indexed to a short-term market interest rate. In order to fix the underlying short-term market interest rate, Energy Services has entered into a pay-fixed, receive-variable interest rate swap to effectively fix the underlying variable rate on a significant portion of the loan's tenor through September 2026. We have designated this interest rate swap as a cash flow hedge. At September 30, 2023, the amount of pre-tax net gains associated with this interest rate swap expected to be reclassified into earnings during the next twelve months based upon current fair values is approximately $25. In March 2023, in connection with the Energy Services Amended Term Loan Credit Agreement, Energy Services terminated and settled its existing interest rate swap associated with the Energy Services Term Loan Credit Agreement (see Note 5).

Quantitative Disclosures Related to Derivative Instruments

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

			Notional Amounts (in millions)	
			September 30,	
Type	Units	Settlements Extending Through	2023	2022
Commodity Price Risk:				
Natural gas futures, forward, basis swap, options and pipeline contracts	Dekatherms	December 2027	336	335
Electricity forward and futures contracts	Kilowatt hours	December 2026	615	816
Interest Rate Risk:				
Interest rate swaps	USD	September 2026	$ 756	$ 642

Derivative Instrument Credit Risk

We are exposed to risk of loss in the event of nonperformance by our derivative instrument counterparties. Our derivative instrument counterparties principally comprise large energy companies and major U.S. and international financial institutions. We maintain credit policies with regard to our counterparties that we believe reduce overall credit risk. These policies include evaluating and monitoring our counterparties' financial condition, including their credit ratings, and entering into agreements with counterparties that govern credit limits or entering into netting agreements that allow for offsetting counterparty receivable and payable balances for certain financial transactions, as deemed appropriate.

We have concentrations of credit risk associated with derivative instruments and we evaluate the creditworthiness of our derivative counterparties on an ongoing basis. As of September 30, 2023, the maximum amount of loss, based upon the gross fair values of the derivative instruments, we would incur if these counterparties failed to perform according to the terms of their contracts was $116. In general, many of our over-the-counter derivative instruments and all exchange contracts call for the posting of collateral by the counterparty or by the Company in the forms of letters of credit, parental guarantees or cash. At September 30, 2023, we had received cash collateral from derivative instrument counterparties totaling $1. In addition, we may have offsetting derivative liabilities and certain accounts payable balances with certain of these counterparties, which further mitigates the previously mentioned maximum amount of losses. We generally do not have credit-risk-related contingent features in our derivative contracts.

(Millions of dollars, except where indicated otherwise)

Offsetting Derivative Assets and Liabilities

Derivative assets and liabilities are presented net by counterparty on the Consolidated Balance Sheets if the right of offset exists. 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 Consolidated Balance Sheets with our derivative counterparties are not included in the table below but could reduce our net exposure to such counterparties because such balances are subject to master netting or similar arrangements.

Fair Value of Derivative Instruments

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

	2023	2022
Derivative assets:		
Derivatives designated as hedging instruments:		
Interest rate contracts	$ 3	$ 31
Derivatives not designated as hedging instruments:		
Commodity contracts	113	398
Total derivative assets - gross	116	429
Gross amounts offset in balance sheet	(103)	(230)
Cash collateral received	(1)	(89)
Total derivative assets - net	$ 12	$ 110
Derivative liabilities:		
Derivatives not designated as hedging instruments:		
Commodity contracts	$ (191)	$ (277)
Total derivative liabilities - gross	(191)	(277)
Gross amounts offset in balance sheet	103	230
Cash collateral pledged	48	2
Total derivative liabilities - net	$ (40)	$ (45)

(Millions of dollars, except where indicated otherwise)

Effect of Derivative Instruments

The following tables provide information on the effects of derivative instruments on the Consolidated Statements of Comprehensive Income for Fiscal 2023 and Fiscal 2022:

	Gain Recognized in AOCI		Gain (Loss) Reclassified from AOCI into Income		Location of Gain (Loss) Reclassified from AOCI into Income
	2023	2022	2023	2022	
Cash Flow Hedges:					
Interest rate contracts	$ 13	$ 45	$ 23	$ (5)	Interest expense

	Gain (Loss) Recognized in Income		Location of Gain (Loss) Recognized in Income
	2023	2022	
Derivatives Not Designated As Hedging Instruments:			
Commodity contracts	$ 8	$ (2)	Revenues
Commodity contracts	(341)	243	Cost of sales
Total	$ (333)	$ 241	

We are also a party to a number of other contracts that have elements of a derivative instrument however these contracts qualify for NPNS exception accounting under GAAP 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. These contracts include, among others, binding purchase orders, contracts that provide for the purchase and delivery, or sale, of energy products, and service contracts that require the counterparty to provide commodity storage, transportation or capacity service to meet our normal sales commitments.

Note 12 — Accumulated Other Comprehensive Income

AOCI activity is related to a pay-fixed, receive-variable interest rate contract used to effectively fix the underlying variable rate on the Energy Services variable-rate term loan (see Note 5). Changes in AOCI, net of tax, during Fiscal 2023 and Fiscal 2022 are as follows:

	Derivative Instruments
AOCI - September 30, 2021	$ (12)
Other comprehensive income before reclassification adjustments	32
Amounts reclassified from AOCI	4
Other comprehensive income	36
AOCI - September 30, 2022	$ 24
Other comprehensive income before reclassification adjustments	9
Amounts reclassified from AOCI	(16)
Other comprehensive loss	(7)
AOCI - September 30, 2023	$ 17

(Millions of dollars, except where indicated otherwise)

Note 13 — Related Party Transactions

Income taxes. The Company joins with UGI and its subsidiaries in filing a consolidated federal income tax return and the Company and its subsidiaries are considered disregarded entities in the filing of combined state income tax returns. For further information on income taxes, see Notes 2 and 6.

SCAA Activities. From time to time, Energy Services is a party to SCAAs with UGI Utilities which have terms of up to three years. Under the SCAAs, UGI Utilities has, among other things, released certain natural gas 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 natural gas 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 receives payments from UGI Utilities for storage inventories and pipeline transportation and storage capacity charges associated with 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, Energy Services pays UGI Utilities security deposits.

Gas Supply and Delivery Services. UGI Utilities purchases natural gas and pipeline capacity from 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.

From time to time, Energy Services purchases natural gas or pipeline capacity from UGI Utilities. Also from time to time, Energy Services sells natural gas and pipeline capacity to UGI Utilities (in addition to those transactions already described above) and sells a firm storage service from a subsidiary of Energy Services, under one-year agreements.

Administrative Services. UGI provides certain financial and administrative services to Energy Services. UGI bills Energy Services monthly for all direct expenses incurred by UGI on behalf of Energy Services and an allocated share of indirect corporate expenses incurred or paid with respect to services provided to Energy Services. The allocation of indirect UGI corporate expenses to Energy Services 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 Energy Services' 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 Energy Services. These billed allocated expenses are classified as "Operating and administrative" in the Consolidated Statements of Comprehensive Income.

Propane Sales. From time to time, Energy Services sells propane to AmeriGas on an as needed basis. The sales price is generally based on market prices at the time of sale. There were no sales of propane by Energy Services to AmeriGas during Fiscal 2023 and Fiscal 2022.

The following related party amounts are included in our Fiscal 2023 and Fiscal 2022 Consolidated Statements of Comprehensive of Income:

	2023	2022	Classification on the Consolidated Statements of Comprehensive Income
SCAA Activities:			
SCAA revenues	$ 16	$ 41	Revenues
Costs of SCAA and firm delivery service	$ 1	$ 1	Cost of sales
Gas Supply and Delivery Service:			
Gas supply and delivery service revenues	$ 234	$ 327	Revenues
Costs of natural gas and pipeline capacity purchases	$ 73	$ 104	Cost of sales
Administrative Services:			
Administrative services provided by UGI	$ 16	$ 14	Operating and administrative expenses

(Millions of dollars, except where indicated otherwise)

The following related party balances are included in our Consolidated Balance Sheets at September 30, 2023 and 2022:

	2023	2022	Classification on the Consolidated Balance Sheets
SCAA security deposits	$ 9	$ 8	Prepaid expenses and other current assets

Note 14 — Equity Method Investments

"Investments in equity method investees" comprises the following as of September 30:

	Carrying Value		Ownership Interest	
Investees	2023	2022	2023	2022
Aurum Renewables	$ 45	$ —	40%	N/A
Pine Run	77	68	49%	49%
MBL Bioenergy	122	23	99.99%	99.99%
Other	20	19	various	various
Total investments in equity method investees	$ 264	$ 110		

Aurum Renewables. In January 2023, the Company, through its wholly owned indirect subsidiary, entered into an agreement with a third party Archaea Holdings, LLC ("Archaea") to form a Limited Liability Company. The primary purpose of the Limited Liability Company, Aurum Renewables LLC, is to upgrade landfill gas from the Commonwealth Environmental Systems landfill located in Hegins, Pennsylvania to pipeline-quality RNG. Pursuant to this agreement, the Company contributed its existing 11 megawatt landfill gas-to-electricity facility, as non-cash consideration, in return for a 40% equity interest in Aurum Renewables. At the date of disposal, the carrying value of the long-lived assets and intangibles assets associated with the existing landfill gas-to-electric facility were $14 and $3, respectively. The estimated fair value of the Company's 40% equity interest in Aurum Renewables, which was determined to be a Level 3 measurement within the fair value hierarchy, resulted in the recognition of a $2 pre-tax gain, which is reflected in "Other operating income, net" in the Consolidated Statements of Comprehensive Income at September 30, 2023. Once complete, the project is expected to have the capacity to produce approximately 5,000 MMBtu per day of pipeline-quality RNG. Archaea will lead the development, engineering, construction, and operation of the new RNG facility, and Energy Services will take a lead role in marketing the RNG produced by the facility.

Pine Run. Pine Run is a company jointly owned by UGI Pine Run, LLC (a wholly owned subsidiary of Energy Services) and Stonehenge Energy Resources. In February 2021, Pine Run completed the acquisition of Pine Run Midstream, a subsidiary of PennEnergy, and minority partners for approximately $205. The acquisition was funded by cash contributions by UGI Pine Run, LLC and Stonehenge Energy Resources totaling approximately $115, and the issuance by Pine Run of $90 of long-term debt. Pine Run Midstream operates dry gas gathering pipelines and compression assets in western Pennsylvania. Pine Run is accounted for as an equity method investment as we have the ability to exercise significant influence, but not control, over the entity.

MBL Bioenergy. MBL Bioenergy is a company jointly owned by UGI Dakota, LLC (a wholly owned subsidiary of Energy Services), Sevana Bioenergy and a subsidiary of California Bioenergy. The sole purpose of MBL Bioenergy is the development of RNG projects in South Dakota comprising three dairy waste anaerobic digester systems. MBL Bioenergy is a variable interest entity whereby the Company has determined that it is not the primary beneficiary since it does not direct the activities that most significantly impact the entity's economic performance. In addition to consent being required for all equity holders for significant activities, such as major procurement, construction contracting and offtake, our partners manage the day-to-day project management and operations for MBL Bioenergy and its subsidiaries.

Pennant. During the fourth quarter of Fiscal 2022, Energy Services completed the Pennant Acquisition and acquired the remaining 53% of the equity interests in Pennant. Prior to the Pennant Acquisition, the Company's investment in Pennant was accounted for as an equity method investment as we had the ability to exercise significant influence, but not control, over the entity. The acquisition of the remaining interests was accounted for as an acquisition of assets, and the purchase price of approximately $61 was primarily allocated to property, plant and equipment. In connection with the acquisition of the controlling financial interest in Pennant, the Company recognized an other-than-temporary pre-tax impairment charge of $44 related to its then existing 47% membership interest, which amount is reflected in "Income (loss) from equity investees" in the Consolidated Statements of Comprehensive Income.

Other Equity Method Investments. The carrying values of our other equity investments totaled $20 and $19 at September 30, 2023 and 2022, respectively, and principally comprise a number of investments in biomass and other renewable energy projects.

Our maximum exposure to loss related to these investments is limited to the amount invested.

Recent Developments

Beginning in Fiscal 2021 and continuing into Fiscal 2023, commodity and labor markets have experienced significant inflationary pressures attributable to various economic and political factors, including, among others: supply chain issues including those associated with labor shortages; and significant increases and volatility in energy commodity prices. These factors have contributed to inflationary pressures as evidenced by recent increases in various consumer price indices. In response to these inflationary pressures, the Federal Reserve increased interest rates during Fiscal 2022 and Fiscal 2023. In addition, during the last several years, we have experienced significant volatility in energy commodity prices, particularly in natural gas and electricity prices, which have resulted in substantial fluctuations in the fair values of our commodity derivative instruments. These inflationary pressures and commodity price fluctuations have resulted in changes in inventory and certain operating and distribution expenses. The commodity prices fluctuations have also significantly affected the cash collateral deposit requirements of our derivative instrument counterparties and the restricted cash required to be held in our derivative broker accounts. We cannot predict the duration or total magnitude of these conditions and the effects such conditions may have on our future business, financial results, financial position, and liquidity and cash flows. However, we continue to monitor and respond to these global economic and political conditions and remain focused on managing our financial condition and liquidity as these conditions continue to evolve.

Executive Overview

Energy Services' net income was $30 million for Fiscal 2023 compared to $144 million for Fiscal 2022. Our Fiscal 2023 and Fiscal 2022 results reflect after-tax losses on commodity derivative instruments not associated with current-period transactions of $164 million and $19 million, respectively. Fiscal 2022 results also reflect after-tax impairment losses associated with certain equity method investments of $22 million, benefits related to tax law changes of $20 million and restructuring costs of $1 million. Although these items are reflected in our GAAP results, we have excluded these items from our non-GAAP measures. See "Non-GAAP Financial Measures" below.

Excluding the impacts of commodity derivative instruments not associated with current-period transactions, the losses associated with the impairment of certain equity method investments, benefits related to tax law changes and restructuring costs, adjusted net income for Fiscal 2023 was $28 million higher than the prior year. This increase principally reflects incremental earnings contributions from UGI Moraine East and Pennant, partially offset by lower margins related to natural gas marketing activities.

Non-GAAP Financial Measures

We present the non-GAAP measures adjusted total margin, adjusted operating income, adjusted income before income taxes and adjusted net income, in order to assist in the evaluation of our overall performance. We believe that these non-GAAP measures provide meaningful information to investors about our performance because they eliminate the impact of (1) gains and losses on commodity derivative instruments not associated with current-period transactions, principally comprising unrealized gains and losses on such derivative instruments, and (2) other significant discrete items that can affect the comparisons of period-over-period results. These financial measures are not in accordance with, or an alternative to, GAAP and should be considered in addition to, and not as a substitute for, the comparable GAAP measures.

UGI ENERGY SERVICES, LLC AND SUBSIDIARIES

The following table includes reconciliations of adjusted total margin, adjusted operating income, adjusted income before income taxes and adjusted net income to the most directly comparable financial measures calculated and presented in accordance with GAAP for the periods presented.

	Year Ended September 30,	
(Millions of dollars)	2023	2022
Adjusted total margin:		
Total revenues	$ 1,853	$ 2,322
Cost of sales	(1,596)	(1,897)
Total margin	257	425
Add net losses on commodity derivative instruments not associated with current-period transactions	230	25
Adjusted total margin	$ 487	$ 450
Adjusted operating income:		
Operating income	$ 56	$ 221
Add net losses on commodity derivative instruments not associated with current-period transactions	230	25
Restructuring costs	—	1
Adjusted operating income	$ 286	$ 247
Adjusted income before income taxes:		
Income before income taxes	$ 17	$ 168
Add net losses on commodity derivative instruments not associated with current-period transactions	230	25
Impairments of certain equity method investments	—	35
Restructuring costs	—	1
Adjusted income before income taxes	$ 247	$ 229
Adjusted net income:		
Net income	$ 30	$ 144
Add net losses on commodity derivative instruments not associated with current-period transactions	164	19
Impact of change in tax law	—	(20)
Impairments of certain equity method investments	—	22
Restructuring costs	—	1
Adjusted net income	$ 194	$ 166

Analysis of Results of Operations

The following analysis compares Energy Services results of operations for Fiscal 2023 with Fiscal 2022.

Energy Services		2023		2022		Increase (decrease)	
(Dollars in millions)							
Revenues	$	1,853	$	2,322	$	(469)	(20)%
Total margin (a)	$	257	$	425	$	(168)	(40)%
Operating and administrative expenses (b)	$	132	$	129	$	3	2 %
Operating income	$	56	$	221	$	(165)	(75)%
Income before income taxes (c)	$	17	$	168	$	(151)	(90)%
Non-GAAP financial measures (d):							
Adjusted total margin	$	487	$	450	$	37	8 %
Adjusted operating income	$	286	$	247	$	39	16 %
Adjusted income before income taxes	$	247	$	229	$	18	8 %
Adjusted net income	$	194	$	166	$	28	17 %

(a) Total margin represents total revenues less total cost of sales. Total margin for Fiscal 2023 and Fiscal 2022 includes net pre-tax losses of $230 million and $25 million, respectively, on commodity derivative instruments not associated with current-period transactions.
(b) Fiscal 2022 includes restructuring costs of $1 million.
(c) Fiscal 2022 includes impairments of certain equity method investments of $35 million.
(d) These financial measures are non-GAAP financial measures and are not in accordance with, or an alternative to, GAAP and should be considered in addition to, and not a substitute for, the comparable GAAP measures. See “Non-GAAP Financial Measures” above.

Average temperatures across Energy Services' energy marketing territory during Fiscal 2023 were 11% warmer than normal and 6% warmer than the prior year.

Revenues in Fiscal 2023 and Fiscal 2022 include $6 million and $(4) million of net unrealized gains (losses), respectively, on commodity derivative instruments not associated with current period transactions. Excluding the effects on revenues of these commodity derivative instruments, revenues decreased $479 million compared to the prior year principally reflecting lower revenues from natural gas marketing activities ($519 million), including the effects of peaking and capacity management activities, principally reflecting significantly lower average natural gas prices and, to a lesser extent, lower volumes from the warmer weather. This decrease was partially offset by higher natural gas gathering and processing activities ($43 million), primarily due to the impact on revenues from the prior-year acquisitions of UGI Moraine East and Pennant.

Cost of sales were $1,596 million in Fiscal 2023 compared to $1,897 million in Fiscal 2022. Cost of sales in Fiscal 2023 and Fiscal 2022 includes $236 million and $21 million, respectively, of net unrealized losses on commodity derivative instruments not associated with current-period transactions. Excluding the effects on cost of sales of these commodity derivative instruments, total cost of sales decreased $516 million. This decrease principally reflects the lower natural gas costs ($511 million) related to the previously mentioned natural gas marketing activities.

Total margin decreased $168 million in Fiscal 2023. Adjusted total margin increased $37 million in Fiscal 2023, primarily reflecting incremental natural gas gathering and processing activities ($49 million), primarily from the prior year acquisitions of UGI Moraine East and Pennant, partially offset by lower margins from natural gas marketing activities ($8 million), including the effects of peaking and capacity management activities, despite the benefits from extremely cold weather in late December 2022. In Fiscal 2022, the margin from natural gas marketing activities included the positive impact of settlement timing of certain multi-year commodity storage hedge contracts.

Operating income and income before income taxes decreased $165 million and $151 million, respectively, in Fiscal 2023. Adjusted operating income and adjusted income before income taxes increased $39 million and $18 million, respectively compared to the prior year. The increase in adjusted operating income principally reflects the increase in adjusted total margin ($37 million) and higher other operating income ($13 million), partially offset by higher depreciation and amortization expense ($7 million) and higher operating and administrative expenses ($3 million). The increase in adjusted income before income taxes principally reflects the higher adjusted operating income ($39 million), partially offset by lower income from equity investees ($17 million) following the acquisition of the remaining 53% ownership interest in Pennant during the fourth quarter of Fiscal 2022.

Interest Expense and Income Taxes

Interest expense in Fiscal 2023 and Fiscal 2022 was $45 million and $41 million, respectively. The increase in interest expense largely reflects higher credit agreement interest rates and borrowings and higher average long-term debt outstanding.

Income tax expense in Fiscal 2023 principally includes $13 million of tax benefit from adjustment of valuation allowances against capital losses, unrecognized tax benefits of $17 million, investment tax credits of $10 million and $7 million of tax benefit from the reduction of Pennsylvania's corporate net income tax rate. Excluding these items, the effective income tax rate in Fiscal 2023 was approximately 30%. Income tax expense in Fiscal 2022 includes $20 million of tax benefit from the reduction of Pennsylvania's corporate net income tax rate and $2 million of tax benefit from adjustment of valuation allowances against capital losses. Excluding these items, the effective income tax rate in Fiscal 2022 was approximately 28%.

Liquidity and Capital Resources

The Company expects to have sufficient liquidity including cash on hand and available borrowing capacity, to continue to support long-term commitments and ongoing operations despite uncertainties associated with ongoing global macroeconomic conditions including, among others, changes in consumer behavior, the inflationary cost environment and ongoing energy commodity price volatility. The Company does not have any near-term term loan maturities. The Company cannot predict the duration or total magnitude of the uncertain economic factors mentioned above and the total effects they will have on its liquidity, debt covenants, financial condition or the timing of capital expenditures. Energy Services was in compliance with all debt covenants as of September 30, 2023.

We depend on both internal and external sources of liquidity to provide funds for working capital and to fund capital requirements. Our short-term cash requirements not met by cash from operations are generally satisfied with borrowings under our Receivables Facility and borrowings under the Energy Services Credit Agreement. Long-term cash requirements are generally met through the issuance of long-term debt. We believe that we have sufficient liquidity in the forms of cash and cash equivalents on hand; cash expected to be generated from operations; credit facility and Receivables Facility borrowings; and the ability to obtain long-term financing to meet anticipated contractual and projected cash commitments. Issuances of debt securities in the capital markets and additional credit facilities may not, however, be available to us on acceptable terms.

Our cash and cash equivalents totaled $28 million and $62 million at September 30, 2023 and 2022, respectively. Our restricted cash balances at September 30, 2023 and 2022, principally comprising cash in brokerage accounts that are restricted from withdrawal, totaled $42 million and $43 million, respectively. Our cash and cash equivalents at September 30, 2023 and 2022 include cash collateral of $1 million and $89 million, respectively, received from derivative counterparties. Our debt outstanding at September 30, 2023, totaled $923 million (including current maturities of long-term debt of $12 million). Our debt outstanding at September 30, 2022, totaled $710 million (including current maturities of long-term debt of $10 million). Total long-term debt outstanding at September 30, 2023, including current maturities, comprises $794 million of Energy Services Term Loan and $41 million of other long-term debt principally comprising a finance lease liability, and is net of $15 million of unamortized debt issuance costs.

Long-Term Debt and Credit Facilities

Energy Services Credit Agreement - On May 12, 2023, the Company entered into the second amendment to the Energy Services Credit Agreement, which provides that the Term SOFR rate (as defined in the Energy Services Credit Agreement) shall replace LIBOR as a reference rate. After giving effect to the second amendment, the Energy Services Credit Agreement shall bear interest at a floating rate of, at the Company's option, either (i) Term SOFR plus the Applicable Rate (as defined in the Energy Services Credit Agreement) plus a credit spread adjustment of 0.10%, or (ii) the base rate, as defined in the agreement, plus the applicable margin that is based on the leverage of the Company.

Energy Services Amended Term Loan Credit Agreement. On February 23, 2023, the Company entered into the Energy Services Amended Term Loan Credit Agreement, the first amendment to the Energy Services Term Loan Credit Agreement, dated August 13, 2019. The Energy Services Amended Term Loan Credit Agreement provides, among other items, that (i) the outstanding principal amount of the loans will be increased by $125 million to $800 million, (ii) the maturity date of the loans shall be extended to February 22, 2030 and (iii) Term SOFR (as defined in the Energy Services Amended Term Loan Credit Agreement) shall replace LIBOR as a reference rate. See Note 5 to Consolidated Financial Statements for further information on this agreement.

At September 30, 2023, there were $57 million borrowings outstanding under the Energy Services Credit Agreement. The average daily and peak short-term borrowings outstanding under the Energy Services Credit Agreement in Fiscal 2023 were $13 million and $82 million, respectively. At September 30, 2023, the Company's available borrowing capacity under the Energy Services Credit Agreement was $203 million. There were no borrowings outstanding under the Energy Services Credit Agreement at September 30, 2022 and there were no average daily and peak short-term borrowings outstanding under the Energy Services Credit Agreement during Fiscal 2022.

Receivables Facility. Energy Services has a Receivables Facility with an issuer of receivables-backed commercial paper. On October 20, 2023, the expiration date of the Receivables Facility was extended to October 18, 2024. The Receivables Facility provides Energy Services with the ability to borrow up to $200 million of eligible receivables during the period October 20, 2023 to April 30, 2024, and up to $100 million of eligible receivables during the period May 1, 2024 to October 18, 2024. Energy Services uses the Receivables Facility to fund working capital, margin calls under commodity futures contracts, capital expenditures, dividends and for general corporate purposes.

At September 30, 2023, the outstanding balance of trade receivables was $62 million, $46 million of which were sold to the bank. At September 30, 2022, the outstanding balance of trade receivables was $101 million, none of which was sold to the bank. During Fiscal 2023 and Fiscal 2022, peak sales of receivables were $150 million and $98 million, respectively. During Fiscal 2023 and Fiscal 2022, average daily amounts sold were $46 million and $2 million, respectively.

Cash Flows

Due to the seasonal nature of the Company’s businesses, cash flows from operating activities are generally strongest during the second and third fiscal quarters when customers pay for natural gas, electricity and other energy products consumed during the peak heating season months. Conversely, operating cash flows are generally at their lowest levels during the fourth and first fiscal quarters when the Company’s investment in working capital, principally inventories and accounts receivable, is generally greatest.

Cash flows from operating activities can be significantly affected by changes in operating working capital reflecting changes in energy commodity prices, especially during periods with significant changes in energy commodity prices. Cash flow from investing activity is principally affected by cash expenditures for property, plant and equipment; cash paid for acquisitions of businesses and assets; and investments in equity method investments. Changes in cash flow from financing activities are primarily due to issuances and repayments of long-term debt, net short-term borrowings and capital contributions from, and cash distributions to, Enterprises.

<u>Operating Activities:</u> Cash flow from operating activities was $210 million in Fiscal 2023 compared to $197 million in Fiscal 2022. This increase in Fiscal 2023 principally reflects greater cash flow from operating activities before changes in operating working capital, partially offset by the increase in cash used to fund changes in operating working capital. Cash flow from operating activities before changes in operating working capital was $344 million in Fiscal 2023 compared to $273 million in Fiscal 2022, primarily attributable to significantly higher unrealized losses on derivative instruments included in net income during Fiscal 2023. Cash used to fund operating working capital was $134 million in Fiscal 2023 compared to $76 million in Fiscal 2022. This increase in Fiscal 2023 principally reflects an increase in collateral deposit repayments and cash required to fund changes in accounts payable, partially offset by lower cash used to fund changes in accounts receivable. The changes in operating working capital and collateral deposits principally reflect the effects of the previously mentioned significant decrease in commodity energy prices during Fiscal 2023.

<u>Investing Activities:</u> Cash flow used by investing activities was $245 million in Fiscal 2023 compared to $303 million in Fiscal 2022. Cash capital expenditures for property, plant and equipment totaled $126 million in Fiscal 2023 compared to $38 million in Fiscal 2022. The increase in cash payments for property, plant and equipment in Fiscal 2023 compared with Fiscal 2022 principally reflects higher cash capital expenditures due in large part to the investments in committed renewable energy projects and new LNG facilities. The increase Cash flow used by investing activities during Fiscal 2022 reflects the Stonehenge and

Pennant transactions. Cash used for investments in equity method investments was $119 million in Fiscal 2023 principally reflecting investments in biomass and renewable energy projects.

Financing Activities: Cash flow used by financing activities was $0 million in Fiscal 2023 and $7 million in Fiscal 2022. Fiscal 2023 activities include (1) entering into the previously mentioned Energy Services Amended Term Loan Agreement in February 2023 and the concurrent repayment of amounts outstanding under the Energy Services variable rate term loan; (2) $215 million of cash distributions paid to Enterprises; (3) an increase of $57 million in net short-term borrowings; and (4) $46 million of net borrowings on the Receivables Facility.

Capital Expenditures

Our capital expenditures include continued investments in midstream assets and renewable energy projects. During Fiscal 2023 and Fiscal 2022, our capital expenditures (which exclude acquisitions of businesses and assets) totaled $130 million and $38 million, respectively. We expect capital expenditures of approximately $163 million in Fiscal 2024 which include continued investments in renewable energy projects and in new LNG facilities.

Contractual Obligations and Commitments

The following is a summary of our significant contractual obligations existing as of September 30, 2023:

	Payments Due by Period				
(Millions of dollars)	Total	Fiscal 2024	Fiscal 2025 - 2026	Fiscal 2027 - 2028	Thereafter
Short-term borrowings (a)	$ 103	$ 103	$ —	$ —	$ —
Long-term debt (a)	835	12	16	16	791
Interest on long-term-fixed rate debt (a)(b)(c)	397	62	124	124	87
Operating leases	14	4	7	2	1
Supply contracts	1,020	277	199	120	424
Derivative instruments (d)	40	17	22	1	—
Total	$ 2,409	$ 475	$ 368	$ 263	$ 1,303

(a) Based upon stated maturity dates for debt outstanding at September 30, 2023.

(b) Based upon stated interest rates adjusted for the effects of an interest rate swap.

(c) Calculated using applicable interest rates or forward interest rate curves and leverage ratios, as of September 30, 2023.

(d) Represents the sum of amounts due if derivative instrument liabilities were settled at the September 30, 2023 amounts reflected in the Consolidated Balance Sheet (but excluding amounts associated with interest rate contracts).

Related Party Transactions

See Note 13 to Consolidated Financial Statements for a discussion of related party transactions.