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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 8-K/A  
(Amendment No. 1)

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported): August 24, 2006

UGI UTILITIES, INC.

-----  
(Exact name of registrant as specified in its charter)

Pennsylvania	1-1398	23-1174060
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(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

100 Kachel Boulevard, Suite 400, Green  
Hills Corporate Center, Reading,  
Pennsylvania

19607

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(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: 610 796-3400

Not Applicable

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Former name or former address, if changed since last report

Check the appropriate box below if the Form 8-K filing is intended to  
simultaneously satisfy the filing obligation of the registrant under any of the  
following provisions:

- [ ] Written communications pursuant to Rule 425 under the Securities Act (17  
CFR 230.425)
- [ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17  
CFR 240.14a-12)
- [ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the  
Exchange Act (17 CFR 240.14d-2(b))
- [ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the  
Exchange Act (17 CFR 240.13e-4(c))

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ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS.

(a) Financial Statements of Business Acquired.

The following opinion and audited statements of the PG Energy Business of Southern Union Company are filed herewith as Exhibit 99.1 and are incorporated herein by reference:

(1) Report of Independent Auditors.

(2) Combined Statement of Assets to be Acquired and Liabilities to be Assumed as of March 31, 2006 and December 31, 2005.

(3) Combined Statement of Revenues and Certain Expenses for the Three Months Ended March 31, 2006, Twelve Months Ended December 31, 2005, Six Months Ended December 31, 2004, and Twelve Months Ended June 30, 2004.

(4) Notes to Audited Combined Statement of Assets to be Acquired and Liabilities to be Assumed and Audited Combined Statement of Revenues and Certain Expenses.

The following unaudited statements of the PG Energy Business of Southern Union Company are filed herewith as Exhibit 99.2 and are incorporated herein by reference:

(1) Combined Statement of Assets to be Acquired and Liabilities to be Assumed as of June 30, 2006 and December 31, 2005.

(2) Combined Statement of Revenues and Certain Expenses for the Three Months Ended June 30, 2006 and Three Months Ended June 30, 2005.

(3) Notes to Unaudited Combined Statement of Assets to be Acquired and Liabilities to be Assumed and Unaudited Combined Statement of Revenues and Certain Expenses.

(b) Pro Forma Financial Information.

The following unaudited condensed combined pro forma financial information of UGI Utilities, Inc. and its subsidiaries is filed herewith as Exhibit 99.3 and is incorporated herein by reference:

(1) Introduction to Pro Forma Condensed Combined Financial Statements.

(2) Pro Forma Condensed Combined Balance Sheet as of June 30, 2006.

(3) Pro Forma Condensed Combined Statement of Income for the Nine Months Ended June 30, 2006 and Twelve Months Ended September 30, 2005.

(4) Notes to Unaudited Pro Forma Condensed Combined Financial Statements.

(d) Exhibits.

Exhibit No.	Description
- - - - -	- - - - -
23.1	Consent of PricewaterhouseCoopers LLP.
99.1	Audited Statements of the PG Energy Business of Southern Union Company.

99.2	Unaudited Statements of the PG Energy Business of Southern Union Company.
99.3	Unaudited Condensed Combined Pro Forma Financial Information of UGI Utilities, Inc. and its Subsidiaries.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

UGI Utilities, Inc.

September 6, 2006

By: Robert W. Krick

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Name: Robert W. Krick  
Title: Assistant Treasurer

## EXHIBIT INDEX

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99.2	Unaudited Statements of the PG Energy Business of Southern Union Company.
99.3	Unaudited Condensed Combined Pro Forma Financial Information of UGI Utilities, Inc. and its Subsidiaries.

Consent of Independent Accountants

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 333-124474) of UGI Utilities, Inc. of our report dated August 24, 2006 relating to financial statements of the PG Energy Business of Southern Union Company which appears in this Form 8-K/A of UGI Utilities, Inc. dated August 24, 2006.

/s/ PricewaterhouseCoopers LLP  
Houston, Texas  
September 6, 2006

(PRICEWATERHOUSECOOPERS LOGO)

REPORT OF INDEPENDENT AUDITORS

To the Stockholders and Board of Directors  
of Southern Union Company:

We have audited the accompanying combined statement of assets to be acquired and liabilities to be assumed of PG Energy, a division of Southern Union Company, and PG Energy Services, Inc., a subsidiary of Southern Union Company (collectively, the "Acquired Business") as of March 31, 2006 and December 31, 2005 and the related combined statement of revenues and certain expenses for the three-month period ended March 31, 2006, the year ended December 31, 2005, the six-month period ended December 31, 2004 and the year ended June 30, 2004 (collectively, the "Statements"). These Statements are the responsibility of Southern Union Company's management. Our responsibility is to express an opinion on these Statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Statements. We believe that our audits provide a reasonable basis for our opinion.

The accompanying statements of assets to be acquired and liabilities to be assumed and of revenues and certain expenses were prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission as described in Note 2 and are not intended to be a complete presentation of the Acquired Business' financial position, results of operations and cash flows.

In our opinion, the accompanying Statements referred to above, present fairly, in all material respects, the assets to be acquired and liabilities to be assumed of the Acquired Business as of March 31, 2006 and December 31, 2005 and their revenues and certain expenses for the three-month period ended March 31, 2006, the year ended December 31, 2005, the six-month period ended December 31, 2004 and the year ended June 30, 2004 in conformity with accounting principles generally accepted in the United States of America.

/s/ PricewaterhouseCoopers LLP  
Houston, Texas  
August 24, 2006

PG ENERGY BUSINESS OF SOUTHERN UNION COMPANY  
COMBINED STATEMENT OF ASSETS TO BE ACQUIRED  
AND LIABILITIES TO BE ASSUMED

	March 31, 2006	December 31, 2005
	-----	-----
	(Thousands	of Dollars)
ASSETS TO BE ACQUIRED		
UTILITY PLANT:		
Plant in service	\$ 505,688	\$ 504,030
Construction work in progress	2,774	1,200
	-----	-----
	508,462	505,230
Less accumulated depreciation	(151,499)	(148,103)
	-----	-----
	356,963	357,127
	-----	-----
CURRENT ASSETS:		
Cash	12	12
Accounts receivable -		
Customers, net of allowances of \$2,868		
and \$2,585, respectively	51,584	40,341
Affiliates	8	12
Others	3,623	2,167
Accrued utility revenues	19,595	31,202
Inventories	25,529	65,334
Prepaid expenses and other	198	565
	-----	-----
Total current assets	100,549	139,633
	-----	-----
GOODWILL	149,720	149,720
	-----	-----
OTHER LONG-TERM ASSETS	931	931
	-----	-----
DEFERRED CHARGES:		
Regulatory assets (Note 4)	12,951	12,615
	-----	-----
Total deferred charges	12,951	12,615
	-----	-----
TOTAL ASSETS TO BE ACQUIRED	621,114	660,026
	-----	-----
LIABILITIES TO BE ASSUMED		
CURRENT LIABILITIES:		
Accounts payable	23,244	35,577
Deferred cost of gas and supplier refunds, net	15,338	6,967
Accrued general business and realty taxes	1,186	1,204
Customer deposits	1,587	1,616
Accrued interest to customers	685	516
Other	6,636	5,281
	-----	-----
Total current liabilities	48,676	51,161
DEFERRED CREDITS	25,743	25,493
	-----	-----
TOTAL LIABILITIES TO BE ASSUMED	74,419	76,654
	-----	-----
NET ASSETS TO BE ACQUIRED	\$ 546,695	\$ 583,372
	=====	=====

The accompanying notes are an integral part of these combined statements.



PG ENERGY BUSINESS OF SOUTHERN UNION COMPANY  
COMBINED STATEMENT OF REVENUES AND CERTAIN EXPENSES

	Three Months Ended March 31, 2006 -----	Twelve Months Ended December 31, 2005 -----	Six Months Ended December 31, 2004 -----	Twelve Months Ended June 30, 2004 -----
	(Thousands of Dollars)			
OPERATING REVENUES				
Gas distribution	\$148,461	\$312,718	\$113,201	\$268,914
Service and other	1,761	3,799	1,173	3,433
	-----	-----	-----	-----
	150,222	316,517	114,374	272,347
	-----	-----	-----	-----
CERTAIN EXPENSES:				
Cost of gas	114,957	223,967	75,974	178,223
Operations, maintenance and general, including allocations (Note 6)	12,765	39,826	18,452	36,113
Depreciation	3,341	12,254	5,959	11,290
Goodwill impairment (Note 7)	--	98,000	--	--
Taxes other than income taxes	605	1,509	1,198	2,306
	-----	-----	-----	-----
	131,668	375,556	101,583	227,932
	-----	-----	-----	-----
EXCESS (DEFICIENCY) OF OPERATING REVENUES OVER CERTAIN EXPENSES	\$ 18,554	\$(59,039)	\$ 12,791	\$ 44,415
	=====	=====	=====	=====

The accompanying notes are an integral part of these combined statements.

PG ENERGY BUSINESS OF SOUTHERN UNION COMPANY

NOTES TO COMBINED STATEMENTS

1. ORGANIZATION AND NATURE OF BUSINESS AND PURPOSE OF STATEMENTS

Organization and Nature of the Business. The PG Energy Business of Southern Union Company is comprised of its PG Energy division and PG Energy Services, Inc. The PG Energy division of Southern Union Company ("PG Energy" or the "Natural Gas Business") is a regulated public utility distributing natural gas to a thirteen-county area in northeastern Pennsylvania, a territory that includes the cities of Scranton, Wilkes-Barre and Williamsport.

PG Energy Services, Inc. ("PGES") is a subsidiary of Southern Union Company ("Southern Union") engaging in various nonregulated activities, including the inspection, maintenance and servicing of residential and small commercial gas-fired equipment.

Purpose of Statements. The accompanying statements of assets to be acquired and liabilities to be assumed and of revenues and certain expenses (collectively, the "Statements") have been prepared in accordance with the Purchase and Sale Agreement, as amended, between Southern Union and UGI Corporation ("UGI") dated as of January 26, 2006, (the "Agreement"), providing for the sale by Southern Union to UGI of substantially all of the assets, properties and rights relative to the natural gas utility operations of PG Energy as well as the common stock of PGES (together the "Acquired Business").

Under the terms of the Agreement, UGI made an initial cash payment to Southern Union of \$580.0 million on August 24, 2006, the closing date of the sale. In addition, UGI assumed certain liabilities of the Acquired Business. This cash payment is subject to adjustment for the difference between the working capital target of \$68.1 million and the working capital agreed to in a closing statement to be completed within ninety (90) days following the closing date.

The assets and liabilities reflected in the Statement of Assets to be Acquired and Liabilities to be Assumed comprise the following items:

- Assets of the Acquired Business as defined in the Agreement, including all the assets, properties and rights used exclusively in the Natural Gas Business.
- Assumed liabilities as defined in the Agreement.
- Net assets to be acquired includes \$1,500, \$998,800 and \$9.6 million at March 31, 2006, and December 31, 2005, respectively, related to the values of common stock, paid in capital and retained earnings of PGES. Additionally, PGES had 50,000 common shares authorized for issuance and 150 common shares issued and outstanding for all periods presented.

The operations of the Acquired Business rely on Southern Union for certain activities, including but not limited to, information technology, insurance, human resources, payroll, external financial reporting, treasury, tax and legal support. Certain expenses within the accompanying Combined Statement of Revenues and Certain Expenses include direct expenses of the Acquired Business, direct costs incurred by Southern Union on behalf of the Acquired Business, primarily insurance and legal, and an allocation of general and administrative expenses incurred by Southern Union. See Note 6 for a discussion of the amounts and method of allocation.

## NOTES TO COMBINED STATEMENTS

Allocations of interest and income taxes have been excluded from these Statements as these costs were not historically allocated to the Acquired Business for financial reporting purposes and it would not be practical to do so in these circumstances. All of the allocations in the Combined Statement of Revenues and Certain Expenses are based on assumptions that the Acquired Business believes are reasonable under the circumstances. However, these allocations are not necessarily indicative of the costs and expenses that would have resulted had the Acquired Business operated as a separate entity, nor do they consider potential changes in the business by UGI. As a result, the historical operating results may not be indicative of future results.

All significant intercompany accounts and transactions between the Natural Gas Business and PGES have been eliminated.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation.** The accompanying Statements have been derived from Southern Union Company's historical accounting records of the Acquired Business. Effective December 17, 2004, Southern Union's board of directors approved a change in its fiscal year end from a twelve-month period ending June 30 to a twelve-month period ending December 31. As a consequence of this change, the Combined Statement of Revenues and Certain Expenses include presentation of the transition period beginning on July 1, 2004 and ending on December 31, 2004.

The accompanying Statements have been prepared to present the Combined Statement of Assets to be Acquired and Liabilities to be Assumed of the Acquired Business as of March 31, 2006, and December 31, 2005, as well as their Combined Statement of Revenues and Certain Expenses for the three-month period ended March 31, 2006; the year ended December 31, 2005; the six-month period ended December 31, 2004; and the year ended June 30, 2004, for the purpose of complying with the rules and regulations of the Securities and Exchange Commission (the "SEC") and are not intended to be a complete presentation of the financial position, results of operations and cash flows of the Acquired Business in accordance with accounting principles generally accepted in the United States of America ("GAAP"). A statement of cash flows is not presented as the cash flow activities of the Acquired Business were funded through Southern Union and a complete statement of cash flows is not prepared at the reporting level of the Acquired Business.

**Use of Estimates.** The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Plant, Property and Equipment.** Utility plant is stated at cost, which represents the original cost of construction, including payroll, administrative and general costs, and an allowance for funds used during construction. Ongoing additions of property, plant and equipment ("PP&E") are also stated at cost. The cost of repairs and replacements of minor items of PP&E is charged to expense as incurred.

PG ENERGY BUSINESS OF SOUTHERN UNION COMPANY

NOTES TO COMBINED STATEMENTS

When depreciable utility property is retired, the original cost of such property is removed from the utility plant accounts and is charged, together with the cost of removal less salvage, to accumulated depreciation. No gain or loss is recognized in connection with retirements of depreciable utility property, other than in the case of significant involuntary conversions or extraordinary retirements.

The Acquired Business computes depreciation expense using the straight-line method over periods ranging from seven to 75 years. PG Energy's depreciation rates are approved by the Pennsylvania Public Utility Commission (the "PPUC"). The composite weighted-average depreciation rates for the three-month period ended March 31, 2006; the year ended December 31, 2005; the six-month period ended December 31, 2004; and the year ended June 30, 2004, were 2.5 percent, 2.5 percent, 2.5 percent and 2.6 percent, respectively.

Computer software, which is a component of PP&E, is stated at cost and is generally depreciated on a straight-line basis over a seven year period.

Goodwill. The Acquired Business accounts for goodwill in accordance with the provisions of Financial Accounting Standards Board ("FASB") Statement No. 142, "Accounting for Goodwill and Other Intangibles". Goodwill acquired in a purchase business combination and determined to have an indefinite useful life is not amortized, but instead is tested for impairment annually by applying a fair-value based test. See Note 7 - Goodwill Impairment.

Cash. Cash includes petty cash and working funds held locally for the Acquired Business.

Gas Distribution Revenues and Cost of Gas. PG Energy bills utility customers monthly based on estimated or actual meter readings on cycles that extend throughout the month. The estimated unbilled amounts from the most recent meter reading dates through the end of the period being reported on are recorded as accrued revenues and related gas costs are included in deferred cost of gas.

PG Energy generally passes on to its customers increases or decreases in gas costs from those reflected in its tariff charges. In accordance with this procedure, PG Energy defers any current under or over-recoveries of gas costs and collects or refunds such amounts in subsequent periods. PG Energy had underrecoveries of gas costs totaling \$0.1 million and \$18.4 million as of March 31, 2006, and December 31, 2005, respectively, which are reflected in deferred cost of gas and supplier refunds, (net) in the accompanying Combined Statement of Assets to be Acquired and Liabilities to be Assumed.

Service and Other Revenues. Service and other revenues consist primarily of billings related to the Winter Heating Service Contract program and inspection and maintenance activities of PGES and capacity and other off-system sales of PG Energy. These revenues are recognized as services are performed or products are delivered.

Accounts Receivable and Allowance for Doubtful Accounts. Concentrations of credit risk in trade receivables are limited due to the large customer base with relatively small individual account balances. In addition, PG Energy's credit policy requires a deposit from customers who

## PG ENERGY BUSINESS OF SOUTHERN UNION COMPANY

## NOTES TO COMBINED STATEMENTS

lack a credit history or whose credit rating is substandard. PG Energy utilizes the allowance method for recording its allowance for uncollectible accounts, which is primarily based on the application of historical bad debt percentages applied against its aged accounts receivable. Increases in the allowance are recorded as a component of operating expenses. Reductions in the allowance are recorded when receivables are written off or subsequently collected.

The following table shows the balance in the allowance for doubtful accounts and activity for three-month period ended March 31, 2006, the year ended December 31, 2005, the six-month period ended December 31, 2004 and the year ended June 30, 2004:

	Three Months Ended March 31, 2006	Year Ended December 31, 2005	Six Months Ended December 31, 2004	Year Ended June 30, 2004
	-----	-----	-----	-----
	(Thousands of Dollars)			
Beginning Balance	\$ 2,585	\$ 3,631	\$ 3,878	\$ 3,052
Additions: Charged to Cost and Expense	1,886	4,684	2,952	5,084
Deductions: Write-off of Uncollectible Accounts	(1,603)	(5,730)	(3,199)	(4,258)
	-----	-----	-----	-----
Ending Balance	\$ 2,868	\$ 2,585	\$ 3,631	\$ 3,878
	=====	=====	=====	=====

Inventories. The following table reflects the inventory balances carried at weighted average cost at March 31, 2006, and December 31, 2005:

	March 31, 2006	December 31, 2005
	-----	-----
	(Thousands of Dollars)	
Natural gas in underground storage	\$23,612	\$63,567
Materials and supplies	1,917	1,767
	-----	-----
Total inventories	\$25,529	\$65,334
	=====	=====

Deferred Charges (Regulatory Assets). PG Energy generally accounts for and reports costs in accordance with the economic effect of rate actions by the PPUC and in compliance with the provisions of FASB Statement No. 71, "Accounting for the Effects of Certain Types of Regulation," which gives recognition to the rate and accounting practices of regulatory agencies such as the PPUC. To this extent, certain costs are recorded as deferred charges pending their recovery in rates. The application of these accounting policies allows PG Energy to defer expenses on the balance sheet as regulatory assets when it is probable that those expenses will be allowed in the ratemaking process for recovery in a period different from the period in which they would have been reflected for an unregulated company. These regulatory assets flow through the results of operations in the period in which the same amounts are included in rates and recovered from customers. Management's assessment of the probability of recovery or pass

NOTES TO COMBINED STATEMENTS

through of regulatory assets requires judgment and interpretation of laws and regulatory commission orders. If, for any reason, PG Energy ceases to meet the criteria for application of regulatory accounting treatment for all or part of its operations, the regulatory assets related to those portions ceasing to meet such criteria would be eliminated from the Statements. See Note 4 - Regulatory Assets.

Fair Value of Financial Instruments. The carrying amounts reported in the Combined Statement of Net Assets Acquired and Liabilities Assumed for cash, accounts receivable and accounts payable approximate their fair value because of their short-term nature.

Derivative Instruments. FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended, ("FASB Statement No. 133") establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that all derivative instruments be recognized as either assets or liabilities and measured at fair value. The accounting for changes in fair value depends upon the purpose of the derivative instrument and whether it is designated and qualifies for hedge accounting.

PG Energy is a party to a number of contracts that have elements of a derivative instrument. These contracts include, among others, binding purchase orders, contracts which provide for the purchase and delivery of natural gas and service contracts that require the counterparty to provide commodity storage, transportation or capacity service to meet our normal sales commitments. Although many of these contracts have the requisite elements of a derivative instrument, these contracts are not subject to the accounting requirements of FASB Statement No. 133 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 or the value of the contract is directly associated with the price or value of service and the contract qualifies for the normal purchase and sale exclusion under FASB Statement No. 133.

Asset Retirement Obligations. The Acquired Business accounts for its asset retirement obligations in accordance with FASB Statement No. 143, "Accounting for Asset Retirement Obligations" ("ARO") ("FASB Statement No. 143") and FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" ("FIN 47"). FASB Statement No. 143 requires legal obligations associated with the retirement of long-lived assets to be recognized at their fair value at the time the obligations are incurred. Upon initial recognition of a liability, costs are capitalized as part of the related long-lived asset and allocated to expense over the estimated useful life of the asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the estimated useful life of the related long-lived asset. PG Energy is permitted to include annual charges for cost of removal in its regulated cost of service rates charged to customers. The adoption of FASB Statement No. 143 did not have a material impact on the accompanying Statements.

FIN 47 clarifies that an ARO should be recorded for all assets with legal retirement obligations, even if the enforcement of the obligation is contingent upon the occurrence of events beyond the Acquired Business' control (a "Conditional ARO"). FIN 47 was adopted by the Acquired Business as of December 31, 2005, and did not materially impact these Statements.

Although certain of the mains and service lines in PG Energy's distribution system are subject to

## NOTES TO COMBINED STATEMENTS

agreements or regulations that give rise to an ARO or a Conditional ARO upon PG Energy's discontinued use of these assets, AROs were not recorded for these assets because either the fair values of these AROs were not reliably estimable or the amounts were immaterial. The principal reason the fair values of these AROs were not subject to reliable estimation was because the lives of the underlying assets are indeterminate. Management has concluded that PG Energy's distribution system, as a whole, has an indeterminate life. In reaching this conclusion, management considered its intent for operating the distribution system, the economic life of the underlying assets, its past practices and industry practice.

PG Energy intends to operate the distribution system indefinitely as a going concern. Individual component assets have been and will continue to be replaced, but the distribution system will continue in operation as long as supply and demand for natural gas exists. Based on the widespread use of natural gas in industrial and power generation activities and current estimates of recoverable reserves, management expects supply and demand to exist for the foreseeable future.

PG Energy has in place a rigorous repair and maintenance program that keeps the distribution system in good working order. Therefore, although some of the individual assets on the distribution system may be replaced, the distribution system itself will remain intact indefinitely. AROs generally do not arise unless a distribution system (or portion thereof) is abandoned. PG Energy does not intend to make any such abandonments as long as supply and demand for natural gas remains relatively stable.

Commitments and Contingencies. The Acquired Business is subject to proceedings, lawsuits and other claims related to environmental and other matters. Accounting for contingencies requires significant judgments by management regarding the estimated probabilities and ranges of exposure to potential liability. For further discussion of the commitments and contingencies of the Acquired Business, see Note 8 - Commitments and Contingencies.

### 3. RATE MATTERS

Proposed Rate Increase. On April 13, 2006, PG Energy filed an application with the PPUC seeking an increase in its base gas rates, designed to produce \$29.8 million in additional annual revenue, to be effective June 12, 2006. On May 19, 2006, the PPUC suspended this rate increase for seven months (until January 12, 2007) in order to investigate the reasonableness of the proposed rates. It is not presently possible to determine what action the PPUC will ultimately take in this matter.

Gas Cost Adjustments. The provisions of the Pennsylvania Public Utility Code require that the tariffs of local gas distribution companies ("LDCs") be adjusted on an annual basis, and, in the case of larger LDCs such as PG Energy, on an interim basis when circumstances dictate, to reflect changes in their purchased gas costs. The procedure includes a process for the reconciliation of actual gas costs incurred and actual revenues received and also provides for the refund of any overcollections, plus interest thereon, or the recoupment of any undercollections of gas costs.

PG ENERGY BUSINESS OF SOUTHERN UNION COMPANY

NOTES TO COMBINED STATEMENTS

In addition, the PPUC adopted regulations providing for the quarterly adjustment of the annual purchased gas cost rate of larger gas distribution companies, including PG Energy. Such adjustments are allowed when the actual purchased gas costs vary from the estimated costs reflected in the respective company's tariffs by 2% or more.

Other than interest payable to customers on over-collections or payable to PG Energy on the under collections of purchased gas costs, the changes in gas rates on account of purchased gas costs have no effect on earnings since the change in revenue is offset by a corresponding change in the cost of gas.

4. REGULATORY ASSETS

	March 31, 2006	December 31, 2005
	-----	-----
	(Thousands of Dollars)	
Pension	\$ 7,095	\$ 7,244
Environmental	4,000	4,000
Retirement Work in Progress	386	42
Low Income Program	237	260
Computer Software	686	496
Deferred Flooding Charges	361	385
Other	186	188
	-----	-----
	\$12,951	\$12,615
	=====	=====

Pension costs consist primarily of amounts deferred relative to early retirement programs in 1991, 1998 and 2001 that are currently being amortized and recovered in rates.

PG Energy entered into a Consent Order and Agreement (the "Multi-Site Agreement") with the Pennsylvania Department of Environmental Protection on March 31, 2004. This Multi-Site Agreement is for the purpose of developing and implementing an environmental assessment and remediation program for five Manufactured Gas Plants ("MGPs") sites (including the Scranton, Bloomsburg and Carbondale sites) and six MGP holder sites owned by PG Energy in the State of Pennsylvania. Under the Multi-Site Agreement, PG Energy is to perform environmental assessments of these sites within two years of the effective date of the Multi-Site Agreement. Thereafter, PG Energy is required to perform additional assessment and remediation activity as is deemed to be necessary based upon the results of the initial assessments. In this regard the accompanying statements include a liability and a related regulatory asset of \$4.0 million relative to costs expected to be incurred in satisfaction of this Multi-Site Agreement. In accordance with existing regulatory practice of the PPUC, PG Energy amortizes as removal costs site-specific environmental investigation and remediation costs over a five-year period.

As of March 31, 2006 and December 31, 2005, PG Energy's regulatory assets included \$6.0 million and \$5.6 million, respectively, that is being recovered through current rates. As of March 31, 2006, and December 31, 2005, the remaining recovery period associated with these assets ranged from 2 months to 184 months and 1 month to 187 months, respectively. None of these regulatory assets are included in rate base.



## NOTES TO COMBINED STATEMENTS

## 5. POSTEMPLOYMENT BENEFITS

The Employees' Retirement Plan of Southern Union Company Pennsylvania Division (the "Pennsylvania Division Plan") is a trustee, non-contributory defined benefit pension plan, covering substantially all employees of the Acquired Business. The Pennsylvania Division Plan is funded in accordance with federal regulations, not to exceed the amounts deductible for income tax purposes. The Pennsylvania Division Plans' assets are invested in cash, government securities, corporate bonds and stock, and various funds. Measurement dates for each period included in the Statements are as of a date three months prior to each applicable period end (hereinafter referred to as the "Measurement Date").

Pension benefit liabilities are accrued on an actuarial basis during the years an employee provides services. The following table represents a reconciliation of the Pennsylvania Division Plan:

	March 31, 2006	December 31, 2005
	-----	-----
	(In thousands)	
Change in Benefit Obligation:		
Benefit obligation at beginning of period	\$ 75,634	\$ 71,431
Service cost	339	1,246
Interest Cost	1,017	4,026
Benefits paid	(838)	(3,394)
Actuarial (gain) loss	(29)	2,325
	-----	-----
Benefit obligation at end of period	\$ 76,123	\$ 75,634
	=====	=====
Change in Plan Assets:		
Fair value of plan assets at beginning of period	\$ 43,810	\$ 40,486
Return on plan assets	283	5,098
Employer contributions	395	1,620
Benefits paid	(838)	(3,394)
	-----	-----
Fair value of plan assets at end of period	\$ 43,650	\$ 43,810
	=====	=====
Funded Status:		
Funded status at end of period	\$(32,474)	\$(31,824)
Unrecognized net actuarial loss	9,197	9,198
Unrecognized prior service cost	2,985	3,056
	-----	-----
Prepaid/ (accrued) at Measurement Date	(20,292)	(19,570)
Contributions subsequent to Measurement Date	395	395
	-----	-----
Net liability recognized at end of period	\$(19,897)	\$(19,175)
	=====	=====
Amounts recognized in the Combined Statement of Assets to be Acquired and Liabilities to be Assumed:		
Accrued benefit liability	\$(22,882)	\$(22,231)
Intangible asset	2,985	3,056
	-----	-----
Net liability recognized at end of period	\$(19,897)	\$(19,175)
	=====	=====

## PG ENERGY BUSINESS OF SOUTHERN UNION COMPANY

## NOTES TO COMBINED STATEMENTS

At the Measurement Date, the accumulated benefit obligation related to the Pennsylvania Division Plan exceeded the fair value of the pension plan assets. As a result, in accordance with the provisions of FASB Statement No. 87, "Employers' Accounting for Pensions", the Acquired Business recorded a minimum pension liability.

The following table summarizes information for the Pennsylvania Division Plan:

	March 31, 2006	December 31, 2005
	-----	-----
	(In thousands)	
Projected benefit obligation	\$76,123	\$75,634
Accumulated benefit obligation	66,926	66,437
Fair value of plan assets	43,650	43,810

The weighted-average assumptions used to determine benefit obligations for the three months ended March 31, 2006, the twelve months ended December 31, 2005, the six months ended December 31, 2004, and the twelve months ended June 30, 2004, were as follows:

	Three Months Ended March 31, 2006	Twelve Months Ended December 31, 2005	Six Months Ended December 31, 2004	Twelve Months Ended June 30, 2004
	-----	-----	-----	-----
Discount rate:				
Beginning of period	5.50%	5.75%	6.00%	6.50%
End of period	5.50%	5.50%	5.75%	6.00%
Rate of compensation increase (average)	3.20%	3.20%	3.35%	3.55%

## NOTES TO COMBINED STATEMENTS

Net periodic benefit cost for the three months ended March 31, 2006, the twelve months ended December 31, 2005, the six months ended December 31, 2004, and the twelve months ended June 30, 2004, includes the following components:

	Three Months Ended March 31, 2006	Twelve Months Ended December 31, 2005	Six Months Ended December 31, 2004	Twelve Months Ended June 30, 2004
	-----	-----	-----	-----
	(In thousands)			
Service cost	\$ 339	\$ 1,246	\$ 645	\$ 1,105
Interest cost	1,017	4,026	2,038	4,071
Expected return on plan	(957)	(3,543)	(1,797)	(3,304)
Amortization of prior service cost	71	283	142	190
Recognized actuarial loss	287	1,190	509	993
	-----	-----	-----	-----
Net periodic benefit cost	\$ 757	\$ 3,202	\$ 1,537	\$ 3,055
	=====	=====	=====	=====

The weighted-average assumptions used to determine net periodic benefit cost for the three months ended March 31, 2006, the twelve months ended December 31, 2005, the six months ended December 31, 2004 and the twelve months ended June 30, 2004, were as follows:

	Three Months Ended March 31, 2006	Twelve Months Ended December 31, 2005	Six Months Ended December 31, 2004	Twelve Months Ended June 30, 2004
	-----	-----	-----	-----
Discount rate:				
Beginning of period	5.75%	6.00%	6.50%	7.50%
End of period	5.50%	5.75%	6.00%	6.50%
Expected return on assets -				
tax exempt accounts	8.75%	9.00%	9.00%	9.00%
Rate of compensation increase	3.20%	3.35%	3.55%	4.00%

The Acquired Business employs a building block approach in determining the expected long-term rate of return on the Plans' assets. Historical markets are studied and long-term historical relationships between equities and fixed-income are preserved consistent with the widely accepted capital market principle that assets with higher volatility generate a greater return over the long run. Current market factors such as inflation and interest rates are evaluated before long-term market assumptions are determined. The long-term portfolio return is established via a building block approach with proper consideration of diversification and rebalancing. Peer data and historical returns are reviewed to check for reasonability and appropriateness.

Discount Rate Selection. The discount rate for each measurement date is selected via a benchmark approach that reflects comparative changes in the Moody's Long Term Corporate Bond Yield for AA Bond ratings with maturities 20 years and above and the Citigroup Pension Liability Index Discount Rate. The result is compared for consistency with the single rate determined by projecting the aggregate employer provided benefit cash flows from each plan for

## NOTES TO COMBINED STATEMENTS

each future year, discounting such projected cashflows using annual spot yield rates published as the Citigroup Pension Discount Curve on the Society of Actuaries website for each measurement date and determining the single discount rate that produces the same discounted value. The result is rounded to the nearest multiple of 25 basis points.

Pennsylvania Division Plan Asset Information. The assets of the Pennsylvania Division Plan are invested in accordance with several investment practices that emphasize long-term investment fundamentals with an investment objective of long-term growth. The investment practices take into consideration risk tolerance and the asset allocation strategy as described below.

The broad goal and objective of the investment of the Pennsylvania Division Plans' assets is to ensure that future growth of the assets is sufficient to offset normal inflation plus liability requirements of the Pennsylvania Division Plan's beneficiaries. Pennsylvania Division Plan assets should be invested in such a manner to minimize the necessity of net contributions to the Pennsylvania Division Plans to meet the Pennsylvania Division Plans' commitments. The contributions will also be affected by the applicable discount rate that is applied to future liabilities. The discount rate will affect the net present value of the future liability, and therefore the funded status.

The weighted average asset allocation by asset category for the Measurement Periods presented for the Acquired Business is as follows:

Asset Category	October 1, 2005 to December 31, 2005	October 1, 2004 to September 30, 2005
- - - - -	- - - - -	- - - - -
Equity securities	71%	74%
Debt securities	17%	19%
Other - cashequivalents	12%	7%
	---	---
Total	100%	100%
	===	===

As the plan sponsor, Southern Union employs a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of plan assets for a prudent level of risk. Risk tolerance is established through careful consideration of plan liabilities, plan funded status, and corporate financial condition. The investment portfolio contains a diversified blend of equity and fixed-income investments. Furthermore, equity investments are a diversified blend of equity and fixed-income investments and are further diversified across U.S. and non-U.S. stocks, as well as growth, value, and small and large capitalizations.

The Pennsylvania Division Plan owns an interest in the Southern Union Company Retirement Income Plan Master Trust (the "Master Trust"). As of September 30, 2005, the Master Trust owned 868,988 shares of common stock of Southern Union with a fair value of \$22.4 million. The Master Trust owns no shares of common stock of Southern Union as of December 31, 2005. The Pennsylvania Division Plan held a 14.7% interest in the Master Trust as of both September 30, 2005, and December 31, 2005, respectively. No annual benefits of employees or retirees are covered by annuity contracts issued by Southern Union or related parties.

## NOTES TO COMBINED STATEMENTS

The above referenced asset allocations for pension benefits are based upon guidelines established by Southern Union investment policy and are monitored by the Investment Committee of the Southern Union Board of Directors in conjunction with an external investment advisor. On occasion, the asset allocations may fluctuate versus these guidelines as a result of administrative oversight by the Investment Committee.

Under the terms of the Agreement, as amended, the Pennsylvania Division Plan was assumed by UGI on August 24, 2006. On that date Southern Union contributed \$15.1 million to the Pennsylvania Division Plan, an amount equal to the unfunded Accumulated Benefit Obligation as of July 31, 2006. In addition to this contribution, prior to the sale date Southern Union contributed approximately \$3.5 million to the Pennsylvania Division Plan for 2006.

The following table illustrates the estimated pension benefit payments which reflect expected future service, as appropriate, that are projected to be paid.

Calendar Year  
-----

2006	\$ 3,347,029
2007	3,338,243
2008	3,326,843
2009	3,409,426
2010	3,524,896
2011 through 2015	20,720,162

## 6. ALLOCATION OF CORPORATE COSTS

Southern Union provides certain indirect general and administrative services to the Acquired Business at a Corporate level, including but not limited to information technology, insurance, human resources, financial reporting, treasury, tax and legal. For purposes of the accompanying Combined Statement of Revenues and Certain Expenses such costs have been allocated to and are included in these Statements. The allocated expenses totaled \$493,000, \$2.2 million, \$1.3 million and \$2.9 million for the three-month period ended March 31, 2006, the year ended December 31, 2005, the six-month period ended December 31, 2004, and the fiscal year ended June 30, 2004, respectively. Southern Union allocates such indirect costs to its divisions and subsidiaries based on the average of the following criteria: (1) gross investment in the business unit, (2) revenue margin (sales less cost of gas less revenue related taxes) and (3) total cash operating expense (operations and maintenance expense plus taxes other than on income). Management believes such allocation methodology is reasonable.

## 7. GOODWILL IMPAIRMENT

The determination of whether an impairment has occurred is based on an estimate of the fair value of a reporting unit (determined based on discounted future cash flows attributable to the reporting unit), as compared to the carrying value of the reporting unit's net assets. Considering the sales price included in the Agreement, the Acquired Business determined that there was a goodwill impairment as of December 31, 2005. Execution of the Agreement constituted a subsequent event of the type that, under accounting principles generally accepted in the United States, required the Acquired Business to consider the market value indicated by the Agreement.

## NOTES TO COMBINED STATEMENTS

in its annual 2005 goodwill impairment evaluation. Accordingly, based upon the fair value of the Acquired Business derived principally from the Agreement, an estimated goodwill impairment charge of \$98.0 million was recorded in the 2005 period.

## 8. COMMITMENTS AND CONTINGENCIES

Environmental. PG Energy's operations are subject to federal, state and local laws and regulations regarding water quality, hazardous and solid waste management, air quality control and other environmental matters. These laws and regulations require PG Energy to conduct its operations in a specified manner and to obtain and comply with a wide variety of environmental registrations, licenses, permits, inspections and other approvals. Failure to comply with environmental requirements may expose PG Energy to significant fines, penalties and/or interruptions in operations. PG Energy's environmental policies and procedures are designed to achieve compliance with such laws and regulations. These evolving laws and regulations and claims for damages to property, employees, other persons and the environment resulting from current or past operations may result in significant expenditures and liabilities in the future.

PG Energy follows the provisions of American Institute of Certified Public Accountants Statement of Position 96-1, Environmental Remediation Liabilities, for recognition, measurement, display and disclosure of environmental remediation liabilities.

Based upon existing regulatory practices, PG Energy believes environmental remediation costs are probable of recovery through base rate proceedings. Management does not believe that environmental expenditures will have a material adverse effect on the accompanying Statements.

Like others in the gas distribution industry, PG Energy is responsible for environmental remediation at various contaminated sites that are primarily associated with MGPs and sites associated with the operation and disposal activities from MGPs. MGPs produced a fuel known as "town gas". Some constituents of the manufactured gas process may be regulated substances under various federal and state environmental laws. To the extent these constituents are present in soil or groundwater at concentrations in excess of applicable standards, investigation and remediation may be required. These include properties that are part of PG Energy's ongoing operations of the Natural Gas Business, sites formerly owned or used by PG Energy and sites owned by third parties. Remediation typically involves the management of contaminated soils and may involve removal of structures and remediation of groundwater. Activities vary with site conditions and locations, the extent and nature of the contamination, remedial requirements, complexity and sharing of responsibility, and some contamination may be unrelated to MGPs. The ultimate liability and total costs associated with these sites will depend upon many factors. If remediation activities involve statutory joint and several liability provisions, strict liability, or cost recovery or contribution actions, PG Energy could potentially be held responsible for contamination caused by other parties. In some instances, PG Energy may share liability associated with contamination with other potentially responsible parties, and may also benefit from insurance policies or contractual indemnities that cover some or all of the cleanup costs; however, no assets have been recorded in the accompanying Statements associated with any recovery under such insurance policies or indemnities as they are not deemed probable. These sites are generally managed in the normal course of business or operations. PG Energy believes the outcome of these matters will not have a material adverse effect on the accompanying

## NOTES TO COMBINED STATEMENTS

Statements.

Sunbury Pennsylvania Manufactured Gas Plant Site. By letter dated July 28, 2006, the Acquired Business received a demand by counsel for PPL, Inc. (PPL) and draft complaint seeking to recover costs incurred by PPL in investigating and remediating contamination of the Sunbury, Pennsylvania manufactured gas plant, which, according to the letter, have totaled in excess of \$4.5 million to date. The Acquired Business has previously contributed to PPL's remediation project by making cash payments and by removing and relocating gas utility lines located in the path of the remediation. Based upon its current understanding of the facts, the Acquired Business does not believe the outcome of this matter will have a material adverse effect on the accompanying Statements.

Litigation. The Acquired Business is involved in legal, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies regarding matters arising in the ordinary course of business, none of which involve substantial amounts. Where appropriate, the Acquired Business has made accruals in accordance with FASB Statement No. 5, "Accounting for Contingencies" in order to provide for such matters. Management believes the final disposition of these proceedings will not have a material adverse effect on the accompanying Statements of the Acquired Business.

Other Commitments and Contingencies. At March 31, 2006, PG Energy has purchase commitments for natural gas transportation services, storage services and certain quantities of natural gas at a combination of fixed, variable and market-based prices that have an aggregate value of approximately \$183.1 million. PG Energy's purchase commitments may be extended over several years depending upon when the required quantity is purchased. PG Energy has purchase gas tariffs in effect for all its utility service areas that provide for recovery of its purchase gas costs under defined methodologies and PG Energy believes that all costs incurred under such commitments will be recovered through its purchase gas tariffs.

#### 9. CASH FLOW INFORMATION

Capital expenditures totaled \$3.3 million, \$24.6 million, \$13.8 million and \$19.6 million for the three-month period ended March 31, 2006, the year ended December 31, 2005, the six-month period ended December 31, 2004 and the year ended June 30, 2004, respectively. Other cash flow information is not available as the necessary detail records to prepare cash flow statements are not kept at the Acquired Business level.

#### 10. TRANSITION SERVICES AGREEMENT

Pursuant to the Agreement, as amended, Southern Union and UGI entered into a Transition Services Agreement (the "TSA") whereby each party will be a provider of certain business services to the other, and a receiver of certain business services from the other for an agreed pricing. The principal business services include general business continuity, information technology, accounting and tax services. The TSA will remain in effect until such time that both parties mutually agree that the services are no longer required.

PG ENERGY BUSINESS OF SOUTHERN UNION COMPANY  
 COMBINED STATEMENT OF ASSETS TO BE ACQUIRED  
 AND LIABILITIES TO BE ASSUMED  
 (UNAUDITED)

	June 30, 2006	December 31, 2005
	-----	-----
	(Thousands of Dollars)	
ASSETS TO BE ACQUIRED		
UTILITY PLANT:		
Plant in service	\$ 509,234	\$ 504,030
Construction work in progress	5,717	1,200
	-----	-----
	514,951	505,230
Less accumulated depreciation	(154,514)	(148,103)
	-----	-----
	360,437	357,127
	-----	-----
CURRENT ASSETS:		
Cash	7	12
Accounts receivable -		
Customers, net of allowances of \$3,591		
and \$2,585, respectively	25,339	40,341
Affiliates	--	12
Others	628	2,167
Accrued utility revenues	4,151	31,202
Inventories:		
Natural gas in underground storage	48,901	63,567
Materials and supplies	2,181	1,767
Prepaid expenses and other	31	565
	-----	-----
Total current assets	81,238	139,633
	-----	-----
GOODWILL	149,720	149,720
	-----	-----
OTHER LONG-TERM ASSETS	931	931
	-----	-----
DEFERRED CHARGES:		
Regulatory assets (Note 4)	13,029	12,615
	-----	-----
Total deferred charges	13,029	12,615
	-----	-----
TOTAL ASSETS TO BE ACQUIRED	605,355	660,026
	-----	-----
LIABILITIES TO BE ASSUMED		
CURRENT LIABILITIES:		
Accounts payable	19,415	35,577
Deferred cost of gas and supplier refunds, net	14,656	6,967
Accrued general business and realty taxes	197	1,204
Customer deposits	1,627	1,616
Accrued interest to customers	536	516
Other	5,575	5,281
	-----	-----
Total current liabilities	42,006	51,161
DEFERRED CREDITS	25,592	25,493
	-----	-----
TOTAL LIABILITIES TO BE ASSUMED	67,598	76,654
	-----	-----
NET ASSETS TO BE ACQUIRED	\$ 537,757	\$ 583,372
	=====	=====

The accompanying notes are an integral part of these  
 unaudited combined statements.



PG ENERGY BUSINESS OF SOUTHERN UNION COMPANY  
 COMBINED STATEMENT OF REVENUES AND CERTAIN EXPENSES  
 (UNAUDITED)

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005
	-----	-----
	(Thousands of Dollars)	
OPERATING REVENUES		
Gas distribution	\$44,043	\$39,151
Service and other	1,069	618
	-----	-----
	45,112	39,769
	-----	-----
CERTAIN EXPENSES:		
Cost of gas	28,871	23,339
Operations, maintenance and general, including allocations (Note 6)	9,630	9,491
Depreciation	3,341	3,056
Taxes other than income taxes	160	356
	-----	-----
	42,002	36,242
	-----	-----
EXCESS OF OPERATING REVENUES OVER CERTAIN EXPENSES	\$ 3,110	\$ 3,527
	=====	=====

The accompanying notes are an integral part of these  
 unaudited combined statements.

PG ENERGY BUSINESS OF SOUTHERN UNION COMPANY

NOTES TO UNAUDITED COMBINED STATEMENTS

1. ORGANIZATION AND NATURE OF BUSINESS AND PURPOSE OF STATEMENTS

Organization and Nature of the Business. The PG Energy Business of Southern Union Company is comprised of its PG Energy division and PG Energy Services, Inc. The PG Energy division of Southern Union Company ("PG Energy" or the "Natural Gas Business") is a regulated public utility distributing natural gas to a thirteen-county area in northeastern Pennsylvania, a territory that includes the cities of Scranton, Wilkes-Barre and Williamsport.

PG Energy Services, Inc. ("PGES") is a subsidiary of Southern Union Company ("Southern Union") engaging in various nonregulated activities, including the inspection, maintenance and servicing of residential and small commercial gas-fired equipment.

Purpose of Statements. The accompanying unaudited statements of assets to be acquired and liabilities to be assumed and of revenues and certain expenses (collectively, the "Unaudited Statements") have been prepared in accordance with the Purchase and Sale Agreement, as amended, between Southern Union and UGI Corporation ("UGI") dated as of January 26, 2006, (the "Agreement"), providing for the sale by Southern Union to UGI of substantially all of the assets, properties and rights relative to the natural gas utility operations of PG Energy as well as the common stock of PGES (together the "Acquired Business").

Under the terms of the Agreement, UGI made an initial cash payment to Southern Union of \$580.0 million on August 24, 2006, the closing date of the sale. In addition, UGI assumed certain liabilities of the Acquired Business. This cash payment is subject to adjustment for the difference between the working capital target of \$68.1 million and the working capital agreed to in a closing statement to be completed within ninety (90) days following the closing date.

The assets and liabilities reflected in the unaudited Statement of Assets to be Acquired and Liabilities to be Assumed comprise the following items:

- Assets of the Acquired Business as defined in the Agreement, including all the assets, properties and rights used exclusively in the Natural Gas Business.
- Assumed liabilities as defined in the Agreement.
- Net assets to be acquired includes \$1,500, \$998,800 and \$9.8 million at June 30, 2006, and \$1,500, \$998,800 and \$9.6 million at December 31, 2005, related to the values of common stock, paid in capital and retained earnings, respectively, of PGES. Additionally, PGES had 50,000 common shares authorized for issuance and 150 common shares issued and outstanding for all periods presented.

The operations of the Acquired Business rely on Southern Union for certain activities, including but not limited to, information technology, insurance, human resources, payroll, external financial reporting, treasury, tax and legal support. Certain expenses within the accompanying unaudited Combined Statement of Revenues and Certain Expenses include direct expenses of the Acquired Business, direct costs incurred by Southern Union on behalf of the Acquired Business, primarily insurance and legal, and an allocation of general and administrative expenses incurred by Southern Union. See Note 6 for a discussion of the amounts and method of allocation.

## NOTES TO UNAUDITED COMBINED STATEMENTS

Allocations of interest and income taxes have been excluded from these Unaudited Statements as these costs were not historically allocated to the Acquired Business for financial reporting purposes and it would not be practical to do so in these circumstances. All of the allocations in the unaudited Combined Statement of Revenues and Certain Expenses are based on assumptions that the Acquired Business believes are reasonable under the circumstances. However, these allocations are not necessarily indicative of the costs and expenses that would have resulted had the Acquired Business operated as a separate entity, nor do they consider potential changes in the business by UGI. As a result, the historical operating results may not be indicative of future results.

All significant intercompany accounts and transactions between the Natural Gas Business and PGES have been eliminated.

**2. BASIS OF PRESENTATION**

The accompanying Unaudited Statements have been derived from Southern Union Company's historical accounting records of the Acquired Business and have been prepared to present the unaudited Combined Statement of Assets to be Acquired and Liabilities to be Assumed of the Acquired Business as of June 30, 2006, and December 31, 2005, as well as their unaudited Combined Statement of Revenues and Certain Expenses for the three-month periods ended June 30, 2006 and 2005 for the purpose of complying with the rules and regulations of the Securities and Exchange Commission (the "SEC") and are not intended to be a complete presentation of the financial position, results of operations and cash flows of the Acquired Business in accordance with accounting principles generally accepted in the United States of America ("GAAP"). A statement of cash flows is not presented as the cash flow activities of the Acquired Business were funded through Southern Union and a complete statement of cash flows is not prepared at the reporting level of the Acquired Business.

The Unaudited Statements also do not include all of the information and note disclosures required by GAAP, and should be read in conjunction with the Combined Statement of Assets to be Acquired and Liabilities to be Assumed of the Acquired Business as of March 31, 2006, and December 31, 2005, as well as their Combined Statement of Revenues and Certain Expenses for the three-month period ended March 31, 2006; the year ended December 31, 2005; the six-month period ended December 31, 2004; and the year ended June 30, 2004, and the notes thereto.

The accompanying Unaudited Statements have been prepared in accordance with GAAP and reflect adjustments that are, in the opinion of management, necessary for a fair statement of results for the interim period. The December 31, 2005, data for the unaudited Combined Statement of Assets to be Acquired and Liabilities to be Assumed was derived from the audited Combined Statement of Assets to be Acquired and Liabilities to be Assumed, but does not include all disclosures required by GAAP. Because of the seasonal nature of the operations of the Acquired Business, the unaudited Combined Statement of Revenues and Certain Expenses for any interim period are not necessarily indicative of the results that may be expected for the full year.

PG ENERGY BUSINESS OF SOUTHERN UNION COMPANY

NOTES TO UNAUDITED COMBINED STATEMENTS

3. RATE MATTERS

**Proposed Rate Increase.** On April 13, 2006, PG Energy filed an application with the PPUC seeking an increase in its base gas rates, designed to produce \$29.8 million in additional annual revenue, to be effective June 12, 2006. On May 19, 2006, the PPUC suspended this rate increase for seven months (until January 12, 2007) in order to investigate the reasonableness of the proposed rates. It is not presently possible to determine what action the PPUC will ultimately take in this matter.

**Gas Cost Adjustments.** The provisions of the Pennsylvania Public Utility Code require that the tariffs of local gas distribution companies ("LDCs") be adjusted on an annual basis, and, in the case of larger LDCs such as PG Energy, on an interim basis when circumstances dictate, to reflect changes in their purchased gas costs. The procedure includes a process for the reconciliation of actual gas costs incurred and actual revenues received and also provides for the refund of any overcollections, plus interest thereon, or the recoupment of any undercollections of gas costs.

In addition, the PPUC adopted regulations providing for the quarterly adjustment of the annual purchased gas cost rate of larger gas distribution companies, including PG Energy. Such adjustments are allowed when the actual purchased gas costs vary from the estimated costs reflected in the respective company's tariffs by 2% or more.

Other than interest payable to customers on over-collections or payable to PG Energy on the under-collections of purchased gas costs, the changes in gas rates on account of purchased gas costs have no effect on earnings since the change in revenue is offset by a corresponding change in the cost of gas.

4. REGULATORY ASSETS

Regulatory Assets	June 30, 2006	December 31, 2005
- - - - -	- - - - -	- - - - -
	(Thousands of Dollars)	
Pension	\$ 7,017	\$ 7,244
Environmental	4,000	4,000
Retirement Work in Progress	343	42
Low Income Program	209	260
Computer Software	669	496
Deferred Flooding Charges	329	385
Rate Case	220	--
Other	242	188
	- - - - -	- - - - -
	\$13,029	\$12,615
	=====	=====

Pension costs consist primarily of amounts deferred relative to early retirement programs in 1991, 1998 and 2001 that are currently being amortized and recovered in rates.

PG ENERGY BUSINESS OF SOUTHERN UNION COMPANY

NOTES TO UNAUDITED COMBINED STATEMENTS

PG Energy entered into a Consent Order and Agreement (the "Multi-Site Agreement") with the Pennsylvania Department of Environmental Protection on March 31, 2004. This Multi-Site Agreement is for the purpose of developing and implementing an environmental assessment and remediation program for five MGP sites (including the Scranton, Bloomsburg and Carbondale sites) and six MGP holder sites owned by PG Energy in the State of Pennsylvania. Under the Multi-Site Agreement, PG Energy is to perform environmental assessments of these sites within two years of the effective date of the Multi-Site Agreement. Thereafter, PG Energy is required to perform additional assessment and remediation activity as is deemed to be necessary based upon the results of the initial assessments. In this regard the accompanying statements include a liability and a related regulatory asset of \$4.0 million relative to costs expected to be incurred in satisfaction of this Multi-Site Agreement. In accordance with existing regulatory practice of the PPUC, PG Energy amortizes as removal costs site-specific environmental investigation and remediation costs over a five-year period.

As of June 30, 2006, and December 31, 2005, PG Energy's regulatory assets included \$5.9 million and \$5.6 million, respectively, that is being recovered through current rates. As of June 30, 2006, and December 31, 2005, the remaining recovery period associated with these assets ranged from 1 month to 181 months and 1 month to 187 months, respectively. None of these regulatory assets are included in rate base.

5. POSTEMPLOYMENT BENEFITS

The Employees' Retirement Plan of Southern Union Company Pennsylvania Division (the "Pennsylvania Division Plan") is a trustee, non-contributory defined benefit pension plan, covering substantially all employees of the Acquired Business. The Pennsylvania Division Plan is funded in accordance with federal regulations, not to exceed the amounts deductible for income tax purposes.

Net periodic benefit cost for the three months ended June 30, 2006 and 2005 includes the following components:

	Three Months Ended June 30, 2006 -----	Three Months Ended June 30, 2005 -----
	(In thousands)	
Service cost	\$ 114	\$ 312
Interest cost	988	1,006
Expected return on plan	(936)	(886)
Amortization of prior service cost	24	71
Recognized actuarial loss	192	297
	-----	-----
Net periodic benefit cost	\$ 382	\$ 800
	=====	=====

Under the terms of the Agreement, as amended, the Pennsylvania Division Plan was assumed by UGI on August 24, 2006. On that date Southern Union contributed \$15.1 million to the

PG ENERGY BUSINESS OF SOUTHERN UNION COMPANY

NOTES TO UNAUDITED COMBINED STATEMENTS

Pennsylvania Division Plan, an amount equal to the unfunded Accumulated Benefit Obligation as of July 31, 2006. In addition to this contribution, prior to the sale date Southern Union contributed approximately \$3.5 million to the Pennsylvania Division Plan for 2006.

6. ALLOCATION OF CORPORATE COSTS

Southern Union provides certain indirect general and administrative services to the Acquired Business at a Corporate level, including but not limited to information technology, insurance, human resources, financial reporting, treasury, tax and legal. For purposes of the accompanying Combined Statement of Revenues and Certain Expenses such costs have been allocated to and are included in these Statements. The allocated expenses totaled \$441,000 and \$402,000 for the three-month periods ended June 30, 2006 and 2005. Southern Union allocates such indirect costs to its divisions and subsidiaries based on the average of the following criteria: (1) gross investment in the business unit, (2) revenue margin (sales less cost of gas less revenue related taxes) and (3) total cash operating expense (operations and maintenance expense plus taxes other than on income). Management believes such allocation methodology is reasonable under the circumstances.

7. COMMITMENTS AND CONTINGENCIES

Environmental. PG Energy's operations are subject to federal, state and local laws and regulations regarding water quality, hazardous and solid waste management, air quality control and other environmental matters. These laws and regulations require PG Energy to conduct its operations in a specified manner and to obtain and comply with a wide variety of environmental registrations, licenses, permits, inspections and other approvals. Failure to comply with environmental requirements may expose PG Energy to significant fines, penalties and/or interruptions in operations. PG Energy's environmental policies and procedures are designed to achieve compliance with such laws and regulations. These evolving laws and regulations and claims for damages to property, employees, other persons and the environment resulting from current or past operations may result in significant expenditures and liabilities in the future.

PG Energy follows the provisions of American Institute of Certified Public Accountants Statement of Position 96-1, Environmental Remediation Liabilities, for recognition, measurement, display and disclosure of environmental remediation liabilities.

Based upon existing regulatory practices, PG Energy believes environmental remediation costs are probable of recovery through base rate proceedings. Management does not believe that environmental expenditures will have a material adverse effect on the accompanying Unaudited Statements.

Like others in the gas distribution industry, PG Energy is responsible for environmental remediation at various contaminated sites that are primarily associated with Manufactured Gas Plants ("MGPs") and sites associated with the operation and disposal activities from MGPs. MGPs produced a fuel known as "town gas". Some constituents of the manufactured gas process may be regulated substances under various federal and state environmental laws. To the extent these constituents are present in soil or groundwater at concentrations in excess of applicable standards, investigation and remediation may be required. These include properties that are part

PG ENERGY BUSINESS OF SOUTHERN UNION COMPANY

NOTES TO UNAUDITED COMBINED STATEMENTS

of PG Energy's ongoing operations of the Natural Gas Business, sites formerly owned or used by PG Energy and sites owned by third parties. Remediation typically involves the management of contaminated soils and may involve removal of structures and remediation of groundwater. Activities vary with site conditions and locations, the extent and nature of the contamination, remedial requirements, complexity and sharing of responsibility, and some contamination may be unrelated to MGPs. The ultimate liability and total costs associated with these sites will depend upon many factors. If remediation activities involve statutory joint and several liability provisions, strict liability, or cost recovery or contribution actions, PG Energy could potentially be held responsible for contamination caused by other parties. In some instances, PG Energy may share liability associated with contamination with other potentially responsible parties, and may also benefit from insurance policies or contractual indemnities that cover some or all of the cleanup costs; however, no assets have been recorded in the accompanying Statements associated with any recovery under such insurance policies or indemnities as they are not deemed probable. These sites are generally managed in the normal course of business or operations. PG Energy believes the outcome of these matters will not have a material adverse effect on the accompanying Unaudited Statements.

Sunbury Pennsylvania Manufactured Gas Plant Site. By letter dated July 28, 2006, the Acquired Business received a demand by counsel for PPL, Inc. (PPL) and draft complaint seeking to recover costs incurred by PPL in investigating and remediating contamination of the Sunbury, Pennsylvania manufactured gas plant, which, according to the letter, have totaled in excess of \$4.5 million to date. The Acquired Business has previously contributed to PPL's remediation project by making cash payments and by removing and relocating gas utility lines located in the path of the remediation. Based upon its current understanding of the facts, the Acquired Business does not believe the outcome of this matter will have a material adverse effect on the accompanying Unaudited Statements.

Litigation. The Acquired Business is involved in legal, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies regarding matters arising in the ordinary course of business, none of which involve substantial amounts. Where appropriate, the Acquired Business has made accruals in accordance with FASB Statement No. 5, "Accounting for Contingencies" in order to provide for such matters. Management believes the final disposition of these proceedings will not have a material adverse effect on the accompanying Unaudited Statements.

8. CASH FLOW

Capital expenditures totaled \$6.6 million and \$6.2 million for the three-month periods ended June 30, 2006 and 2005, respectively. Other cash flow information is not available as the necessary detail records to prepare cash flow statements are not kept at the Acquired Business level.

9. TRANSITION SERVICES AGREEMENT

Pursuant to the Agreement, Southern Union and UGI entered into a Transition Services Agreement (the "TSA") whereby each party will be a provider of certain business services to the other, and a receiver of certain business services from the other for an agreed pricing. The

PG ENERGY BUSINESS OF SOUTHERN UNION COMPANY

NOTES TO UNAUDITED COMBINED STATEMENTS

principal business services include general business continuity, information technology, accounting and tax services. The TSA will remain in effect until such time that both parties mutually agree that the services are no longer required.



## UGI UTILITIES, INC.

INTRODUCTION TO UNAUDITED PRO FORMA CONDENSED COMBINED  
FINANCIAL STATEMENTS  
(In Thousands)

The following Unaudited Pro Forma Condensed Combined Financial Statements of UGI Utilities, Inc. and Subsidiaries ("UGI Utilities") give effect to the August 24, 2006 acquisition of certain assets and the assumption of certain liabilities of Southern Union Company's ("SU's") PG Energy division and all of the issued and outstanding stock of SU's wholly-owned subsidiary, PG Energy Services, Inc. (collectively, "PG Energy") pursuant to a Purchase and Sale Agreement, as amended, between SU and UGI Corporation ("UGI") dated as of January 26, 2006 (the "Agreement"). The PG Energy division ("Natural Gas Business") is a regulated natural gas public utility located in northeastern Pennsylvania, and PG Energy Services, Inc. ("PGES") is a subsidiary of SU that provides unregulated services including the inspection, maintenance and servicing of residential and small commercial gas-fired equipment. UGI Utilities is a wholly owned subsidiary of UGI. Immediately prior to the acquisition, UGI assigned its rights and obligations under the Agreement to UGI Utilities' newly formed subsidiary, UGI Penn Natural Gas, Inc. Under the terms of the Agreement, on August 24, 2006, UGI Utilities made a cash payment of \$580,000 to SU for the net assets of the Natural Gas Business and all of the outstanding stock of PGES, and assumed sponsorship of, and all liabilities and obligations under, the Employees' Retirement Plan of Southern Union Company Pennsylvania Division. UGI Utilities funded the cash payment of \$580,000 with bank loans of \$275,000 under a Credit Agreement dated as of August 18, 2006 (the "Bridge Loan"), \$40,000 under its revolving credit facility and capital contributions of \$265,000 from UGI. The cash payment is subject to adjustment for the difference between the working capital target of \$68,100 and the working capital agreed to in a closing statement to be completed within ninety days of the acquisition date. The Unaudited Pro Forma Condensed Combined Financial Statements reflect UGI Utilities' estimated net purchase price of \$571,650, reflecting an estimated working capital adjustment of \$15,000 and \$6,650 in transaction fees and expenses, funded with approximately \$306,650 in UGI Utilities bank loans, including \$275,000 under the Bridge Loan, and capital contributions of \$265,000 from UGI. The Unaudited Pro Forma Condensed Combined Statements of Income reflect interest expense on long-term debt that UGI Utilities expects to issue to repay the Bridge Loan before its maturity date of August 23, 2007.

The pro forma adjustments are based upon available information and assumptions that management believes are reasonable. The Unaudited Pro Forma Condensed Combined Financial Statements do not purport to represent what the results of operations or financial position of UGI Utilities would have been if the purchase transaction had occurred on the dates indicated below, nor do they purport to project the results of operations or financial position of UGI Utilities for any future period or as of any future date.

The Unaudited Pro Forma Condensed Combined Balance Sheet as of June 30, 2006 was prepared by combining the Unaudited Condensed Consolidated Balance Sheet of UGI Utilities and the Unaudited Combined Statement of Assets to be Acquired and Liabilities to be Assumed of PG Energy as of June 30, 2006, giving effect to the acquisition of PG Energy as though it had been completed on June 30, 2006. The Unaudited Pro Forma Condensed Combined Statement of Income for the nine months ended June 30, 2006 was prepared by combining UGI Utilities' Unaudited Statement of Income for the nine months ended June 30, 2006 with PG Energy's Unaudited Combined Statement of Revenues and Certain Expenses for the nine months ended June 30, 2006 to give effect to the acquisition of PG Energy as though it had occurred on October 1, 2004. The Unaudited Pro Forma Condensed Combined Statement of Income for the year ended September 30, 2005 was prepared by combining UGI Utilities' Audited Statement of Income for the year ended September 30, 2005 with PG Energy's Unaudited Combined Statement of Revenues and Certain Expenses for the twelve months ended September 30, 2005 to give effect to the acquisition of PG Energy as though it had occurred on October 1, 2004.

Note 1 of the Notes to PG Energy's Audited Combined Statement of Revenues and Certain Expenses states that allocations of interest and income taxes have been excluded from the statements as such costs were not historically allocated to it for financial reporting purposes and it would not be practical to do so in the circumstances. Notes 1 and 6 of the Notes also state that SU provided certain indirect general and administrative services to PG Energy and the allocations included in PG Energy's Combined Statement of Revenues and Certain Expenses are based on assumptions that were believed to be reasonable under the circumstances. However, Note 1 also states that the allocations are not necessarily indicative of the costs and expenses that would have resulted had PG Energy operated as a separate entity, nor do they consider potential changes in operation of the business under UGI Utilities' ownership.

The Unaudited Pro Forma Condensed Combined Financial Statements were prepared using the purchase method of accounting with UGI Utilities as the acquirer. Accordingly, we have adjusted the historical financial statements to give effect to the impact of the estimated net purchase price in connection with the acquisition. In the Unaudited Pro

UGI UTILITIES, INC.

INTRODUCTION TO UNAUDITED PRO FORMA CONDENSED COMBINED  
FINANCIAL STATEMENTS (CONTINUED)  
(In Thousands)

Forma Condensed Combined Balance Sheet, UGI Utilities' estimated net purchase price has been allocated to the assets acquired and liabilities assumed based on a preliminary valuation of their fair values using currently available information which is subject to final adjustments. Any differences between the estimated net purchase price and the fair value assigned to the assets acquired and liabilities assumed have been reflected as goodwill. Accordingly, the actual adjustments to be recorded in connection with the final purchase price allocation may differ from the pro forma adjustments reflected in the Unaudited Pro Forma Condensed Combined Financial Statements, and any such differences may be material.

UGI Utilities' historical amounts of as of and for the nine months ended June 30, 2006 were derived from unaudited financial statements included in the Form 10-Q filed by UGI Utilities on August 8, 2006 with the U.S. Securities and Exchange Commission ("SEC"). UGI Utilities' historical amounts for the fiscal year ended September 30, 2005 were derived from audited consolidated financial statements included in the Form 10-K filed by UGI Utilities on December 13, 2005 with the SEC.

PG Energy's historical unaudited balance sheet amounts as of June 30, 2006 were derived from their Unaudited Combined Statement of Assets to be Acquired and Liabilities to be Assumed filed separately in this Current Report on Form 8-K/A, which does not include all disclosures required by accounting principles generally accepted in the United States ("GAAP"). PG Energy's Unaudited Combined Statement of Assets to be Acquired and Liabilities to be Assumed and Unaudited Combined Statement of Revenues and Certain Expenses have been derived from SU's historical accounting records of PG Energy for the purpose of complying with the rules and regulations of the SEC and are not intended to be a complete presentation of the financial position, results of operations and cash flows of PG Energy in accordance with GAAP. The unaudited statement of income data of PG Energy for the nine months ended June 30, 2006 was derived by including the Unaudited Combined Statement of Revenues and Certain Expenses for the three months ended December 31, 2005 with the Unaudited Combined Statement of Revenues and Certain Expenses for the six months ended June 30, 2006. PG Energy's Unaudited Combined Statement of Revenues and Certain Expenses for the twelve months ended September 30, 2005 was derived by excluding the Unaudited Combined Statement of Revenues and Certain Expenses for the three months ended December 31, 2005 from the Audited Combined Statement of Revenues and Certain Expenses for the twelve months ended December 31, 2005 and including PG Energy's Unaudited Combined Statement of Revenues and Certain Expenses for the three months ended December 31, 2004.

You should read these Unaudited Pro Forma Condensed Combined Financial Statements in conjunction with the statements of PG Energy, filed separately in this Current Report on Form 8-K/A, along with UGI Utilities' financial statements and accompanying notes included in its prior SEC filings.

UGI UTILITIES, INC.

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET

AS OF JUNE 30, 2006  
(IN THOUSANDS)

	UGI Utilities (Historical)	PG Energy (Historical)(2)	Pro Forma Adjustments	Pro Forma Combined
	-----	-----	-----	-----
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 8,418	\$ 7	\$ --	\$ 8,425
Accounts receivable	68,588	25,339	--	93,927
Accounts receivable - related parties	1,240	--	--	1,240
Accrued utility revenues	12,240	4,151	--	16,391
Inventories	53,594	51,082	--	104,676
Deferred income taxes	9,430	--	--	9,430
Prepaid expenses and other current assets	10,544	659	--	11,203
	-----	-----	-----	-----
Total current assets	164,054	81,238	--	245,292
Property, plant and equipment, net	672,187	360,437	--	1,032,624
Goodwill	--	149,720	28,491(3)	178,211
Utility regulatory assets	61,287	13,029	(2,985)(4)	71,331
Other assets	26,460	931	--	27,391
	-----	-----	-----	-----
Total assets	\$923,988	\$605,355	\$ 25,506	\$1,554,849
	=====	=====	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
Current liabilities:				
Current maturities of long-term debt	\$ 20,000	\$ --	\$ --	\$ 20,000
Bank loans	112,100	--	306,650 (5)	418,750
Accounts payable	23,359	19,415	--	42,774
Accounts payable - related parties	14,456	--	--	14,456
Employee compensation and benefits	7,262	4,248	(1,748)(4)(6)	9,762
Customer deposits and refunds	19,893	1,627	--	21,520
Deferred income taxes	--	--	--	--
Deferred fuel refunds	10,054	14,656	--	24,710
Accrued income taxes	10,733	--	--	10,733
Other current liabilities	8,196	2,060	--	10,256
	-----	-----	-----	-----
Total current liabilities	226,053	42,006	304,902	572,961
Long-term debt	217,000	--	--	217,000
Deferred income taxes	160,099	--	--	160,099
Deferred investment tax credits	6,901	--	--	6,901
Other noncurrent liabilities	16,367	25,592	(6,639)(4)	35,320
	-----	-----	-----	-----
Total liabilities	626,420	67,598	298,263	992,281
Net assets to be acquired	--	537,757	(537,757)	--
Commitments and contingencies				
Common stockholder's equity:				
Common stock	60,259	--	--	60,259
Additional paid-in capital	80,622	--	265,000(7)	345,622
Retained earnings	154,765	--	--	154,765
Accumulated other comprehensive income	1,922	--	--	1,922
	-----	-----	-----	-----
Total common stockholders' equity	297,568	--	265,000	562,568
	-----	-----	-----	-----
Total liabilities and stockholders' equity	\$923,988	\$605,355	\$ 25,506	\$1,554,849
	=====	=====	=====	=====

See accompanying notes to unaudited pro forma condensed combined financial statements.



UGI UTILITIES, INC.

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME

NINE MONTHS ENDED JUNE 30, 2006  
(IN THOUSANDS)

	UGI Utilities (Historical)	PG Energy (Historical)(2)	Pro Forma Adjustments	Pro Forma Combined
Revenues	\$ 694,446	\$ 310,411	\$ --	\$1,004,857
Costs and expenses:				
Cost of sales	492,241	234,619	--	726,860
Operating and administrative expenses	71,495	31,139	--	102,634
Operating and administrative expenses - related parties	8,467	1,632	--	10,099
Utility taxes other than income taxes	10,154	958	--	11,112
Depreciation and amortization	18,856	9,736	--	28,592
Goodwill impairment	--	98,000	--	98,000
Other income, net	(3,930)	(2,359)	--	(6,289)
	-----	-----	-----	-----
	597,283	373,725	--	971,008
	-----	-----	-----	-----
Operating income	97,163	(63,314)	--	33,849
Interest expense	16,300	--	14,264(8)	30,564
	-----	-----	-----	-----
Income before income taxes	80,863	(63,314)	(14,264)	3,285
Income tax expense	32,450	--	8,473(9)	40,923
	-----	-----	-----	-----
Net income (loss)	\$ 48,413	\$ (63,314)	\$ (22,737)	\$ (37,638)
	=====	=====	=====	=====

See accompanying notes to unaudited pro forma condensed combined financial statements.

UGI UTILITIES, INC.

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME

YEAR ENDED SEPTEMBER 30, 2005  
(IN THOUSANDS)

	UGI Utilities (Historical)	PG Energy (Historical)(2)	Pro Forma Adjustments	Pro Forma Combined
Revenues	\$ 681,152	\$ 287,405	\$ --	\$ 968,557
Costs and expenses:				
Cost of sales	437,930	197,136	--	635,066
Operating and administrative expenses	94,370	37,301	--	131,671
Operating and administrative expenses - related parties	12,900	2,099	--	14,999
Utility taxes other than income taxes	13,379	1,763	--	15,142
Depreciation and amortization	23,827	12,175	--	36,002
Other income, net	(4,533)	(1,919)	--	(6,452)
	577,873	248,555	--	826,428
Operating income	103,279	38,850	--	142,129
Interest expense	18,326	--	18,418(8)	36,744
Income before income taxes	84,953	38,850	(18,418)	105,385
Income tax expense	34,132	--	8,477(9)	42,609
Net income (loss)	\$ 50,821	\$ 38,850	\$ (26,895)	\$ 62,776

See accompanying notes to unaudited pro forma condensed combined financial statements.

UGI UTILITIES, INC.

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED  
FINANCIAL STATEMENTS  
(In Thousands)

- On August 24, 2006, UGI Utilities acquired certain assets and assumed certain liabilities of the Natural Gas Business and all of the outstanding stock of PGES. The estimated net purchase price in these pro forma financial statements of approximately \$571,650 includes an estimated working capital adjustment of \$15,000 and \$6,650 in transaction fees and expenses.

Use of funds:

Cash payments pursuant to the Agreement	\$(565,000)
Estimated transaction fees and expenses	(6,650)
	-----
	\$(571,650)
	-----

Source of funds:

Bridge Loan	\$ 275,000
Other bank loans	31,650
Capital contribution from UGI	265,000
	-----
	\$ 571,650
	-----

The preliminary fair value adjustments (which include estimated working capital adjustments and transaction fees and expenses) to the assets acquired and liabilities assumed in the Unaudited Pro Forma Condensed Combined Balance Sheet as of June 30, 2006, are as follows:

	Book Value of Assets Acquired (Liabilities Assumed)	Preliminary Fair Value Adjustments	Preliminary Fair Value
-----			
Current assets	81,238	\$ --	81,238
Property, plant and equipment	360,437	--	360,437
Goodwill	149,720	28,491	178,211
Regulatory assets	13,029	(2,985)	10,044
Other assets	931	--	931
Current liabilities	(42,006)	1,748	(40,258)
Noncurrent liabilities	(25,592)	6,639	(18,953)
	-----	-----	-----
	\$ 537,757	\$ 33,893	\$ 571,650
	-----	-----	-----

The Unaudited Pro Forma Condensed Combined Financial Statements are not necessarily indicative of the operating results or financial position that would have occurred had the acquisition been completed as of the dates indicated, nor are they necessarily indicative of future operating results or financial position. The purchase accounting adjustments made in connection with the Unaudited Pro Forma Condensed Combined Financial Statements are based on a preliminary valuation that has been made solely for purposes of developing the pro forma financial information and is based upon currently available information. Such valuation is subject to final adjustments. Accordingly, the actual adjustments to be recorded in connection with the final purchase price allocation may differ from the pro forma adjustments reflected in the Unaudited Pro Forma Condensed Combined Financial Statements, and any such differences may be material.

- Certain reclassifications have been made to PG Energy's historical presentation in order to conform to UGI Utilities' presentation.
- Reflects net pro forma adjustment to remove PG Energy's historical goodwill of \$149,720 and record goodwill of \$178,211 representing the excess of the net purchase price over the preliminary fair value of the net assets to be acquired.

UGI UTILITIES, INC.

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED  
FINANCIAL STATEMENTS (CONTINUED)  
(In Thousands)

4. Reflects net adjustments resulting from (A) total payments of \$18,600 made by SU to the Employees' Retirement Plan of Southern Union Company Pennsylvania Division (the "Division Plan") prior to and at the closing of the acquisition equal to the difference between the estimated accumulated benefit obligation and estimated fair market value of Division Plan assets, (B) the difference between the projected benefit obligations and the estimated fair market value of the Division Plan at the acquisition date, and (C) the accumulated postretirement benefit obligation ("APBO") in excess of plan assets associated with PG Energy's postretirement health and welfare plan.

(A) Eliminate regulatory assets related to the Division Plan's unrecognized prior service cost	\$ (2,985)
	-----
(A) Eliminate current portion of historical unfunded pension liabilities	\$ (4,248)
	-----
(A) Eliminate long-term portion of historical unfunded pension liabilities	\$(18,639)
(B) Record the Division Plan's projected benefit obligations in excess of plan assets	9,700
(C) Record posteretirement health and welfare plan APBO in excess of plan assets	2,300
	-----
	\$ (6,639)
	-----

5. Reflects borrowings under the Bridge Loan of \$275,000 and other bank loans of \$31,650 used to fund a portion of the purchase price.
6. Reflects the net adjustment for the accrual of certain acquisition-related costs and expenses of \$2,500 and the elimination of current pension liabilities of \$4,248 referred to in Note 4 above.
7. Reflects a \$265,000 capital contribution from UGI used to fund a portion of the purchase price.
8. Reflects pro forma interest expense on (1) \$275,000 of long-term debt assuming such debt was issued in conjunction with the acquisition as of October 1, 2004; (2) \$31,650 of bank loans used to fund the acquisition; and includes the (3) amortization of deferred debt issuance cost associated with the long-term debt. In anticipation of the acquisition, UGI Utilities entered into interest rate protection agreements covering a notional amount of \$275,000. After giving effect to the interest rate protection agreements, the effective interest rate for the long-term debt was 6.3%. The estimated interest rates used for the bank loans of 5.1% and 3.2% for the nine months ended June 30, 2006 and the twelve months ended September 30, 2005, respectively, were based upon historical average interest rates under UGI Utilities' revolving credit facility.
9. Reflects pro forma income taxes on PG Energy's results and pro forma adjustments at the statutory income tax rate of 41.5%.