# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended March 31, 2018**

**OR**

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from _____ to _____**

**Commission file number 1-1398**

# UGI UTILITIES, INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Pennsylvania<br>(State or other jurisdiction of<br>incorporation or organization) | 23-1174060<br>(I.R.S. Employer<br>Identification No.) |

2525 N. 12th Street, Suite 360, Reading, PA 19612
(Address of principal executive offices) (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | | | | |
|---|---|---|---|---|---|
| Large accelerated filer | o | Accelerated filer | o | Non-accelerated filer | ☑ |
| Smaller reporting company | o | Emerging growth company | o | | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ☑

At April 30, 2018, there were 26,781,785 shares of UGI Utilities, Inc. Common Stock, par value $2.25 per share, outstanding, all of which were held, beneficially and of record, by UGI Corporation.

**UGI UTILITIES, INC. AND SUBSIDIARIES**

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**UGI UTILITIES, INC. AND SUBSIDIARIES**

**PART I FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**CONDENSED CONSOLIDATED BALANCE SHEETS**
(unaudited)
(Thousands of dollars)

| | March 31, 2018 | September 30, 2017 | March 31, 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| Current assets: | | | |
| Cash and cash equivalents | $ 4,710 | $ 5,203 | $ 4,566 |
| Restricted cash | 1,572 | 3,046 | 347 |
| Accounts receivable (less allowances for doubtful accounts of $15,582, $4,052 and $9,401, respectively) | 169,555 | 53,720 | 123,285 |
| Accounts receivable — related parties | 1,564 | 2,807 | 1,739 |
| Accrued utility revenues | 62,343 | 13,296 | 36,665 |
| Inventories | 19,717 | 53,309 | 17,174 |
| Prepaid income taxes | 41 | 7,711 | 301 |
| Regulatory assets | 2,942 | 8,338 | 2,309 |
| Derivative instruments | 1,014 | 1,354 | 2,024 |
| Prepaid expenses & other current assets | 20,197 | 16,406 | 22,957 |
| Total current assets | 283,655 | 165,190 | 211,367 |
| Property, plant and equipment, at cost (less accumulated depreciation and amortization of $1,038,824, $1,010,781 and $997,591, respectively) | 2,363,373 | 2,274,548 | 2,112,013 |
| Goodwill | 182,145 | 182,145 | 182,145 |
| Regulatory assets | 358,696 | 360,591 | 392,408 |
| Other assets | 16,176 | 11,541 | 11,792 |
| Total assets | $ 3,204,045 | $ 2,994,015 | $ 2,909,725 |
| **LIABILITIES AND STOCKHOLDER'S EQUITY** | | | |
| Current liabilities: | | | |
| Current maturities of long-term debt | $ 6,250 | $ 39,996 | $ 59,980 |
| Short-term borrowings | 135,000 | 170,000 | 48,500 |
| Accounts payable | 59,870 | 71,559 | 58,095 |
| Accounts payable — related parties | 11,188 | 6,890 | 11,339 |
| Regulatory liabilities | 41,154 | 12,988 | 17,186 |
| Derivative instruments | 552 | 1,071 | 19 |
| Other current liabilities | 126,091 | 110,978 | 122,947 |
| Total current liabilities | 380,105 | 413,482 | 318,066 |
| Long-term debt | 827,878 | 711,105 | 711,066 |
| Deferred income taxes | 339,008 | 635,465 | 590,964 |
| Deferred investment tax credits | 2,791 | 2,950 | 3,109 |
| Pension and postretirement benefit obligations | 136,687 | 143,674 | 179,101 |
| Regulatory liabilities | 339,567 | 36,242 | 33,272 |
| Other noncurrent liabilities | 60,993 | 63,192 | 63,566 |
| Total liabilities | 2,087,029 | 2,006,110 | 1,899,144 |
| Commitments and contingencies (Note 8) | | | |
| Common stockholder's equity: | | | |
| Common Stock, $2.25 par value (authorized — 40,000,000 shares; issued and outstanding — 26,781,785 shares) | 60,259 | 60,259 | 60,259 |
| Additional paid-in capital | 473,580 | 473,580 | 473,580 |
| Retained earnings | 608,344 | 480,857 | 506,906 |
| Accumulated other comprehensive loss | (25,167) | (26,791) | (30,164) |
| Total common stockholder's equity | 1,117,016 | 987,905 | 1,010,581 |
| Total liabilities and stockholder's equity | $ 3,204,045 | $ 2,994,015 | $ 2,909,725 |

See accompanying notes to condensed consolidated financial statements.

**UGI UTILITIES, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**
(unaudited)
(Thousands of dollars)

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Revenues | $ 483,261 | $ 359,940 | $ 806,366 | $ 621,353 |
| Costs and expenses: | | | | |
| Cost of sales — gas, fuel and purchased power (excluding depreciation shown below) | 257,302 | 164,541 | 409,076 | 274,012 |
| Operating and administrative expenses | 67,054 | 58,021 | 119,038 | 107,737 |
| Operating and administrative expenses — related parties | 3,766 | 4,534 | 6,455 | 7,098 |
| Depreciation and amortization | 21,158 | 17,699 | 41,512 | 35,090 |
| Other operating income, net | (1,146) | (1,263) | (1,137) | (1,228) |
| | 348,134 | 243,532 | 574,944 | 422,709 |
| Operating income | 135,127 | 116,408 | 231,422 | 198,644 |
| Interest expense | 11,091 | 10,322 | 22,030 | 20,350 |
| Income before income taxes | 124,036 | 106,086 | 209,392 | 178,294 |
| Income taxes | 34,852 | 40,961 | 51,905 | 68,904 |
| Net income | $ 89,184 | $ 65,125 | $ 157,487 | $ 109,390 |

See accompanying notes to condensed consolidated financial statements.

**UGI UTILITIES, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
(unaudited)
(Thousands of dollars)

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Net income | $ 89,184 | $ 65,125 | $ 157,487 | $ 109,390 |
| Other comprehensive income: | | | | |
| Reclassifications of net losses on derivative instruments (net of tax of $(280), $(341), $(559) and $(692), respectively) | 592 | 481 | 1,184 | 976 |
| Benefit plans reclassifications of actuarial losses and net prior service credits (net of tax of $(104), $(169), $(208) and $(338), respectively) | 220 | 239 | 440 | 478 |
| Other comprehensive income | 812 | 720 | 1,624 | 1,454 |
| Comprehensive income | $ 89,996 | $ 65,845 | $ 159,111 | $ 110,844 |

See accompanying notes to condensed consolidated financial statements.

**UGI UTILITIES, INC. AND SUBSIDIARIES**

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

| | Six Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net income | $ 157,487 | $ 109,390 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 41,512 | 35,090 |
| Deferred income tax (benefit) expense | (1,619) | 35,992 |
| Provision for uncollectible accounts | 13,142 | 6,265 |
| Other, net | (345) | 6,292 |
| Net change in: | | |
| Accounts receivable and accrued utility revenues | (176,795) | (110,111) |
| Inventories | 33,592 | 25,166 |
| Deferred fuel and power costs, net of changes in unsettled derivatives | 31,481 | (7,601) |
| Accounts payable | 17,302 | 14,722 |
| Other current assets | (3,791) | (948) |
| Other current liabilities | 23,090 | 17,591 |
| Net cash provided by operating activities | 135,056 | 131,848 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Expenditures for property, plant and equipment | (151,468) | (135,075) |
| Net costs of property, plant and equipment disposals | (3,397) | (5,753) |
| Decrease in restricted cash | 1,474 | 236 |
| Net cash used by investing activities | (153,391) | (140,592) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Payments of dividends | (30,000) | (25,000) |
| Issuances of long-term debt, net of issuance costs | 124,404 | 99,491 |
| Repayments of long-term debt | (41,562) | — |
| Decrease in short-term borrowings | (35,000) | (64,000) |
| Net cash provided by financing activities | 17,842 | 10,491 |
| Cash and cash equivalents (decrease) increase | $ (493) | $ 1,747 |
| **CASH AND CASH EQUIVALENTS** | | |
| End of period | $ 4,710 | $ 4,566 |
| Beginning of period | 5,203 | 2,819 |
| (Decrease) increase | $ (493) | $ 1,747 |

See accompanying notes to condensed consolidated financial statements.

**UGI UTILITIES, INC. AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**
(unaudited)
(Thousands of dollars, except where indicated otherwise)

## Note 1 — Nature of Operations

UGI Utilities, Inc. ("UGI Utilities"), a wholly owned subsidiary of UGI Corporation ("UGI"), and UGI Utilities' wholly owned subsidiaries, UGI Penn Natural Gas, Inc. ("PNG") and UGI Central Penn Gas, Inc. ("CPG"), own and operate natural gas distribution utilities in eastern and central Pennsylvania and in a portion of one Maryland county. UGI Utilities also owns and operates an electric distribution utility in northeastern Pennsylvania ("Electric Utility"). UGI Utilities' natural gas distribution utility is referred to as "UGI Gas." UGI Gas, PNG and CPG are collectively referred to as "Gas Utility." Gas Utility is subject to regulation by the Pennsylvania Public Utility Commission ("PUC") and, with respect to a small service territory in one Maryland county, the Maryland Public Service Commission ("MD PSC"), and Electric Utility is subject to regulation by the PUC. Gas Utility and Electric Utility are collectively referred to as "Utilities."

The term "UGI Utilities" is used herein as an abbreviated reference to UGI Utilities, Inc., or collectively to UGI Utilities, Inc. and its subsidiaries, including PNG and CPG.

## Note 2 — Summary of Significant Accounting Policies

***Basis of Presentation.*** Our condensed consolidated financial statements include the accounts of UGI Utilities and its subsidiaries (collectively, "we" or the "Company"). We eliminate intercompany accounts when we consolidate.

The accompanying condensed consolidated financial statements are unaudited and have been prepared in accordance with the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). They include all adjustments that we consider necessary for a fair statement of the results for the interim periods presented. Such adjustments consisted only of normal recurring items unless otherwise disclosed. The September 30, 2017, condensed consolidated balance sheet data was derived from audited financial statements but do not include all disclosures required by accounting principles generally accepted in the United States of America ("GAAP").

These financial statements should be read in conjunction with the financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2017 ("the Company's 2017 Annual Report"). Due to the seasonal nature of our businesses, the results of operations for interim periods are not necessarily indicative of the results to be expected for a full year.

### Derivative Instruments

Derivative instruments are reported on the condensed consolidated balance sheets at their fair values, unless the derivative instruments qualify for the normal purchase and normal sale ("NPNS") exception. The accounting for changes in fair value depends upon the purpose of the derivative instrument and whether it is subject to regulatory ratemaking mechanisms or is designated and qualifies for hedge accounting.

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

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

***Use of Estimates.*** The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and costs. These estimates are based on management's knowledge of

current events, historical experience and various other assumptions that are believed to be reasonable under the circumstances. Accordingly, actual results may be different from these estimates and assumptions.

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

## Note 3 — Accounting Changes

### Accounting Standards Not Yet Adopted

***Other Comprehensive Income.*** In February 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-02, “Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.” This ASU provides that the stranded tax effects in AOCI resulting from the Tax Cuts and Jobs Act (the “TCJA”) may be reclassified to retained earnings, at the election of the entity, in the period of adoption. The amendments in this ASU are effective for interim and annual periods beginning after December 15, 2018 (Fiscal 2020). Early adoption is permitted. The Company is in the process of assessing the impact on its financial statements from the adoption of the new guidance.

***Pension and Other Postretirement Benefit Costs.*** In March 2017, the FASB issued ASU No. 2017-07, “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.” This ASU requires entities to disaggregate the service cost component from the other components of net periodic benefit costs and present it with compensation costs for related employees in the income statement. The other components are required to be presented elsewhere in the income statement and outside of income from operations. The amendments in this ASU permit only the service cost component to be eligible for capitalization when applicable. For entities subject to rate regulation, however, the ASU recognized that in the event a regulator continues to require capitalization of all net periodic benefit costs prospectively, the difference would result in the recognition of a regulatory asset or liability. The amendments in this ASU are effective for interim and annual periods beginning after December 15, 2017 (Fiscal 2019) with a retrospective adoption for income statement presentation and a prospective adoption for capitalization. The Company is in the process of assessing the impact on its financial statements from the adoption of the new guidance.

***Restricted Cash.*** In November 2016, the FASB issued ASU No. 2016-18, “Statement of Cash Flows: Restricted Cash.” This ASU provides guidance on the classification of restricted cash in the statement of cash flows. The amendments in the ASU are required to be adopted on a retrospective basis. The ASU is effective for interim and annual periods beginning after December 15, 2017 (Fiscal 2019). Early adoption is permitted. We currently expect to adopt this ASU effective October 1, 2018. The Company is in the process of assessing the impact on its financial statements from the adoption of the new guidance.

***Leases.*** In February 2016, the FASB issued ASU No. 2016-02, "Leases." This ASU amends existing guidance to require entities that lease assets to recognize the assets and liabilities for the rights and obligations created by those leases on the balance sheet. The new guidance also requires additional disclosures about the amount, timing and uncertainty of cash flows from leases. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2018 (Fiscal 2020). Early adoption is permitted. Lessees must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company is in the process of assessing the impact on its financial statements from the adoption of the new guidance and determining the period in which the new guidance will be adopted but anticipates an increase in the recognition of right-of-use assets and lease liabilities.

***Revenue Recognition.*** In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09”). The guidance provided under ASU 2014-09, as amended, supersedes the revenue recognition requirements in ASC No. 605, “Revenue Recognition,” and most industry-specific guidance included in the ASC. ASU 2014-09 requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance is effective for the Company for interim and annual periods beginning after December 15, 2017 (Fiscal 2019) and allows for either full retrospective adoption or modified retrospective adoption.

The Company is in the process of analyzing the impact of the new guidance using an integrated approach which includes evaluating differences in the amount and timing of revenue recognition from applying the requirements of the new guidance, reviewing its accounting policies and practices, and assessing the need for changes to its processes, accounting systems and design of internal controls. The Company has completed the assessment of a significant number of its contracts with customers under the new

guidance to determine the effect of the adoption of the new guidance. Although the Company has not completed its assessment of the impact of the new guidance, the Company does not expect its adoption will have a material impact on its consolidated financial statements. The Company continues to monitor developments associated with certain utility industry specific guidance for possible impacts on the recognition of revenue.

The Company anticipates that it will adopt the new standard using the modified retrospective transition method effective October 1, 2018.

**Note 4 — Inventories**

Inventories comprise the following:

| | March 31, 2018 | September 30, 2017 | March 31, 2017 |
|---|---|---|---|
| Gas Utility natural gas | $ 3,459 | $ 39,486 | $ 2,394 |
| Materials, supplies and other | 16,258 | 13,823 | 14,780 |
| Total inventories | $ 19,717 | $ 53,309 | $ 17,174 |

At March 31, 2018, UGI Utilities was a party to five principal storage contract administrative agreements (“SCAAs”) which have terms of up to three years. Four of the SCAAs were with UGI Energy Services, LLC (“Energy Services”), a second-tier, wholly owned subsidiary of UGI (see Note 13) and one of the SCAAs was with a non-affiliate. Pursuant to the SCAAs, UGI Utilities has, among other things, released certain storage and transportation contracts for the terms of the SCAAs. UGI Utilities also transferred certain associated storage inventories upon commencement of the SCAAs, will receive a transfer of storage inventories at the end of the SCAAs, and makes payments associated with refilling storage inventories during the terms of the SCAAs. The historical cost of natural gas storage inventories released under the SCAAs, which represents a portion of Gas Utility’s total natural gas storage inventories, and any exchange receivable (representing amounts of natural gas inventories used by the other parties to the agreement but not yet replenished for which UGI Utilities has the rights), are included in the caption “Gas Utility natural gas” in the table above.

The carrying values of gas storage inventories released under the SCAAs at March 31, 2018, September 30, 2017 and March 31, 2017, comprising 0.9 billion cubic feet (“bcf”), 9.1 bcf and 0.8 bcf of natural gas, were $2,532, $26,064 and $1,964, respectively. At March 31, 2018, September 30, 2017 and March 31, 2017, UGI Utilities held a total of $13,840, $15,040 and $15,040, respectively, of security deposits received from its SCAA counterparties. These amounts are included in “Other current liabilities” on the Condensed Consolidated Balance Sheets.

For additional information related to the SCAAs with Energy Services, see Note 13.

**Note 5 — Income Tax Reform**

On December 22, 2017, the TCJA was enacted into law. The significant changes resulting from the law that impact UGI Utilities include a reduction in the U.S. federal income tax rate from 35% to 21% effective January 1, 2018 (resulting in a blended rate of 24.5% for Fiscal 2018) and the elimination of bonus depreciation for regulated utilities.

In accordance with GAAP as determined by ASC 740, “Income Taxes,” we are required to record the effects of tax law changes in the period enacted. As further discussed below, our results for the three and six months ended March 31, 2018, contain provisional estimates of the impact of the TCJA. These amounts are considered provisional because they use estimates for which tax returns have not yet been filed and because estimated amounts may be impacted by future regulatory and accounting guidance if and when issued. In accordance with SEC Staff Accounting Bulletin (“SAB”) No. 118, we will adjust these provisional amounts as further information becomes available and as we refine our calculations. As permitted by recent guidance issued by the SEC, these adjustments will occur during a reasonable “measurement period” not to exceed twelve months from the date of enactment.

As a result, in December 2017, we reduced our net deferred income tax liabilities by $223,660 due to the remeasuring of our existing federal deferred income tax assets and liabilities as of the date of enactment. Because a significant amount of the reduction relates to our regulated utility plant assets, most of the reduction to our excess deferred income taxes is not being recognized immediately in income tax expense. During the six months ended March 31, 2018, the amount of the reduction in our net deferred income tax liabilities that reduced income tax expense totaled $8,122.

In order for utility assets to continue to be eligible for accelerated tax depreciation, current law requires that excess deferred income taxes be amortized no more rapidly than over the remaining lives of the assets that gave rise to the excess deferred income taxes. In December 2017, we recorded a regulatory liability of $216,098 associated with the excess deferred federal income taxes related to our regulated utility plant assets. This regulatory liability was increased, and a federal deferred income tax asset recorded, in the amount of $87,803 to reflect the tax benefit generated by the amortization of the excess deferred federal income taxes. This regulatory liability is being amortized to income tax expense over the remaining lives of the assets that gave rise to the excess deferred income taxes. For further information on these regulatory assets and liabilities, see Note 6.

For the three and six months ended March 31, 2018, we included the estimated impacts of the TCJA in determining our estimated annual effective income tax rate. We are subject to a blended federal tax rate of 24.5% for Fiscal 2018 because our fiscal year contains the effective date of the rate change from 35% to 21% on January 1, 2018. As a result, the U.S. federal income tax rate included in our estimated annual effective tax rate is based on this 24.5% blended rate for Fiscal 2018. For the three and six months ended March 31, 2018, the effects of the tax law changes on current-period results (excluding the one-time impacts described above) decreased income tax expense, and increased net income, by approximately $15,200 and $23,300, respectively.

As a result of the TCJA tax law changes, in January 2018, the PUC opened a proceeding to consider whether existing rates charged by Pennsylvania utilities are no longer “just and reasonable,” as required by Pennsylvania law. On February 12, 2018, the PUC issued a Secretarial Letter requesting detailed information from large public utilities, including UGI Utilities, and inviting interested parties to submit comments on the impacts of the TCJA. On March 15, 2018, the PUC entered a temporary rates Order that converted commission-approved rates of most large Pennsylvania public utilities, including Gas Utility, into “temporary rates” for a period of six months, with a possible extension for an additional six months. It ordered each affected public utility to file a tariff supplement designating its existing rates and riders as temporary, effective March 15, 2018. In its comments on March 9, 2018, UGI Utilities expressed the view that, as a matter of law, reducing base rates by the tax impact of the TCJA would be unlawful if the result did not permit the utility to earn a reasonable rate of return and proposed to give approximately half of the benefits from the TCJA to customers through a reduction in rates and increased funding for low income and gas operations programs.

The PUC is in the process of reviewing the data and comments submitted in response to the Secretarial Letter. Due to the complexity of the tax law changes and the numerous public utilities involved, the PUC has stated that it is unable to determine when it will complete its review and resolve the issues presented.

**UGI UTILITIES, INC. AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**
(unaudited)
(Thousands of dollars, except where indicated otherwise)

## Note 6 — Regulatory Assets and Liabilities and Regulatory Matters

For a description of the Company's regulatory assets and liabilities other than those described below, see Note 4 in the Company's 2017 Annual Report. Other than removal costs, UGI Utilities currently does not recover a rate of return on its regulatory assets. The following regulatory assets and liabilities associated with UGI Utilities are included in the accompanying condensed consolidated balance sheets:

| | March 31, 2018 | September 30, 2017 | March 31, 2017 |
|---|---|---|---|
| **Regulatory assets:** | | | |
| Income taxes recoverable | $ 128,267 | $ 121,421 | $ 120,255 |
| Underfunded pension and postretirement plans | 135,263 | 141,310 | 175,598 |
| Environmental costs | 59,788 | 61,566 | 62,209 |
| Deferred fuel and power costs | 738 | 7,685 | 1,262 |
| Removal costs, net | 30,478 | 30,996 | 28,840 |
| Other | 7,104 | 5,951 | 6,553 |
| Total regulatory assets | $ 361,638 | $ 368,929 | $ 394,717 |
| **Regulatory liabilities:** | | | |
| Postretirement benefits | $ 17,105 | $ 17,493 | $ 16,974 |
| Deferred fuel and power refunds | 35,278 | 10,621 | 13,791 |
| State tax benefits — distribution system repairs | 19,888 | 18,430 | 16,145 |
| Excess federal deferred income taxes (a) | 301,151 | — | — |
| Other | 7,299 | 2,686 | 3,548 |
| Total regulatory liabilities | $ 380,721 | $ 49,230 | $ 50,458 |

(a) Balance at March 31, 2018, comprises excess federal deferred income taxes resulting from the enactment of the TCJA (see below and Note 5).

***Deferred fuel and power refunds.*** Gas Utility's and Electric Utility's tariffs contain clauses that permit recovery of all prudently incurred purchased gas and power costs through the application of purchased gas cost ("PGC") rates in the case of Gas Utility and default service ("DS") tariffs in the case of Electric Utility. The clauses provide for periodic adjustments to PGC and DS rates for differences between the total amount of purchased gas and electric generation supply costs collected from customers and recoverable costs incurred. Net undercollected costs are classified as a regulatory asset and net overcollections are classified as a regulatory liability.

Gas Utility uses derivative instruments to reduce volatility in the cost of gas it purchases for firm- residential, commercial and industrial ("retail core-market") customers. Realized and unrealized gains or losses on natural gas derivative instruments are included in deferred fuel costs or refunds. Net unrealized gains on such contracts at March 31, 2018, September 30, 2017, and March 31, 2017, were $269, $146 and $1,973, respectively.

In order to reduce volatility associated with a substantial portion of its electric transmission congestion costs, Electric Utility obtains financial transmission rights ("FTRs"). FTRs are derivative instruments that entitle the holder to receive compensation for electricity transmission congestion charges when there is insufficient electricity transmission capacity on the electric transmission grid. Because Electric Utility is entitled to fully recover its DS costs, realized and unrealized gains or losses on FTRs are included in deferred fuel and power costs or deferred fuel and power refunds. Unrealized gains or losses on FTRs at March 31, 2018, September 30, 2017, and March 31, 2017, were not material.

***Excess federal deferred income taxes.*** This regulatory liability is the result of remeasuring UGI Utilities' federal deferred income tax liabilities on utility plant due to the enactment of the TCJA on December 22, 2017 (see Note 5). In order for our utility assets to continue to be eligible for accelerated tax depreciation, current law requires that these excess federal deferred income taxes be amortized no more rapidly than over the remaining lives of the assets that gave rise to the excess federal deferred income taxes,

ranging from 1 year to approximately 65 years. This regulatory liability has been increased to reflect the tax benefit generated by the amortization of the excess deferred federal income taxes and will be amortized and credited to tax expense.

**Other Regulatory Matters**

***Base Rate Filings.*** On January 26, 2018, Electric Utility filed a rate request with the PUC to increase its annual base distribution revenues by $9,200. The increased revenues would fund ongoing system improvements and operations necessary to maintain safe and reliable electric service. Electric Utility requested that the new electric rates become effective March 27, 2018. The PUC entered an Order dated March 1, 2018, suspending the effective date for the rate increase to allow for investigation and public hearings. Unless a settlement is reached sooner, this review process is expected to last up to nine months from the date of filing; however, the Company cannot predict the timing or the ultimate outcome of the rate case review process.

On August 31, 2017, the PUC approved a previously filed Joint Petition for Approval of Settlement of all issues providing for an $11,250 annual base distribution rate increase for PNG. The increase became effective on October 20, 2017.

On October 14, 2016, the PUC approved a previously filed Joint Petition for Approval of Settlement of all issues providing for a $27,000 annual base distribution rate increase for UGI Gas. The increase became effective on October 19, 2016.

***Distribution System Improvement Charge.*** State legislation permits gas and electric utilities in Pennsylvania to recover a distribution system improvement charge (“DSIC”) on eligible capital investments as an alternative ratemaking mechanism providing for a more-timely cost recovery of qualifying capital expenditures between base rate cases.

PNG and CPG received PUC approval on a DSIC tariff, initially set at zero, in 2014. PNG and CPG began charging a DSIC at a rate other than zero beginning on April 1, 2015 and April 1, 2016, respectively. In May 2017, the PUC issued a final Order to approve an increase of the maximum allowable DSIC to 7.5% of billed distribution revenues effective July 1, 2017, for PNG and CPG, pending reconsideration at each company’s Long-term Infrastructure Improvement Plan filing in 2018. PNG’s DSIC has been reset to zero as a result of its most recent rate case. The DSIC rate for PNG will resume upon exceeding the threshold amount of DSIC-eligible plant in service agreed upon in the settlement of its recent base rate case.

In November 2016, UGI Gas received PUC approval to establish a DSIC tariff mechanism, capped at 5% of distribution charges billed to customers, effective January 1, 2017. UGI Gas will be permitted to recover revenue under the mechanism for the amount of DSIC-eligible plant placed into service in excess of the threshold amount of DSIC-eligible plant agreed upon in the settlement of its recent base rate case.

***Utilities Merger Request.*** On March 8, 2018 and March 13, 2018, the Company filed merger authorization requests with the PUC and MD PSC, respectively, to merge PNG and CPG into UGI Utilities, with a targeted effective date of October 1, 2018. There are no expected changes to annual base distribution rates for the combined utilities or to existing regulatory assets and liabilities as a result of the proposed merger. The Company cannot predict the timing or the ultimate outcome of the PUC or MD PSC review of the merger request. CPG, PNG, and UGI Utilities also filed, in May 2018, related applications to transfer certain FERC authorizations from PNG and CPG to UGI Utilities to ensure continuity of certain interstate gas transportation services now conducted by CPG and PNG upon the effective date of the proposed merger.

**Note 7 — Debt**

On October 31, 2017, UGI Utilities entered into a $125,000 unsecured variable-rate term loan agreement (the “Term Loan”) with a group of banks. Proceeds from the Term Loan were used to repay revolving credit agreement borrowings and for general corporate purposes. The outstanding principal amount of the Term Loan is payable in equal quarterly installments of $1,563, which commenced March 2018, with the balance of the principal being due and payable in full on October 30, 2022. Under the Term Loan, UGI Utilities may borrow at various prevailing market interest rates, including LIBOR and the banks’ prime rate, plus a margin. The margin on such borrowings ranges from 0.0% to 1.875% and is based upon the credit ratings of certain indebtedness of UGI Utilities. The Term Loan requires that UGI Utilities not exceed a ratio of Consolidated Debt to Consolidated Total Capital, as defined.

## Note 8 — Commitments and Contingencies

### Contingencies

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

Each of UGI Utilities and its subsidiaries, CPG and PNG, has entered into a consent order and agreement ("COA") with the Pennsylvania Department of Environmental Protection ("DEP") to address the remediation of former MGPs in Pennsylvania. In accordance with the COAs, UGI Utilities, CPG and PNG are each required to either obtain a certain number of points per calendar year based on defined eligible environmental investigatory and/or remedial activities at the MGPs or make expenditures for such activities in an amount equal to an annual environmental cost cap. The CPG COA includes an obligation to plug specified natural gas wells. The COA environmental costs caps are $2,500, $1,750, and $1,100, for UGI Utilities, CPG and PNG, respectively. The COAs for UGI Utilities, CPG and PNG are scheduled to terminate at the end of 2031, 2018, and 2019, respectively. At March 31, 2018, September 30, 2017 and March 31, 2017, our estimated accrued liabilities for environmental investigation and remediation costs related to the COAs for UGI Utilities, CPG and PNG totaled $51,941, $54,250, and $55,659, respectively. UGI Utilities, CPG and PNG have recorded associated regulatory assets for these costs because recovery of these costs from customers is probable (see Note 6).

UGI Utilities does not expect the costs for investigation and remediation of hazardous substances at Pennsylvania MGP sites to be material to its results of operations because UGI Utilities, CPG and PNG receive ratemaking recovery of actual environmental investigation and remediation costs associated with the sites covered by the COAs. This ratemaking recognition reconciles the accumulated difference between historical costs and rate recoveries with an estimate of future costs associated with the sites.

From time to time, UGI Utilities is notified of sites outside Pennsylvania on which private parties allege MGPs were formerly owned or operated by UGI Utilities or owned or operated by a former subsidiary. Such parties generally investigate the extent of environmental contamination or perform environmental remediation. Management believes that, under applicable law, UGI Utilities should not be liable in those instances in which a former subsidiary owned or operated an MGP. There could be, however, significant future costs of an uncertain amount associated with environmental damage caused by MGPs outside Pennsylvania that UGI Utilities directly operated, or that were owned or operated by a former subsidiary of UGI Utilities if a court were to conclude that (1) the subsidiary's separate corporate form should be disregarded, or (2) UGI Utilities should be considered to have been an operator because of its conduct with respect to its subsidiary's MGP. At March 31, 2018, September 30, 2017 and March 31, 2017, neither the undiscounted nor the accrued liability for environmental investigation and cleanup costs for UGI Utilities' MGP sites outside of Pennsylvania was material.

### Other Matters

***Manor Township, Pennsylvania Natural Gas Explosion.*** On July 2, 2017, an explosion occurred in Manor Township, Pennsylvania which resulted in the death of a Company employee, significant injuries to two other Company employees and an employee of the local sewer authority, and significant property damage. The National Transportation Safety Board ("NTSB"), the Occupational Safety and Health Administration ("OSHA") and the PUC are investigating the Manor Township incident. The NTSB investigative team includes representatives from the Company, the PUC, the local fire department and the Pipeline and Hazardous Materials Safety Administration and the Company is cooperating with the investigation. The Company continues to provide information requested by the investigating parties.

While the investigation into this incident is still underway and the cause of the explosion has not been determined, the Company has received claims as a result of the explosion and may become involved in lawsuits relative to the incident. The Company maintains workers' compensation insurance and liability insurance for personal injury, property and casualty damages and believes that third-party claims associated with the explosion, in excess of the Company's deductible, are expected to be recovered through

the Company's insurance. Although the Company cannot predict the result of these pending or future claims, we believe that claims and expenses associated with the explosion will not have a material impact on our consolidated financial statements.

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

## Note 9 — Defined Benefit Pension and Other Postretirement Plans

We sponsor a defined benefit pension plan for employees hired prior to January 1, 2009, of UGI, UGI Utilities, PNG, CPG and certain of UGI's other domestic wholly owned subsidiaries ("Pension Plan"). Pension Plan benefits are based on years of service, age and employee compensation. We also provide postretirement health care benefits to certain retirees and postretirement life insurance benefits to nearly all active and retired employees ("Other Postretirement Plans").

Net periodic pension expense and other postretirement benefit costs include the following components:

| | Pension Benefits | | Other Postretirement Benefits | |
|---|---|---|---|---|
| Three Months Ended March 31, | 2018 | 2017 | 2018 | 2017 |
| Service cost | $ 1,881 | $ 2,022 | $ 67 | $ 61 |
| Interest cost | 5,767 | 5,539 | 112 | 107 |
| Expected return on assets | (7,777) | (7,496) | (177) | (164) |
| Amortization of: | | | | |
| Prior service cost (benefit) | 63 | 82 | (110) | (160) |
| Actuarial loss | 2,984 | 3,706 | 24 | 29 |
| Net benefit cost (benefit) | 2,918 | 3,853 | (84) | (127) |
| Change in associated regulatory liabilities | — | — | (123) | (123) |
| Net benefit cost (benefit) after change in regulatory liabilities | $ 2,918 | $ 3,853 | $ (207) | $ (250) |

| | Pension Benefits | | Other Postretirement Benefits | |
|---|---|---|---|---|
| Six Months Ended March 31, | 2018 | 2017 | 2018 | 2017 |
| Service cost | $ 3,762 | $ 4,045 | $ 134 | $ 122 |
| Interest cost | 11,534 | 11,078 | 224 | 215 |
| Expected return on assets | (15,554) | (14,993) | (354) | (328) |
| Amortization of: | | | | |
| Prior service cost (benefit) | 126 | 163 | (220) | (320) |
| Actuarial loss | 5,968 | 7,413 | 48 | 57 |
| Net benefit cost (benefit) | 5,836 | 7,706 | (168) | (254) |
| Change in associated regulatory liabilities | — | — | (246) | (245) |
| Net benefit cost (benefit) after change in regulatory liabilities | $ 5,836 | $ 7,706 | $ (414) | $ (499) |

Pension Plan assets are held in trust and consist principally of publicly traded, diversified equity and fixed income mutual funds and, to a much lesser extent, UGI Corporation Common Stock. It is our general policy to fund amounts for Pension Plan benefits equal to at least the minimum contribution required by ERISA. From time to time we may, at our discretion, contribute additional amounts. During the six months ended March 31, 2018 and 2017, the Company made contributions to the Pension Plan of $6,720 and $5,698, respectively. The Company expects to make additional discretionary cash contributions of approximately $6,720 to the Pension Plan during the remainder of Fiscal 2018.

UGI Utilities has established a Voluntary Employees' Beneficiary Association ("VEBA") trust to pay retiree health care and life insurance benefits by depositing into the VEBA the annual amount of postretirement benefits costs, if any. The difference between such cash deposits or expense recorded and the amounts included in UGI Gas' and Electric Utility's rates, if any, is deferred for

future recovery from, or refund to, ratepayers. There were no required contributions to the VEBA during the six months ended March 31, 2018 and 2017.

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

## Note 10 — Fair Value Measurements

### Derivative Instruments

The following table presents, on a gross basis, our derivative assets and liabilities, including both current and noncurrent portions, that are measured at fair value on a recurring basis within the fair value hierarchy, as of March 31, 2018, September 30, 2017 and March 31, 2017:

| | Asset (Liability) | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **March 31, 2018:** | | | | |
| Assets: | | | | |
| Commodity contracts | $ 1,042 | $ 9 | $ — | $ 1,051 |
| Liabilities: | | | | |
| Commodity contracts | $ (582) | $ (7) | $ — | $ (589) |
| **September 30, 2017:** | | | | |
| Assets: | | | | |
| Commodity contracts | $ 1,735 | $ 72 | $ — | $ 1,807 |
| Liabilities: | | | | |
| Commodity contracts | $ (1,447) | $ (73) | $ — | $ (1,520) |
| **March 31, 2017:** | | | | |
| Assets: | | | | |
| Commodity contracts | $ 2,157 | $ — | $ — | $ 2,157 |
| Liabilities: | | | | |
| Commodity contracts | $ (133) | $ (19) | $ — | $ (152) |

The fair values of our Level 1 exchange-traded commodity futures and option derivative contracts are based upon actively-quoted market prices for identical assets and liabilities. The fair values of the remainder of our derivative financial instruments, which are designated as Level 2, are generally based upon recent market transactions and related market indicators. There were no transfers between Level 1 and Level 2 during the periods presented.

### Other Financial Instruments

The carrying amounts of other financial instruments included in current assets and current liabilities (except for current maturities of long-term debt) approximate their fair values because of their short-term nature. We estimate the fair value of long-term debt by using current market rates and by discounting future cash flows using rates available for similar types of debt (Level 2). The carrying amount and estimated fair value of our long-term debt (including current maturities but excluding unamortized debt issuance costs) at March 31, 2018, September 30, 2017 and March 31, 2017 were as follows:

| | March 31, 2018 | September 30, 2017 | March 31, 2017 |
|---|---|---|---|
| Carrying amount | $ 838,437 | $ 755,000 | $ 775,000 |
| Estimated fair value | $ 871,853 | $ 791,378 | $ 801,675 |

## Note 11 — Derivative Instruments and Hedging Activities

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

### Commodity Price Risk

Gas Utility's tariffs contain clauses that permit recovery of all of the prudently incurred costs of natural gas it sells to retail core-market customers, including the cost of financial instruments used to hedge purchased gas costs. As permitted and agreed to by the PUC pursuant to Gas Utility's annual PGC filings, Gas Utility currently uses New York Mercantile Exchange ("NYMEX") natural gas futures and option contracts to reduce commodity price volatility associated with a portion of the natural gas it purchases for its retail core-market customers. At March 31, 2018, September 30, 2017 and March 31, 2017, the volumes of natural gas associated with Gas Utility's unsettled NYMEX natural gas futures and option contracts totaled 12.7 million dekatherms, 14.8 million dekatherms and 9.0 million dekatherms, respectively. At March 31, 2018, the maximum period over which Gas Utility is economically hedging natural gas market price risk is 12 months. Gains and losses on natural gas futures contracts and natural gas option contracts are recorded in regulatory assets or liabilities on the condensed consolidated balance sheets because it is probable such gains or losses will be recoverable from, or refundable to, customers through the PGC recovery mechanism (see Note 6).

Electric Utility's DS tariffs permit the recovery of all prudently incurred costs of electricity it sells to DS customers, including the cost of financial instruments used to hedge electricity costs. Electric Utility enters into forward electricity purchase contracts to meet a substantial portion of its electricity supply needs. At March 31, 2018, September 30, 2017 and March 31, 2017, all Electric Utility forward electricity purchase contracts were subject to the NPNS exception.

In order to reduce volatility associated with a substantial portion of its electricity transmission congestion costs, Electric Utility obtains FTRs through an annual allocation process. Gains and losses on Electric Utility FTRs are recorded in regulatory assets or liabilities on the condensed consolidated balance sheets because it is probable such gains or losses will be recoverable from, or refundable to, customers through the DS mechanism (see Note 6). At March 31, 2018, September 30, 2017 and March 31, 2017, the total volumes associated with FTRs totaled 25.5 million kilowatt hours, 101.2 million kilowatt hours and 14.6 million kilowatt hours, respectively. At March 31, 2018, the maximum period over which we are economically hedging electricity congestion is 2 months.

In order to reduce operating expense volatility, UGI Utilities from time to time enters into NYMEX gasoline futures contracts for a portion of gasoline volumes expected to be used in the operation of its vehicles and equipment. At March 31, 2018, September 30, 2017 and March 31, 2017, the total volumes associated with gasoline futures contracts were not material.

### Interest Rate Risk

Our long-term debt typically is issued at fixed rates of interest. As these long-term debt issues mature, we typically refinance such debt with new debt having interest rates reflecting then-current market conditions. In order to reduce market rate risk on the underlying benchmark rate of interest associated with near- to medium-term forecasted issuances of fixed-rate debt, from time to time we enter into interest rate protection agreements ("IRPAs"). We account for IRPAs as cash flow hedges. As of March 31, 2018, September 30, 2017 and March 31, 2017, we had no unsettled IRPAs. At March 31, 2018, the amount of net losses associated with IRPAs expected to be reclassified into earnings during the next twelve months is $3,485.

**Derivative Instrument Credit Risk**

Our commodity exchange-traded futures contracts generally require cash deposits in margin accounts. At March 31, 2018, September 30, 2017 and March 31, 2017, restricted cash in brokerage accounts totaled $1,572, $3,046 and $347, respectively.

**Offsetting Derivative Assets and Liabilities**

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

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

**Fair Value of Derivative Instruments**

The following table presents the Company's derivative assets and liabilities, as well as the effects of offsetting, as of March 31, 2018, September 30, 2017 and March 31, 2017:

| | March 31, 2018 | September 30, 2017 | March 31, 2017 |
|---|---|---|---|
| **Derivative assets:** | | | |
| Derivatives subject to PGC and DS mechanisms: | | | |
| Commodity contracts | $ 860 | $ 1,665 | $ 2,104 |
| Derivatives not subject to PGC and DS mechanisms: | | | |
| Commodity contracts | 191 | 142 | 53 |
| Total derivative assets — gross | 1,051 | 1,807 | 2,157 |
| Gross amounts offset in the balance sheet | (37) | (450) | (133) |
| Total derivative assets — net (a) | $ 1,014 | $ 1,357 | $ 2,024 |
| | | | |
| **Derivative liabilities:** | | | |
| Derivatives subject to PGC and DS mechanisms: | | | |
| Commodity contracts | $ (589) | $ (1,520) | $ (150) |
| Derivatives not subject to PGC and DS mechanisms: | | | |
| Commodity contracts | — | — | (2) |
| Total derivative liabilities — gross | (589) | (1,520) | (152) |
| Gross amounts offset in the balance sheet | 37 | 450 | 133 |
| Total derivative liabilities — net (a) | $ (552) | $ (1,070) | $ (19) |

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

**Effect of Derivative Instruments**

The following table provides information on the effects of derivative instruments not subject to ratemaking mechanisms on the condensed consolidated statements of income and changes in AOCI for the three and six months ended March 31, 2018 and 2017:

| | Loss Reclassified from AOCI into Income | | Location of Loss Reclassified from AOCI into Income |
|---|---|---|---|
| Three Months Ended March 31, | 2018 | 2017 | |
| **Cash Flow Hedges:** | | | |
| Interest rate contracts | $ (872) | $ (822) | Interest expense |

| | Gain (Loss) Recognized in Income | | Location of Gain (Loss) Recognized in Income |
|---|---|---|---|
| Three Months Ended March 31, | 2018 | 2017 | |
| **Derivatives Not Subject to PGC and DS Mechanisms:** | | | |
| Commodity contracts | $ 12 | $ (98) | Operating and administrative expenses |

| | Loss Reclassified from AOCI into Income | | Location of Loss Reclassified from AOCI into Income |
|---|---|---|---|
| Six Months Ended March 31, | 2018 | 2017 | |
| **Cash Flow Hedges:** | | | |
| Interest rate contracts | $ (1,743) | $ (1,668) | Interest expense |

| | Gain Recognized in Income | | Location of Gain Recognized in Income |
|---|---|---|---|
| Six Months Ended March 31, | 2018 | 2017 | |
| **Derivatives Not Subject to PGC and DS Mechanisms:** | | | |
| Commodity contracts | $ 161 | $ 32 | Operating and administrative expenses |

We are also a party to a number of other 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 electricity, 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 qualify for NPNS exception accounting because they provide for the delivery of products or services in quantities that are expected to be used in the normal course of operating our business and the price in the contract is based on an underlying that is directly associated with the price of the product or service being purchased or sold.

**UGI UTILITIES, INC. AND SUBSIDIARIES**

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(unaudited)
(Thousands of dollars, except where indicated otherwise)

## Note 12 — Accumulated Other Comprehensive Income

The tables below present changes in AOCI, net of tax, during the three and six months ended March 31, 2018 and 2017:

| Three Months Ended March 31, 2018 | Postretirement Benefit Plans | Derivative Instruments | Total |
|---|---|---|---|
| AOCI — December 31, 2017 | $ (8,775) | $ (17,204) | $ (25,979) |
| Reclassifications of benefit plan actuarial losses and net prior service credits | 220 | — | 220 |
| Reclassifications of net losses on IRPAs | — | 592 | 592 |
| AOCI — March 31, 2018 | $ (8,555) | $ (16,612) | $ (25,167) |

| Three Months Ended March 31, 2017 | Postretirement Benefit Plans | Derivative Instruments | Total |
|---|---|---|---|
| AOCI — December 31, 2016 | $ (11,595) | $ (19,289) | $ (30,884) |
| Reclassifications of benefit plan actuarial losses and net prior service credits | 239 | — | 239 |
| Reclassifications of net losses on IRPAs | — | 481 | 481 |
| AOCI — March 31, 2017 | $ (11,356) | $ (18,808) | $ (30,164) |

| Six Months Ended March 31, 2018 | Postretirement Benefit Plans | Derivative Instruments | Total |
|---|---|---|---|
| AOCI — September 30, 2017 | $ (8,995) | $ (17,796) | $ (26,791) |
| Reclassifications of benefit plans actuarial losses and net prior service credits | 440 | — | 440 |
| Reclassifications of net losses on IRPAs | — | 1,184 | 1,184 |
| AOCI — March 31, 2018 | $ (8,555) | $ (16,612) | $ (25,167) |

| Six Months Ended March 31, 2017 | Postretirement Benefit Plans | Derivative Instruments | Total |
|---|---|---|---|
| AOCI — September 30, 2016 | $ (11,834) | $ (19,784) | $ (31,618) |
| Reclassifications of benefit plans actuarial losses and net prior service credits | 478 | — | 478 |
| Reclassifications of net losses on IRPAs | — | 976 | 976 |
| AOCI — March 31, 2017 | $ (11,356) | $ (18,808) | $ (30,164) |

## Note 13 — Related Party Transactions

UGI provides certain financial and administrative services to UGI Utilities. UGI bills UGI Utilities monthly for all direct expenses incurred by UGI on behalf of UGI Utilities and an allocated share of indirect corporate expenses incurred or paid with respect to services provided to UGI Utilities. The allocation of indirect UGI corporate expenses to UGI Utilities utilizes a weighted, three-component formula comprising revenues, operating expenses and net assets employed and considers UGI Utilities' relative percentage of such items to the total of such items for all UGI operating subsidiaries for which general and administrative services are provided. Management believes that this allocation method is reasonable and equitable to UGI Utilities and this allocation method has been accepted by the PUC in past rate case proceedings and management audits as a reasonable method of allocating such expenses. UGI Utilities also engages in other services with various other affiliates pursuant to arrangements authorized by the PUC using similar allocation or market-based pricing methods. These billed expenses are classified as "Operating and administrative expenses — related parties" in the Condensed Consolidated Statements of Income. In addition, UGI Utilities provides limited administrative services to UGI and certain of UGI's subsidiaries under PUC affiliated interest agreements. Amounts billed to these entities by UGI Utilities totaled $1,359 and $1,632 during the three months ended March 31, 2018 and 2017, respectively, and $2,405 and $2,801 during the six months ended March 31, 2018 and 2017, respectively.

From time to time, UGI Utilities is a party to SCAAs with Energy Services which have terms of up to three years. Under the SCAAs, UGI Utilities has, among other things, released certain storage and transportation contracts (subject to recall for operational purposes) to Energy Services for the terms of the SCAAs. UGI Utilities also transferred certain associated storage inventories upon the commencement of the SCAAs, receives a transfer of storage inventories at the end of the SCAAs, and makes payments associated with refilling storage inventories during the term of the SCAAs. UGI Utilities incurred costs associated with Energy Services' SCAAs totaling $179 and $201 during the three months ended March 31, 2018 and 2017, respectively, and $3,280 and $2,495 during the six months ended March 31, 2018 and 2017, respectively. Energy Services, in turn, provides a firm delivery service and makes certain payments to UGI Utilities for its various obligations under the SCAAs. These payments totaled $708 and $734 during the three months ended March 31, 2018 and 2017, respectively, and $1,426 and $1,298 during the six months ended March 31, 2018 and 2017, respectively. In conjunction with the SCAAs, UGI Utilities received security deposits from Energy Services. The amounts of such security deposits, which are included in "Other current liabilities" on the Condensed Consolidated Balance Sheets, at March 31, 2018, September 30, 2017 and March 31, 2017, were $11,040.

UGI Utilities reflects the historical cost of the gas storage inventories and any exchange receivable from Energy Services (representing amounts of natural gas inventories used but not yet replenished by Energy Services) in "Inventories" on the Condensed Consolidated Balance Sheets. The carrying values of these gas storage inventories at March 31, 2018, September 30, 2017 and March 31, 2017, comprising approximately 0.9 bcf, 6.8 bcf and 0.8 bcf of natural gas, were $2,532, $19,323 and $1,964, respectively.

UGI Utilities has gas supply and delivery service agreements with Energy Services pursuant to which Energy Services provides certain gas supply and related delivery service to Gas Utility primarily during the heating-season months of November through March. The aggregate amount of these transactions (exclusive of transactions pursuant to the SCAAs) during the three months ended March 31, 2018 and 2017 totaled $47,366 and $41,225, respectively, and during the six months ended March 31, 2018 and 2017 totaled $81,954 and $71,735, respectively.

From time to time, UGI Utilities sells natural gas or pipeline capacity to Energy Services. During the three months ended March 31, 2018 and 2017, revenues associated with such sales to Energy Services totaled $61,245 and $22,310, respectively. During the six months ended March 31, 2018 and 2017, revenues associated with such sales to Energy Services totaled $82,392 and $33,282, respectively. Also from time to time, UGI Utilities purchases natural gas, pipeline capacity and electricity from Energy Services (in addition to those transactions already described above) and purchases a firm storage service from UGI Storage Company, a subsidiary of Energy Services, under one-year agreements. During the three months ended March 31, 2018 and 2017, such purchases totaled $83,429 and $39,085, respectively. During the six months ended March 31, 2018 and 2017, such purchases totaled $121,026 and $61,108, respectively.

**Note 14 — Segment Information**

We have determined that we have two reportable segments: (1) Gas Utility and (2) Electric Utility. Gas Utility revenues are derived principally from the sale and distribution of natural gas to customers in eastern and central Pennsylvania. Electric Utility derives its revenues principally from the sale and distribution of electricity in two northeastern Pennsylvania counties.

The accounting policies of our reportable segments are the same as those described in Note 2 of the Company’s 2017 Annual Report. We evaluate the performance of our Gas Utility and Electric Utility segments principally based upon their income before income taxes.

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(unaudited)
(Thousands of dollars, except where indicated otherwise)

Financial information by business segment follows:

| | | Reportable Segments | |
|---|---|---|---|
| **Three Months Ended March 31, 2018** | Total | Gas Utility | Electric Utility |
| Revenues | $ 483,261 | $ 455,973 | $ 27,288 |
| Cost of sales — gas, fuel and purchased power | $ 257,302 | $ 241,031 | $ 16,271 |
| Depreciation and amortization | $ 21,158 | $ 19,776 | $ 1,382 |
| Operating income | $ 135,127 | $ 134,175 | $ 952 |
| Interest expense | $ 11,091 | $ 10,866 | $ 225 |
| Income before income taxes | $ 124,036 | $ 123,309 | $ 727 |
| Capital expenditures (including the effects of accruals) | $ 55,089 | $ 51,363 | $ 3,726 |

| | | Reportable Segments | |
|---|---|---|---|
| **Three Months Ended March 31, 2017** | Total | Gas Utility | Electric Utility |
| Revenues | $ 359,940 | $ 335,864 | $ 24,076 |
| Cost of sales — gas, fuel and purchased power | $ 164,541 | $ 150,863 | $ 13,678 |
| Depreciation and amortization | $ 17,699 | $ 16,378 | $ 1,321 |
| Operating income | $ 116,408 | $ 115,105 | $ 1,303 |
| Interest expense | $ 10,322 | $ 9,833 | $ 489 |
| Income before income taxes | $ 106,086 | $ 105,272 | $ 814 |
| Capital expenditures (including the effects of accruals) | $ 56,517 | $ 54,137 | $ 2,380 |

**UGI UTILITIES, INC. AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**
(unaudited)
(Thousands of dollars, except where indicated otherwise)

| | | Reportable Segments | |
|---|---|---|---|
| **Six Months Ended March 31, 2018** | Total | Gas Utility | Electric Utility |
| Revenues | $ 806,366 | $ 755,938 | $ 50,428 |
| Cost of sales — gas, fuel and purchased power | $ 409,076 | $ 379,889 | $ 29,187 |
| Depreciation and amortization | $ 41,512 | $ 38,776 | $ 2,736 |
| Operating income | $ 231,422 | $ 227,856 | $ 3,566 |
| Interest expense | $ 22,030 | $ 21,392 | $ 638 |
| Income before income taxes | $ 209,392 | $ 206,464 | $ 2,928 |
| Capital expenditures (including the effects of accruals) | $ 126,788 | $ 120,205 | $ 6,583 |
| | | | |
| **As of March 31, 2018** | | | |
| Total assets | $ 3,204,045 | $ 3,033,352 | $ 170,693 |
| Goodwill | $ 182,145 | $ 182,145 | $ — |

| | | Reportable Segments | |
|---|---|---|---|
| **Six Months Ended March 31, 2017** | Total | Gas Utility | Electric Utility |
| Revenues | $ 621,353 | $ 572,964 | $ 48,389 |
| Cost of sales — gas, fuel and purchased power | $ 274,012 | $ 246,430 | $ 27,582 |
| Depreciation and amortization | $ 35,090 | $ 32,533 | $ 2,557 |
| Operating income | $ 198,644 | $ 194,072 | $ 4,572 |
| Interest expense | $ 20,350 | $ 19,416 | $ 934 |
| Income before income taxes | $ 178,294 | $ 174,656 | $ 3,638 |
| Capital expenditures (including the effects of accruals) | $ 120,613 | $ 115,879 | $ 4,734 |
| | | | |
| **As of March 31, 2017** | | | |
| Total assets | $ 2,909,725 | $ 2,746,144 | $ 163,581 |
| Goodwill | $ 182,145 | $ 182,145 | $ — |

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Forward-Looking Statements

Information contained in this Quarterly Report on Form 10-Q may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such statements use forward-looking words such as "believe," "plan," "anticipate," "continue," "estimate," "expect," "may," or other similar words. These statements discuss plans, strategies, events or developments that we expect or anticipate will or may occur in the future.

A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. We believe that we have chosen these assumptions or bases in good faith and that they are reasonable. However, we caution you that actual results almost always vary from assumed facts or bases, and the differences between actual results and assumed facts or bases can be material, depending on the circumstances. When considering forward-looking statements, you should keep in mind the following important factors that could affect our future results and could cause those results to differ materially from those expressed in our forward-looking statements: (1) adverse weather conditions resulting in reduced demand; (2) price volatility and availability of oil, electricity and natural gas and the capacity to transport them to market areas; (3) changes in laws and regulations, including safety, tax, consumer protection, environmental, and accounting matters; (4) inability to timely recover costs through utility rate proceedings; (5) the impact of pending and future legal proceedings; (6) competitive pressures from the same and alternative energy sources; (7) liability for environmental claims; (8) customer conservation measures due to high energy prices and improvements in energy efficiency and technology resulting in reduced demand; (9) adverse labor relations; (10) customer, counterparty, supplier, or vendor defaults; (11) increased uncollectible accounts expense; (12) liability for uninsured claims and for claims in excess of insurance coverage, including those for personal injury and property damage arising from explosions, terrorism, and other catastrophic events that may result from operating hazards and risks incidental to generating and distributing electricity and transporting, storing and distributing natural gas; (13) transmission or distribution system service interruptions; (14) political, regulatory and economic conditions in the United States; (15) capital market conditions, including reduced access to capital markets and interest rate fluctuations; (16) changes in commodity market prices resulting in significantly higher cash collateral requirements; (17) the interruption, disruption, failure, malfunction, or breach of our information technology systems, including due to cyber attack; and (18) continued analysis of recent tax legislation.

These factors, and those factors set forth in Item 1A. Risk Factors in the Company's 2017 Annual Report, are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. Other unknown or unpredictable factors could also have material adverse effects on future results. We undertake no obligation to update publicly any forward-looking statement whether as a result of new information or future events except as required by the federal securities laws.

## ANALYSIS OF RESULTS OF OPERATIONS

The following analyses compare our results of operations for the three months ended March 31, 2018 ("2018 three-month period") with the three months ended March 31, 2017 ("2017 three-month period") and the six months ended March 31, 2018 ("2018 six-month period") with the six months ended March 31, 2017 ("2017 six-month period"). Our analyses of results of operations should be read in conjunction with the segment information included in Note 14 to the condensed consolidated financial statements.

As further discussed below and in Note 5 to the condensed consolidated financial statements, our condensed consolidated balance sheet at March 31, 2018 and our net income for the three and six months ended March 31, 2018, were significantly affected by the December 22, 2017 enactment of the Tax Cuts and Jobs Act (the "TCJA"). The TCJA includes significant changes to the U.S. Corporate income tax system including a U.S. federal corporate income tax rate reduction from 35% to 21% effective January 1, 2018.

**2018 three-month period compared with the 2017 three-month period**

| Three Months Ended March 31, | 2018 | 2017 | Increase (Decrease) | |
|---|---|---|---|---|
| (Dollars in millions) | | | | |
| **Gas Utility:** | | | | |
| Revenues | $ 456.0 | $ 335.9 | $ 120.1 | 35.8 % |
| Total margin (a) | $ 215.0 | $ 185.0 | $ 30.0 | 16.2 % |
| Operating and administrative expenses | $ 62.2 | $ 54.7 | $ 7.5 | 13.7 % |
| Operating income | $ 134.2 | $ 115.1 | $ 19.1 | 16.6 % |
| Income before income taxes | $ 123.3 | $ 105.3 | $ 18.0 | 17.1 % |
| System throughput — billions of cubic feet ("bcf") | | | | |
| Core market | 38.9 | 33.8 | 5.1 | 15.1 % |
| Total | 87.3 | 81.8 | 5.5 | 6.7 % |
| Heating degree days — % (warmer) than normal (b) | (2.2)% | (11.7)% | — | — |
| **Electric Utility:** | | | | |
| Revenues | $ 27.3 | $ 24.1 | $ 3.2 | 13.3 % |
| Total margin (a) | $ 9.6 | $ 9.2 | $ 0.4 | 4.3 % |
| Operating and administrative expenses (a) | $ 7.2 | $ 6.6 | $ 0.6 | 9.1 % |
| Operating income | $ 1.0 | $ 1.3 | $ (0.3) | (23.1)% |
| Income before income taxes | $ 0.7 | $ 0.8 | $ (0.1) | (12.5)% |
| Distribution sales — millions of kilowatt-hours ("gwh") | 278.7 | 260.5 | 18.2 | 7.0 % |

(a) Gas Utility's total margin represents total revenues less total cost of sales. Electric Utility's total margin represents total revenues less total cost of sales and revenue-related taxes, i.e. Electric Utility gross receipts taxes, of $1.4 million and $1.2 million during the three months ended March 31, 2018 and 2017, respectively. For financial statement purposes, revenue-related taxes are included in "Operating and administrative expenses" on the Condensed Consolidated Statements of Income (but excluded from Electric Utility operating expenses presented above).

(b) Deviation from average heating degree days for the 15-year period 2000-2014 based upon weather statistics provided by National Oceanic and Atmospheric Administration for airports located within Gas Utility's service territory.

Temperatures in Gas Utility's service territory during the three months ended March 31, 2018, were 2.2% warmer than normal but 10.8% colder than during the three months ended March 31, 2017. Gas Utility core market volumes increased 5.1 bcf (15.1%) principally reflecting the effects of the colder 2018 three-month period weather and growth in the number of core market customers. Total Gas Utility distribution system throughput increased 5.5 bcf principally reflecting the higher core market volumes and slightly higher large firm delivery service volumes. These increases were partially offset by lower interruptible delivery service volumes. Electric Utility kilowatt-hour sales were 7.0% higher than the prior-year period principally reflecting the impact of the colder weather on Electric Utility heating-related sales.

UGI Utilities revenues increased $123.3 million reflecting a $120.1 million increase in Gas Utility revenues and higher Electric Utility revenues. The higher Gas Utility revenues principally reflect an increase in core market revenues ($73.2 million), higher off-system sales revenues ($40.9 million), and higher large firm delivery service revenues ($7.3 million). The $73.2 million increase in Gas Utility core market revenues reflects the effects of the higher core market throughput ($34.2 million), higher average retail

core market PGC rates ($32.1 million) and the increase in PNG base rates effective October 20, 2017 ($6.9 million). The increase in Electric Utility revenues principally reflects the higher distribution system sales and slightly higher average DS rates ($3.3 million). UGI Utilities cost of sales was $257.3 million in the three months ended March 31, 2018 compared with $164.5 million in the three months ended March 31, 2017, principally reflecting higher Gas Utility cost of sales ($90.2 million) and higher Electric Utility cost of sales ($2.6 million) from higher distribution system sales and the slightly higher DS rates. The higher Gas Utility cost of sales reflects higher average retail core market PGC rates ($32.1 million), higher cost of sales associated with Gas Utility off-system sales ($40.9 million), and higher retail core-market volumes ($18.1 million).

UGI Utilities total margin increased $30.4 million principally reflecting higher total margin from Gas Utility core market customers ($26.0 million) and higher large firm delivery service total margin ($4.1 million). The increase in Gas Utility core market margin principally reflects the higher core market throughput ($19.8 million) and the increase in PNG base rates effective October 20, 2017 ($6.2 million). Electric Utility total margin increased slightly principally reflecting the higher distribution volumes sold.

UGI Utilities operating income increased $18.7 million, principally reflecting the increase in total margin ($30.4 million) partially offset by higher Gas Utility and Electric Utility operating and administrative expenses ($8.1 million) and greater depreciation and amortization expense ($3.5 million) associated with increased distribution system and information technology (“IT”) capital expenditure activity. The increase in UGI Utilities operating and administrative expenses principally reflects higher uncollectible accounts expense ($6.0 million) and higher compensation and benefits expenses ($3.6 million). UGI Utilities income before income taxes increased $17.9 million reflecting the increase in UGI Utilities operating income ($18.7 million) partially offset by slightly higher interest expense.

***Interest Expense and Income Taxes***

Interest expense in the 2018 three-month period increased $0.8 million reflecting higher short-term debt interest expense and interest on higher average long-term debt outstanding. Our consolidated income taxes for the three months ended March 31, 2018, were impacted by the enactment of the TCJA which, among other things, reduced the federal corporate income tax rate from 35% to 21%, effective January 1, 2018. We are subject to a blended federal tax rate of 24.5% for Fiscal 2018 because our fiscal year contains the effective date of the rate change from 35% to 21%. Accordingly, our income taxes for the three months ended March 31, 2018, were reduced by $15.2 million principally reflecting the impact of the lower blended income tax rate of 24.5% and, to a much lesser extent, the amortization of excess deferred federal income taxes.

On March 15, 2018, the PUC entered a temporary rates Order that converted commission-approved rates of most large Pennsylvania public utilities, including Gas Utility, into “temporary rates” for a period of six months, with a possible extension for an additional six months. This action was taken in response to the TCJA that became effective on January 1, 2018. This action by the PUC did not directly impact our estimated annual effective tax rate for Fiscal 2018 and did not have a material impact on our results for the three months ended March 31, 2018. For further information on the TCJA and related regulatory actions, see Note 5 to condensed consolidated financial statements.

UGI UTILITIES, INC. AND SUBSIDIARIES

**2018 six-month period compared with the 2017 six-month period**

| Six Months Ended March 31, | 2018 | 2017 | Increase (Decrease) | |
|---|---|---|---|---|
| (Dollars in millions) | | | | |
| **Gas Utility:** | | | | |
| Revenues | $ 755.9 | $ 573.0 | $ 182.9 | 31.9 % |
| Total margin (a) | $ 376.0 | $ 326.6 | $ 49.4 | 15.1 % |
| Operating and administrative expenses | $ 110.5 | $ 101.0 | $ 9.5 | 9.4 % |
| Operating income | $ 227.9 | $ 194.1 | $ 33.8 | 17.4 % |
| Income before income taxes | $ 206.5 | $ 174.7 | $ 31.8 | 18.2 % |
| System throughput — billions of cubic feet (“bcf”) | | | | |
| Core market | 64.4 | 56.7 | 7.7 | 13.6 % |
| Total | 156.6 | 148.0 | 8.6 | 5.8 % |
| Heating degree days — % (warmer) than normal (b) | (2.1)% | (10.0)% | — | — |
| **Electric Utility:** | | | | |
| Revenues | $ 50.4 | $ 48.4 | $ 2.0 | 4.1 % |
| Total margin (a) | $ 18.6 | $ 18.3 | $ 0.3 | 1.6 % |
| Operating and administrative expenses (a) | $ 12.3 | $ 11.3 | $ 1.0 | 8.8 % |
| Operating income | $ 3.6 | $ 4.6 | $ (1.0) | (21.7)% |
| Income before income taxes | $ 2.9 | $ 3.6 | $ (0.7) | (19.4)% |
| Distribution sales — millions of kilowatt-hours (“gwh”) | 525.3 | 501.1 | 24.2 | 4.8 % |

(a) Gas Utility’s total margin represents total revenues less total cost of sales. Electric Utility’s total margin represents total revenues less total cost of sales and revenue-related taxes, i.e. Electric Utility gross receipts taxes, of $2.6 million and $2.5 million during each of the six months ended March 31, 2018 and 2017, respectively. For financial statement purposes, revenue-related taxes are included in “Operating and administrative expenses” on the Condensed Consolidated Statements of Income (but excluded from Electric Utility operating expenses presented above).

(b) Deviation from average heating degree days for the 15-year period 2000-2014 based upon weather statistics provided by National Oceanic and Atmospheric Administration for airports located within Gas Utility’s service territory.

Temperatures in Gas Utility’s service territory during the six months ended March 31, 2018, were 2.1% warmer than normal but 8.8% colder than during the six months ended March 31, 2017. Gas Utility core market volumes increased 7.7 bcf (13.6%) principally reflecting the effects of the colder 2018 six-month period weather and growth in the number of core market customers. Total Gas Utility distribution system throughput increased 8.6 bcf principally reflecting the higher core market volumes and slightly higher large firm delivery service volumes. These increases were partially offset by lower interruptible delivery service volumes. Electric Utility kilowatt-hour sales were 4.8% higher than the prior-year period, principally reflecting the impact of the colder weather on Electric Utility heating-related sales.

UGI Utilities revenues increased $185.0 million reflecting a $182.9 million increase in Gas Utility revenues and slightly higher Electric Utility revenues. The higher Gas Utility revenues principally reflect an increase in core market revenues ($121.3 million), higher off-system sales revenues ($52.4 million), and higher large firm delivery service revenues ($11.6 million). The $121.3 million increase in Gas Utility core market revenues reflects the effects of the higher core market throughput ($53.0 million), higher average retail core market PGC rates ($57.5 million) and the increase in PNG base rates effective October 20, 2017 ($10.9 million). The increase in Electric Utility revenues principally reflects higher Electric Utility distribution system sales ($2.8 million) partially offset by lower transmission revenue ($0.5 million). UGI Utilities cost of sales was $409.1 million in the six months ended March 31, 2018 compared with $274.0 million in the six months ended March 31, 2017, principally reflecting higher Gas Utility cost of sales ($133.4 million) and higher Electric Utility cost of sales ($1.6 million) from the higher sales. The higher Gas Utility cost of sales reflects higher average retail core market PGC rates ($57.5 million), higher cost of sales associated with Gas Utility off-system sales ($52.4 million), and higher retail core-market volumes ($27.3 million).

UGI Utilities total margin increased $49.7 million principally reflecting higher total margin from Gas Utility core market customers ($42.3 million) and higher large firm delivery service total margin ($7.9 million). The increase in Gas Utility core market margin principally reflects the higher core market throughput ($32.6 million) and the increase in PNG base rates effective October 20, 2017 ($9.7 million). Electric Utility total margin increased $0.3 million principally reflecting the higher distribution system sales.

UGI Utilities operating income increased $32.8 million, principally reflecting the increase in total margin ($49.7 million) partially offset by higher operating and administrative expenses ($10.7 million) and greater depreciation and amortization expense ($6.4 million) associated with increased distribution system and IT capital expenditure activity. The increase in UGI Utilities operating and administrative expenses reflects higher uncollectible accounts expense ($7.0 million) and higher contractor and outside services expenses ($3.0 million) and higher compensation and benefits expenses ($3.6 million) partially offset by a favorable payroll tax adjustment related to prior periods ($2.1 million). UGI Utilities income before income taxes increased $31.1 million reflecting the increase in UGI Utilities operating income ($32.8 million) partially offset by slightly higher interest expense.

***Interest Expense and Income Taxes***

Interest expense in the 2018 six-month period increased $1.7 million reflecting higher short-term debt interest expense and interest on higher average long-term debt outstanding. Our consolidated income taxes for the six months ended March 31, 2018, were impacted by the enactment of the TCJA. As previously mentioned, we are subject to a blended federal tax rate of 24.5% for Fiscal 2018. As a result of the TCJA, we adjusted our net federal deferred income tax liabilities to remeasure such tax liabilities at the lower corporate rate and certain of these adjustments reduced our income tax expense, and increased net income, by $8.1 million for the six months ended March 31, 2018. In addition to the adjustment to our federal deferred income tax balances, our income taxes for the six months ended March 31, 2018, were further reduced by approximately $23.3 million principally reflecting the impact of the lower blended income tax rate of 24.5% and, to a much lesser extent, the amortization of the excess deferred federal income taxes.

On March 15, 2018, the PUC entered a temporary rates Order that converted commission-approved rates of most large Pennsylvania public utilities, including Gas Utility, into “temporary rates” for a period of six months, with a possible extension for an additional six months. This action was taken in response to the TCJA that became effective on January 1, 2018. This action by the PUC did not directly impact our estimated annual effective tax rate for Fiscal 2018 and did not have a material impact on our results for the six months ended March 31, 2018. For further information on the TCJA and related regulatory actions, see Note 5 to condensed consolidated financial statements.

## FINANCIAL CONDITION AND LIQUIDITY

We depend on both internal and external sources of liquidity to provide funds for working capital and to fund capital requirements. Our short-term cash requirements not met by cash from operations are generally satisfied with borrowings under credit facilities. Our cash and cash equivalents at March 31, 2018, totaled $4.7 million compared to $5.2 million at September 30, 2017.

UGI Utilities’ total debt outstanding at March 31, 2018, was $969.1 million, which includes $135.0 million of short-term borrowings, compared with total debt outstanding of $921.1 million at September 30, 2017, which includes $170.0 million of short-term borrowings. Total long-term debt outstanding at March 31, 2018, comprises $675.0 million of Senior Notes, a $123.4 million unsecured term loan and $40.0 million of Medium-Term Notes, and is net of $4.3 million of unamortized debt issuance costs.

On October 31, 2017, UGI Utilities entered into a $125.0 million unsecured variable-rate term loan agreement (the “Term Loan”) with a group of banks. Proceeds from the Term Loan were used to repay revolving credit agreement borrowings and for general corporate purposes. The outstanding principal amount of the Term Loan is payable in equal quarterly installments of $1.6 million, which commenced March 2018, with the balance of the principal being due and payable in full on October 30, 2022. Under the Term Loan, UGI Utilities may borrow at various prevailing market interest rates, including LIBOR and the banks’ prime rate, plus a margin. The margin on such borrowings ranges from 0.0% to 1.875% and is based upon the credit ratings of certain indebtedness of UGI Utilities.

UGI Utilities has an unsecured revolving credit agreement (the “UGI Utilities Credit Agreement”) with a group of banks providing for borrowings up to $300 million (including a $100 million sublimit for letters of credit). Borrowings under the UGI Utilities Credit Agreement are classified as “Short-term borrowings” on the Condensed Consolidated Balance Sheets. At March 31, 2018, UGI Utilities’ available borrowing capacity under the UGI Utilities Credit Agreement was $163.0 million. During the 2018 and 2017 six-month periods, average daily short-term borrowings under the UGI Utilities Credit Agreement were $171.4 million and $92.4 million, respectively, and peak short-term borrowings totaled $215.0 million and $137.0 million, respectively. Peak short-term borrowings typically occur during the heating-season months of December and January when UGI Utilities’ investment in working capital, principally accounts receivable, is generally greatest.

We believe that we have sufficient liquidity in the forms of cash and cash equivalents on hand, cash expected to be generated from Gas Utility and Electric Utility operations, short-term borrowings available under the UGI Utilities Credit Agreement and the ability to refinance long-term debt as it matures to meet our anticipated contractual and projected cash commitments.

**Cash Flows**

***Operating activities.*** Due to the seasonal nature of UGI Utilities' businesses, cash flows from our operating activities are generally greatest during the second and third fiscal quarters when customers pay for natural gas and electricity consumed during the peak heating-season months. Conversely, operating cash flows are generally at their lowest levels during the first and fourth fiscal quarters when the Company's investment in working capital, principally accounts receivable and inventories, is generally greatest. UGI Utilities uses borrowings under the UGI Utilities Credit Agreement to manage seasonal cash flow needs.

Cash provided by operating activities was $135.1 million in the 2018 six-month period compared to cash provided by operating activities of $131.8 million in the prior-year period. Cash flow from operating activities before changes in operating working capital was $210.2 million in the 2018 six-month period compared to $193.0 million recorded in the prior-year period. The higher cash flow from operating activities before changes in operating working capital in the 2018 six-month period largely reflects the increase in operating results in the 2018 six-month period. Changes in operating working capital used $75.1 million of operating cash flow during the 2018 six-month period compared to $61.2 million of cash used during the prior-year period. The higher cash used in the 2018 six-month period reflects the higher Gas Utility distribution volumes and natural gas prices on cash required to fund changes in accounts receivable partially offset by higher deferred fuel overcollections in the current-year period.

***Investing activities.*** Cash used by investing activities was $153.4 million in the 2018 six-month period compared to $140.6 million in the 2017 six-month period. Total cash capital expenditures were $151.5 million in the 2018 six-month period compared with $135.1 million recorded in the prior-year period. The increase in cash capital expenditures during the 2018 six-month period principally reflects expenditures relating to a new headquarters building and higher new business capital expenditures.

***Financing activities.*** Cash provided by financing activities was $17.8 million in the 2018 six-month period compared with $10.5 million during the 2017 six-month period. Financing activity cash flows are primarily the result of net borrowings and repayments under revolving credit agreements, net borrowings and repayments of long-term debt and cash dividends paid to UGI. UGI Utilities entered into a $125 million unsecured term loan agreement during the 2018 six-month period and used the net proceeds principally to reduce revolving credit balances and for general corporate purposes. During the 2018 six-month period UGI Utilities repaid $40 million of maturing Medium-Term Notes. During the 2018 six-month period there were net credit agreement repayments of $35.0 million compared with net repayments of $64.0 million during the prior-year period. Cash dividends in the 2018 six-month period totaled $30.0 million compared to cash dividends of $25.0 million in the prior-year period.

**IMPACT OF U.S. TAX REFORM**

On December 22, 2017, the Tax Cuts and Jobs Act (the "TCJA") was enacted into law. The significant changes resulting from the law that impact UGI Utilities include a reduction in the U.S. federal income tax rate from 35% to 21% effective January 1, 2018 (resulting in a blended rate of 24.5% for Fiscal 2018) and the elimination of bonus depreciation for regulated utilities.

As a result, in December 2017, we reduced our net deferred income tax liabilities by $223.7 million due to the remeasuring of our existing federal deferred income tax assets and liabilities as of the date of enactment. Because a significant amount of the reduction relates to our regulated utility plant assets, most of the reduction to our excess deferred income taxes is not being recognized immediately in income tax expense. During the six months ended March 31, 2018, the amount of the reduction in our net deferred income tax liabilities that reduced income tax expense totaled $8.1 million.

In order for utility assets to continue to be eligible for accelerated tax depreciation, current law requires that excess deferred income taxes be amortized no more rapidly than over the remaining lives of the assets that gave rise to the excess deferred income taxes. In December 2017, we recorded a regulatory liability of $216.1 million associated with the excess deferred federal income taxes related to our regulated utility plant assets. This regulatory liability was increased, and a federal deferred income tax asset recorded, in the amount of $87.8 million to reflect the tax benefit generated by the amortization of the excess deferred federal income taxes. This regulatory liability is being amortized to income tax expense over the remaining lives of the assets that gave rise to the excess deferred income taxes. For further information on these regulatory assets and liabilities, see Note 6 to the condensed consolidated financial statements.

For the three and six months ended March 31, 2018, we included the estimated impacts of the TCJA in determining our estimated annual effective income tax rate. We are subject to a blended federal tax rate of 24.5% for Fiscal 2018 because our fiscal year contains the effective date of the rate change from 35% to 21% on January 1, 2018. As a result, the U.S. federal income tax rate included in our estimated annual effective tax rate is based on this 24.5% blended rate for Fiscal 2018. For the three and six months ended March 31, 2018, the effects of the tax law changes on current-period results (excluding the one-time impacts

described above) decreased income tax expense, and increased net income, by approximately $15.2 million and $23.3 million, respectively.

As a result of the TCJA tax law changes, in January 2018, the PUC opened a proceeding to consider whether existing rates charged by Pennsylvania utilities are no longer "just and reasonable," as required by Pennsylvania law. On February 12, 2018, the PUC issued a Secretarial Letter requesting detailed information from large public utilities, including UGI Utilities, and inviting interested parties to submit comments on the impacts of the TCJA. On March 15, 2018, the PUC entered a temporary rates Order that converted commission-approved rates of most large Pennsylvania public utilities, including Gas Utility, into "temporary rates" for a period of six months, with a possible extension for an additional six months. It ordered each affected public utility to file a tariff supplement designating its existing rates and riders as temporary, effective March 15, 2018. In its comments on March 9, 2018, UGI Utilities expressed the view that, as a matter of law, reducing base rates by the tax impact of the TCJA would be unlawful if the result did not permit the utility to earn a reasonable rate of return and proposed to give approximately half of the benefits from the TCJA to customers through a reduction in rates and increased funding for low income and gas operations programs.

The PUC is in the process of reviewing the data and comments submitted in response to the Secretarial Letter. Due to the complexity of the tax law changes and the numerous public utilities involved, the PUC has stated that it is unable to determine when it will complete its review and resolve the issues presented.

**REGULATORY MATTERS**

***Base Rate Filings.*** On January 26, 2018, Electric Utility filed a rate request with the PUC to increase its annual base distribution revenues by $9.2 million. The increased revenues would fund ongoing system improvements and operations necessary to maintain safe and reliable electric service. Electric Utility requested that the new electric rates become effective March 27, 2018. The PUC entered an Order dated March 1, 2018, suspending the effective date for the rate increase to allow for investigation and public hearings. Unless a settlement is reached sooner, this review process is expected to last up to nine months from the date of filing; however, the Company cannot predict the timing or the ultimate outcome of the rate case review process.

On August 31, 2017, the PUC approved a previously filed Joint Petition for Approval of Settlement of all issues providing for an $11.3 million annual base distribution rate increase for PNG. The increase became effective on October 20, 2017.

On October 14, 2016, the PUC approved a previously filed Joint Petition for Approval of Settlement of all issues providing for a $27.0 million annual base distribution rate increase for UGI Gas. The increase became effective on October 19, 2016.

***Distribution System Improvement Charge.*** State legislation permits gas and electric utilities in Pennsylvania to recover a distribution system improvement charge ("DSIC") on eligible capital investments as an alternative ratemaking mechanism providing for a more-timely cost recovery of qualifying capital expenditures between base rate cases.

PNG and CPG received PUC approval on a DSIC tariff, initially set at zero, in 2014. PNG and CPG began charging a DSIC at a rate other than zero beginning on April 1, 2015 and April 1, 2016, respectively. In May 2017, the PUC issued a final Order to approve an increase of the maximum allowable DSIC to 7.5% of billed distribution revenues effective July 1, 2017, for PNG and CPG, pending reconsideration at each company's Long-term Infrastructure Improvement Plan filing in 2018. PNG's DSIC has been reset to zero as a result of its most recent rate case. The DSIC rate for PNG will resume upon exceeding the threshold amount of DSIC-eligible plant in service agreed upon in the settlement of its recent base rate case.

In November 2016, UGI Gas received PUC approval to establish a DSIC tariff mechanism, capped at 5% of distribution charges billed to customers, effective January 1, 2017. UGI Gas will be permitted to recover revenue under the mechanism for the amount of DSIC-eligible plant placed into service in excess of the threshold amount of DSIC-eligible plant agreed upon in the settlement of its recent base rate case.

***Utilities Merger Request.*** On March 8, 2018 and March 13, 2018, the Company filed merger authorization requests with the PUC and MD PSC, respectively, to merge PNG and CPG into UGI Utilities, with a targeted effective date of October 1, 2018. There are no expected changes to annual base distribution rates for the combined utilities or to existing regulatory assets and liabilities as a result of the proposed merger. The Company cannot predict the timing or the ultimate outcome of the PUC or MD PSC review of the merger request. CPG, PNG, and UGI Utilities also filed, in May 2018, related applications to transfer certain FERC authorizations from PNG and CPG to UGI Utilities to ensure continuity of certain interstate gas transportation services now conducted by CPG and PNG upon the effective date of the proposed merger.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary market risk exposures are (1) commodity price risk and (2) interest rate risk. Although we use derivative financial and commodity instruments to reduce market price risk associated with forecasted transactions, we do not use derivative financial and commodity instruments for speculative or trading purposes.

### Commodity Price Risk

Gas Utility's tariffs contain clauses that permit recovery of all of the prudently incurred costs of natural gas it sells to its retail core-market customers, including the cost of financial instruments used to hedge purchased gas costs. The recovery clauses provide for periodic adjustments for the difference between the total amounts actually collected from customers through PGC rates and the recoverable costs incurred. Because of this ratemaking mechanism, there is limited commodity price risk associated with our Gas Utility operations. Gas Utility uses derivative financial instruments, including natural gas futures and option contracts traded on the NYMEX, to reduce volatility in the cost of gas it purchases for its retail core-market customers. The cost of these derivative financial instruments, net of any associated gains or losses, is included in Gas Utility's PGC recovery mechanism. The change in market value of natural gas futures contracts can require daily deposits of cash in futures accounts. At March 31, 2018, the fair values of our natural gas futures and option contracts were not material.

Electric Utility's DS tariffs contain clauses which permit recovery of all prudently incurred power costs, including the cost of financial instruments used to hedge electricity costs, through the application of DS rates. Because of this ratemaking mechanism, there is limited power cost risk, including the cost of FTRs and forward electricity purchase contracts, associated with our Electric Utility operations. At March 31, 2018, all of our Electric Utility's forward electricity purchase contracts were subject to the NPNS exception. At March 31, 2018, the fair values of FTRs were not material.

In addition, Gas Utility and Electric Utility from time to time enter into exchange-traded gasoline futures contracts for a portion of gasoline volumes expected to be used in their operations. These gasoline futures contracts are recorded at fair value with changes in fair value reflected in "Operating and administrative expenses" on the Condensed Consolidated Statements of Income. The amount of unrealized gains on these contracts and associated volumes under contract at March 31, 2018 were not material.

### Interest Rate Risk

Our variable-rate debt at March 31, 2018, includes short-term borrowings and our variable-rate Term Loan. These debt agreements have interest rates that are generally indexed to short-term market interest rates. At March 31, 2018, combined borrowings outstanding under these variable-rate debt agreements totaled $258.4 million.

In order to reduce interest rate risk associated with near- or medium-term issuances of fixed-rate debt, from time to time we enter into IRPAs. There were no unsettled IRPAs outstanding at March 31, 2018.

## ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

The Company's disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by the Company in reports filed or submitted under the Securities Exchange Act of 1934, as amended, is (i) recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and (ii) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this Report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures, as of the end of the period covered by this Report, were effective at the reasonable assurance level.

(b) Change in Internal Control over Financial Reporting

No change in the Company's internal control over financial reporting occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

UGI UTILITIES, INC. AND SUBSIDIARIES

## PART II OTHER INFORMATION

### ITEM 1A. RISK FACTORS

In addition to the information presented in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended September 30, 2017, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing the Company. Other unknown or unpredictable factors could also have material adverse effects on future results.

### ITEM 6. EXHIBITS

The exhibits filed as part of this report are as follows (exhibits incorporated by reference are set forth with the name of the registrant, the type of report and last date of the period for which it was filed, and the exhibit number in such filing):

| Exhibit No. | Exhibit | Registrant | Filing | Exhibit |
|---|---|---|---|---|
| 10.1 | Form of UGI Corporation 2013 Omnibus Incentive Compensation Plan Nonqualified Stock Option Grant Letter for UGI, Utilities and AmeriGas Employees, dated January 1, 2018. | | | |
| 10.2 | Form of UGI Corporation 2013 Omnibus Incentive Compensation Plan Performance Unit Grant Letter for UGI and Utilities Employees, dated January 1, 2018. | | | |
| 12.1 | Computation of ratio of earnings to fixed charges | | | |
| 31.1 | Certification by the Chief Executive Officer relating to the Registrant’s Report on Form 10-Q for the quarter ended March 31, 2018, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | | | |
| 31.2 | Certification by the Chief Financial Officer relating to the Registrant’s Report on Form 10-Q for the quarter ended March 31, 2018, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | | | |
| 32 | Certification by the Chief Executive Officer and the Chief Financial Officer relating to the Registrant’s Report on Form 10-Q for the quarter ended March 31, 2018, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | | | |
| 101.INS | XBRL Instance | | | |
| 101.SCH | XBRL Taxonomy Extension Schema | | | |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase | | | |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase | | | |
| 101.LAB | XBRL Taxonomy Extension Labels Linkbase | | | |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase | | | |

**UGI UTILITIES, INC. AND SUBSIDIARIES**

**EXHIBIT INDEX**

| | |
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**UGI UTILITIES, INC. AND SUBSIDIARIES**

## 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 thereunto duly authorized.

UGI Utilities, Inc.
(Registrant)

Date: May 8, 2018

By: /s/ Daniel J. Platt
Daniel J. Platt
Vice President - Finance and
Chief Financial Officer

Date: May 8, 2018

By: /s/ Megan Mattern
Megan Mattern
Controller & Principal Accounting Officer

Exhibit 10.1

UGI, Utilities, and AmeriGas Employees

# UGI CORPORATION
# 2013 OMNIBUS INCENTIVE COMPENSATION PLAN
# NONQUALIFIED STOCK OPTION GRANT LETTER

This STOCK OPTION GRANT, dated January 1, 2018 (the "Date of Grant"), is delivered by UGI Corporation ("UGI") to you (the "Participant").

## RECITALS

The UGI Corporation 2013 Omnibus Incentive Compensation Plan (the "Plan"), provides for the grant of options to purchase shares of common stock of UGI. The Compensation and Management Development Committee of the Board of Directors of UGI (the "Committee") has decided to make a stock option grant to the Participant. The Participant's portal in the Morgan Stanley website for Plan participants (the "Grant Summary") sets forth the number of shares subject to the Option granted to the Participant in this grant.

NOW, THEREFORE, the parties to this Grant Letter, intending to be legally bound hereby, agree as follows:

1. Grant of Option. Subject to the terms and conditions set forth in this Grant Letter and in the Plan, the Committee hereby grants to the Participant a nonqualified stock option (the "Option") to purchase the number of shares of common stock of UGI ("Shares") specified in the Grant Summary at an exercise price of $46.95 per Share. The Option shall become exercisable according to Section 2 below.

2. Exercisability of Option. The Option shall become exercisable on the following dates, if the Participant is employed by, or providing service to, the Company (as defined below) on the applicable date:

| Date | Shares for Which the Option is Exercisable |
|---|---|
| January 1, 2019 | 33⅓% |
| January 1, 2020 | 33⅓% |
| January 1, 2021 | 33⅓% |

The exercisability of the Option is cumulative, but shall not exceed 100% of the Shares subject to the Option. If the foregoing schedule would produce fractional Shares, the number of Shares for which the Option becomes exercisable shall be rounded down to the nearest whole Share.

3. Term of Option.

(a) The Option shall have a term of ten years from the Date of Grant and shall terminate at the expiration of that period (5:00 p.m. EST on December 31, 2027), unless it is terminated at an earlier date pursuant to the provisions of this Grant Letter or the Plan.

(b) If the Participant ceases to be employed by, or provide service to, the Company, the Option will terminate on the date the Participant ceases such employment or service. However, if the Participant ceases to be employed by, or provide service to, the Company by reason of one of the following events, the Option held by the Participant will thereafter be exercisable pursuant to the following terms:

(i) *Termination without Cause*. If the Participant terminates employment or service on account of a Termination without Cause, the Option will thereafter be exercisable only with respect to that number of Shares with respect to which the Option is already exercisable on the date the Participant's employment or service terminates, except as provided in subsection (v) below. Such portion of the Option will terminate upon the earlier of the expiration date of the Option or the expiration of the 13-month period commencing on the date the Participant ceases to be employed by, or provide service to, the Company.

(ii) *Retirement*. If the Participant ceases to be employed by, or provide service to, the Company on account of Retirement on or after the date that is six months following the Date of Grant, the Option will thereafter become exercisable as if the Participant had continued to be employed by, or provide service to, the Company after the date of such Retirement. In this case, the Option will terminate upon the expiration date of the Option. However, if the Participant ceases to be employed by, or provide service to, the Company on account of Retirement within six months following the Date of Grant, the Option will terminate on the date of such termination of employment or service.

(iii) *Disability*. If the Participant ceases to be employed by, or provide service to, the Company on account of Disability, the Option will thereafter become exercisable as if the Participant had continued to provide service to the Company for 36 months after the date of such termination of employment or service. The Option will terminate upon the earlier of the expiration date of the Option or the expiration of such 36-month period.

(iv) *Death*. In the event of the death of the Participant while employed by, or providing service to, the Company, the Option will be fully and immediately exercisable and may be exercised at any time prior to the earlier of the expiration date of the Option or the expiration of the 12-month period following the Participant's death. Death of the Participant after the Participant has ceased to be employed by, or provide service to, the Company will not affect the otherwise applicable period for exercise of the Option determined pursuant to subsections (i), (ii), (iii) or (v). After the Participant's death, the Participant's Option may be exercised by the Participant's estate.

(v) *Termination without Cause or Good Reason Termination upon or within two years after a Change of Control.* Notwithstanding the foregoing, if the Participant's employment or service terminates on account of a Termination without Cause or a Good Reason Termination upon or within two years after a Change of Control, the Option will be fully and immediately exercisable. The Option will terminate upon the earlier of the expiration date of the Option or the expiration of the 13-month period commencing on the date the Participant ceases to be employed by, or provide service to, the Company; provided that if the Participant is eligible for Retirement at the date of such termination of employment, the Option will terminate on the expiration date of the Option.

4. Exercise Procedures.

(a) Subject to the provisions of Sections 2 and 3 above, the Participant may exercise part or all of the exercisable Option through the Morgan Stanley website for Plan participants. Payment of the exercise price and any applicable withholding taxes must be made prior to issuance of the Shares. The Participant shall pay the exercise price (i) in cash, (ii) by "net exercise," which is the surrender of shares for which the Option is exercisable to the Company in exchange for a distribution of Shares equal to the amount by which the then fair market value of the Shares subject to the exercised Option exceeds the applicable Option Price, (iii) by payment through a broker in accordance with procedures acceptable to the Committee and permitted by Regulation T of the Federal Reserve Board or (iv) by such other method as the Committee may approve. The Committee may impose such limitations as it deems appropriate on the use of Shares to exercise the Option.

(b) The obligation of UGI to deliver Shares upon exercise of the Option shall be subject to all applicable laws, rules, and regulations and such approvals by governmental agencies as may be deemed appropriate by the Committee, including such actions as UGI's counsel shall deem necessary or appropriate to comply with relevant securities laws and regulations. UGI may require that the Participant (or other person exercising the Option after the Participant's death) represent that the Participant is purchasing Shares for the Participant's own account and not with a view to or for sale in connection with any distribution of the Shares, or such other representation as UGI deems appropriate.

(c) All obligations of UGI under this Grant Letter shall be subject to the rights of the Company as set forth in the Plan to withhold amounts required to be withheld for any taxes, if applicable.

5. Restrictive Covenants.

(a) The Participant acknowledges and agrees that, in consideration for the grant of the Option the Participant agrees to comply with all written restrictive covenants and agreements with the Company, including non-competition, non-solicitation and confidentiality covenants (collectively, the "Restrictive Covenants").

(b) The Participant acknowledges and agrees that in the event the Participant breaches any of the Restrictive Covenants:

(i) The Committee may in its discretion determine that the Participant shall forfeit the outstanding Option (without regard to whether any portion of the Option has vested), and the outstanding Option shall immediately terminate; and

(ii) If the Participant breaches any of the Restrictive Covenants within 12 months following receipt of any shares of Common Stock upon exercise of the Option, the Committee may in its discretion require the Participant to return to the Company any such shares of Common Stock, net of the exercise price paid by the Participant; provided, that if the Participant has disposed of any such shares of Common Stock received upon exercise of the Option, then the Committee may require the Participant to pay to the Company, in cash, the fair market value of such shares of Common Stock as of the date of disposition, net of the exercise price paid by the Participant upon exercise of the Option.

6. Definitions. Whenever used in this Grant Letter, the following terms shall have the meanings set forth below:

(a) "*Change of Control*" shall mean a Change of Control of UGI as defined in the Plan. In addition, "Change of Control" shall include (i) any of the events with respect to UGI Utilities, Inc. ("Utilities") defined as a "Change of Control" on Exhibit A hereto to the extent that the Participant is employed by Utilities or a subsidiary of Utilities as of the date of the occurrence of such event, and (ii) any of the events with respect to AmeriGas Propane, Inc. ("AmeriGas") defined as a "Change of Control" on Exhibit B hereto to the extent that the Participant is employed by AmeriGas as of the date of the occurrence of such event.

(b) "*Company*" means UGI and its Subsidiaries (as defined in the Plan).

(c) "*Disability*" means a long-term disability as defined in the Company's long-term disability plan applicable to the Participant.

(d) "*Employed by, or provide service to, the Company*" shall mean employment or service as an employee or director of the Company.

(e) "*Good Reason Termination*" shall mean a termination of employment or service initiated by the Participant upon or within two years after a Change of Control upon one or more of the following occurrences:

(i) a material diminution in the authority, duties or responsibilities held by the Participant immediately prior to the Change of Control;

(ii) a material diminution in the Participant's base salary as in effect immediately prior to the Change of Control; or

(iii) a material change in the geographic location at which the Participant must perform services (which, for purposes of this Grant Letter, means the Participant is required to report, other than on a temporary basis (less than 12 months), to a location which is more than 50 miles from the Participant's principal place of business

immediately preceding the Change of Control, without the Participant's express written consent).

Notwithstanding the foregoing, the Participant shall be considered to have a Good Reason Termination only if the Participant provides written notice to the Company, pursuant to Section 14, specifying in reasonable detail the events or conditions upon which the Participant is basing such Good Reason Termination and the Participant provides such notice within 90 days after the event that gives rise to the Good Reason Termination. Within 30 days after notice has been provided, the Company shall have the opportunity, but shall have no obligation, to cure such events or conditions that give rise to the Good Reason Termination. If the Company does not cure such events or conditions within the 30-day period, the Participant may terminate employment or service with the Company based on Good Reason Termination within 30 days after the expiration of the cure period.

Notwithstanding the foregoing, if the Participant has in effect a Change in Control Agreement with the Company or an Affiliate, the term "Good Reason Termination" shall have the meaning given that term in the Change in Control Agreement.

(f) "*Retirement*" means the Participant's retirement under the Retirement Income Plan for Employees of UGI Utilities, Inc., if the Participant is covered by that Retirement Income Plan. "Retirement" for other Company employees means termination of employment or service after attaining (i) age 55 with ten or more years of service with the Company or (ii) age 65 with five or more years of service with the Company.

(g) "*Termination without Cause*" means termination of employment or service by the Company for the convenience of the Company for any reason other than (i) theft or misappropriation of funds or conduct that has an adverse effect on the reputation of the Company, (ii) conviction of a felony or a crime involving moral turpitude, (iii) material breach of the Company's written code of conduct, or other material written employment policies, applicable to the Participant, (iv) breach of any written confidentiality, non-competition or non-solicitation covenant between the Participant and the Company, (v) gross misconduct in the performance of duties, or (vi) intentional refusal or failure to perform the material duties of the Participant's position.

7. Change of Control. If a Change of Control occurs, the Committee may take such actions with respect to the Option as it deems appropriate pursuant to the Plan. The Option shall not automatically become exercisable upon a Change of Control but, instead, shall become exercisable as described in Sections 2 and 3 above.

8. Restrictions on Exercise. Except as the Committee may otherwise permit pursuant to the Plan, only the Participant may exercise the Option during the Participant's lifetime and, after the Participant's death, the Option shall be exercisable by the Participant's estate, to the extent that the Option is exercisable pursuant to this Grant Letter.

9. Grant Subject to Plan Provisions and Company Policies.

(a) This grant is made pursuant to the Plan, which is incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. The grant and exercise of the Option are subject to interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (i) the registration, qualification or listing of the Shares, (ii) changes in capitalization of the Company and (iii) other requirements of applicable law. The Committee shall have the authority to interpret and construe the Option pursuant to the terms of the Plan, and its decisions shall be conclusive as to any questions arising hereunder.

(b) All Shares issued pursuant to this Option grant shall be subject to the UGI Corporation Stock Ownership Policy. This Option grant and all Shares issued pursuant to this Option grant shall be subject to any applicable clawback and other policies implemented by the Board of Directors of UGI, as in effect from time to time.

10. No Employment or Other Rights. The grant of the Option shall not confer upon the Participant any right to be retained by or in the employ or service of the Company and shall not interfere in any way with the right of the Company to terminate the Participant's employment or service at any time. The right of the Company to terminate at will the Participant's employment or service at any time for any reason is specifically reserved.

11. No Shareholder Rights. Neither the Participant, nor any person entitled to exercise the Participant's rights in the event of the Participant's death, shall have any of the rights and privileges of a shareholder with respect to the Shares subject to the Option, until certificates for Shares have been issued upon the exercise of the Option.

12. Assignment and Transfers. The rights and interests of the Participant under this Grant Letter may not be sold, assigned, encumbered or otherwise transferred except, in the event of the death of the Participant, by will or by the laws of descent and distribution. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company and to the Company's parents, subsidiaries, and affiliates.

13. Applicable Law. The validity, construction, interpretation and effect of this instrument shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania, without giving effect to the conflicts of laws provisions thereof.

14. Notice. Any notice to UGI provided for in this instrument shall be addressed to UGI in care of the Corporate Secretary at UGI's headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll of the Company, or to such other address as the Participant may designate to the Company in writing. Any notice shall be delivered by hand, sent by telecopy or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

15. Acceptance. By accepting this grant through the Morgan Stanley on-line system, the Participant (i) acknowledges receipt of the Plan incorporated herein, (ii) acknowledges that he or

she has read the Grant Summary and Grant Letter and understands the terms and conditions of them, (iii) accepts the Option described in the Grant Letter, (iv) agrees to be bound by the terms of the Plan, including the Grant Letter, and (v) agrees that all the decisions and determinations of the Board or the Committee shall be final and binding on the Participant and any other person having or claiming a right under this Grant.

* * *

EXHIBIT A

Change of Control with Respect to Utilities

For purposes of this Grant Letter, each of the following events shall constitute a “Change of Control” for Participants who are employees of UGI Utilities, Inc. (“Utilities”) or a subsidiary of Utilities as of the date of the occurrence of such event. Unless otherwise defined herein, capitalized terms are used as defined in the Plan (including, without limitation, Exhibit A thereto).

“Change of Control” shall include any of the following events:

(A) UGI and the UGI Subsidiaries fail to own more than fifty percent (50%) of the then outstanding shares of common stock of Utilities or more than fifty percent (50%) of the combined voting power of the then outstanding voting securities of Utilities entitled to vote generally in the election of directors; or

(B) Completion by Utilities of a reorganization, merger or consolidation (a “Business Combination”), in each case, with respect to which all or substantially all of the individuals and entities who were the respective Beneficial Owners of Utilities’ outstanding common stock and voting securities immediately prior to such Business Combination do not, following such Business Combination, Beneficially Own, directly or indirectly, more than fifty percent (50%) of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination in substantially the same proportion as their ownership immediately prior to such Business Combination of Utilities’ outstanding common stock and voting securities, as the case may be; or

(C) Completion of a complete liquidation or dissolution of the Utilities or sale or other disposition of all or substantially all of the assets of Utilities other than to a corporation with respect to which, following such sale or disposition, more than fifty percent (50%) of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors is then owned beneficially, directly or indirectly, by all or substantially all of the individuals and entities who were the Beneficial Owners, respectively, of Utilities’ outstanding common stock and voting securities immediately prior to such sale or disposition in substantially the same proportion as their ownership of Utilities’ outstanding common stock and voting securities, as the case may be, immediately prior to such sale or disposition.

EXHIBIT B

Change of Control with Respect to AmeriGas

For purposes of this Grant Letter, each of the following events shall constitute a “Change of Control” for Participants who are employees of AmeriGas Propane, Inc. (“AmeriGas”) as of the date of the occurrence of such event. Unless otherwise defined herein, capitalized terms are used as defined in the Plan (including, without limitation, Exhibit A thereto).

“Change of Control” shall include any of the following events:

(A) Completion by AmeriGas, the “Public Partnership” or the “Operating Partnership” (as defined in the AmeriGas Propane, Inc. 2010 Long-Term Incentive Plan on behalf of AmeriGas Partners, L.P., including, without limitation, Exhibit A thereto) of a reorganization, merger or consolidation (a “Propane Business Combination”), in each case, with respect to which all or substantially all of the individuals and entities who were the respective Beneficial Owners of the AmeriGas voting securities or of the outstanding units of AmeriGas Partners, L.P. (“Outstanding Units”) immediately prior to such Propane Business Combination do not, following such Propane Business Combination, Beneficially Own, directly or indirectly, (a) if the entity resulting from such Propane Business Combination is a corporation, more than fifty percent (50%) of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of such corporation in substantially the same proportion as their ownership immediately prior to such Combination of the AmeriGas’ voting securities or the Outstanding Units, as the case may be, or, (b) if the entity resulting from such Propane Business Combination is a partnership, more than fifty percent (50%) of the then outstanding common units of such partnership in substantially the same proportion as their ownership immediately prior to such Propane Business Combination of AmeriGas’ voting securities or the Outstanding Units, as the case may be; or

(B) (a) Completion of a complete liquidation or dissolution of AmeriGas, the Public Partnership or the Operating Partnership or (b) sale or other disposition of all or substantially all of the assets of AmeriGas, the Public Partnership or the Operating Partnership other than to an entity with respect to which, following such sale or disposition, (I) if such entity is a corporation, more than fifty percent (50%) of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors is then owned beneficially, directly or indirectly, by all or substantially all of the individuals and entities who were the Beneficial Owners, respectively, of AmeriGas’ voting securities or of the Outstanding Units, as the case may be, immediately prior to such sale or disposition in substantially the same proportion as their ownership of AmeriGas’ voting securities or of the Outstanding Units, as the case may be, immediately prior to such sale or disposition, or, (II) if such entity is a partnership, more than fifty percent (50%) of the then outstanding common units is then owned beneficially, directly or indirectly, by all or substantially all of the individuals and entities who were the Beneficial Owners, respectively, of

AmeriGas' voting securities or of the Outstanding Units, as the case may be, immediately prior to such sale or disposition in substantially the same proportion as their ownership of AmeriGas' voting securities or of the Outstanding Units immediately prior to such sale or disposition; or

(C) UGI and the UGI Subsidiaries fail to own more than fifty percent (50%) of the then outstanding general partnership interests of the Public Partnership or the Operating Partnership; or

(D) UGI and the UGI Subsidiaries fail to own more than fifty percent (50%) of the then outstanding shares of common stock of AmeriGas or more than fifty percent (50%) of the combined voting power of the then outstanding voting securities of AmeriGas entitled to vote generally in the election of directors; or

(E) AmeriGas is removed as the general partner of the Public Partnership by vote of the limited partners of the Public Partnership, or is removed as the general partner of the Public Partnership or the Operating Partnership as a result of judicial or administrative proceedings involving AmeriGas, the Public Partnership or the Operating Partnership.

January 2018 grant document
UGI and Utilities Employees

# UGI CORPORATION
# 2013 OMNIBUS INCENTIVE COMPENSATION PLAN
# PERFORMANCE UNIT GRANT LETTER

This PERFORMANCE UNIT GRANT, dated January 1, 2018 (the "Date of Grant"), is delivered by UGI Corporation ("UGI") to you (the "Participant").

## RECITALS

The UGI Corporation 2013 Omnibus Incentive Compensation Plan (the "Plan") provides for the grant of performance units ("Performance Units") with respect to shares of common stock of UGI ("Shares"). The Compensation and Management Development Committee of the Board of Directors of UGI (the "Committee") has decided to grant Performance Units to the Participant. The Participant's portal in the Morgan Stanley website for Plan participants (the "Grant Summary") sets forth the number of Performance Units granted to the Participant with respect to this grant.

NOW, THEREFORE, the parties to this Grant Letter, intending to be legally bound hereby, agree as follows:

1. Grant of Performance Units. Subject to the terms and conditions set forth in this Grant Letter and in the Plan, the Committee hereby grants to the Participant a target award of the number of Performance Units specified in the Grant Summary (the "Target Award"). The Performance Units are contingently awarded and will be earned and payable if and to the extent that the Performance Goals (defined below) and other conditions of the Grant Letter are met. The Performance Units are granted with Dividend Equivalents (as defined in Section 8).

2. Performance Goals.

(a) The Participant shall earn the right to payment of the Performance Units if the Performance Goals are met for the Performance Period, and if the Participant continues to be employed by, or provide service to, the Company (as defined in Section 8) through December 31, 2020. The Performance Period is the period beginning January 1, 2018 and ending December 31, 2020. The Total Shareholder Return ("TSR") goals and other requirements of this Section 2 are referred to as the "Performance Goals."

(b) The Target Award level of Performance Units and Dividend Equivalents will be payable if UGI's TSR equals the median TSR of the comparison group designated by the Committee (the "Peer Group") for the Performance Period. The Peer Group is the group of companies that comprises the Russell Midcap Utilities Index, excluding telecommunications companies and UGI, as of the beginning of the Performance Period, as set forth on the attached Exhibit A, and as described herein. If a company is added to the Russell Midcap Utilities Index during the Performance Period, that company is not included in the TSR calculation. A company

that is included in the Russell Midcap Utilities Index at the beginning of the Performance Period will be removed from the TSR calculation only if the company ceases to exist as a publicly traded company during the Performance Period (including by way of a merger or similar transaction in which the company is not the surviving company), consistent with the methodology described in subsection (c) below. Companies that are designated at the beginning of the Performance Period as telecommunications companies in the Russell Midcap Utilities Index shall be excluded from the TSR calculation. The actual amount of the award of Performance Units may be higher or lower than the Target Award, or it may be zero, based on UGI's TSR percentile rank relative to the companies in the Peer Group, as follows:

| UGI's TSR Rank | Percentage of Target Award Earned (Percentile) |
|---|---|
| 90th | 200% |
| 75th | 162.5% |
| 60th | 125% |
| 50th | 100% |
| 40th | 70% |
| 25th | 25% |
| Less than 25th | 0% |

The award percentage earned will be interpolated between each of the measuring points.

(c) TSR shall be calculated by UGI using the comparative returns methodology used by Bloomberg L.P. or its successor at the time of the calculation. The share price used for determining TSR at the beginning and the end of the Performance Period will be the average price for the calendar quarter preceding the beginning of the Performance Period (i.e., the calendar quarter ending on December 31, 2017) and the calendar quarter ending on the last day of the Performance Period (i.e., the calendar quarter ending on December 31, 2020), respectively. The TSR calculation gives effect to all dividends throughout the three-year Performance Period as if they had been reinvested.

(d) The Target Award is the amount designated for 100% (50th TSR rank) performance. The Participant can earn up to 200% of the Target Award if UGI's TSR percentile rank exceeds the 50th TSR percentile rank, according to the foregoing schedule.

(e) At the end of the Performance Period, the Committee will determine whether and to what extent the Performance Goals have been met and the amount to be paid with respect to the Performance Units. Except as described in Sections 3 and 6 below, the Participant must be employed by, or providing service to, the Company on December 31, 2020 in order for the Participant to receive payment with respect to the Performance Units.

3. Termination of Employment or Service.

(a) Except as described below, if the Participant ceases to be employed by, or provide services to, the Company before December 31, 2020, the Performance Units and all Dividend Equivalents credited under this Grant Letter will be forfeited.

(b) If the Participant terminates employment or service on account of Retirement (as defined in Section 8), Disability (as defined in Section 8) or death, the Participant will earn a pro-rata portion of the Participant's outstanding Performance Units and Dividend Equivalents, if the Performance Goals and the requirements of this Grant Letter are met. The prorated portion will be determined as the amount that would otherwise be paid after the end of the Performance Period, based on achievement of the Performance Goals, multiplied by a fraction, the numerator of which is the number of calendar years during the Performance Period in which the Participant has been employed by, or provided service to, the Company and the denominator of which is three. For purposes of the proration calculation, the calendar year in which the Participant's termination of employment or service on account of Retirement, Disability, or death occurs will be counted as a full year.

(c) In the event of termination of employment or service on account of Retirement, Disability or death, the prorated amount shall be paid after the end of the Performance Period, pursuant to Section 4 below, except as provided in Section 6.

4. Payment with Respect to Performance Units. If the Committee determines that the conditions to payment of the Performance Units have been met, the Company shall pay to the Participant (i) Shares equal to the number of Performance Units to be paid according to achievement of the Performance Goals, up to the Target Award, provided that the Company may withhold Shares to cover required tax withholding in an amount equal to the minimum statutory tax withholding requirement in respect of the Performance Units earned up to the Target Award, and (ii) cash in an amount equal to the Fair Market Value (as defined in the Plan) of the number of Shares equal to the Performance Units to be paid in excess of the Target Award, subject to applicable tax withholding. Payment shall be made between January 1, 2021 and March 15, 2021, except as provided in Section 6 below.

5. Dividend Equivalents with Respect to Performance Units.

(a) Dividend Equivalents shall accrue with respect to Performance Units and shall be payable subject to the same Performance Goals and terms as the Performance Units to which they relate. Dividend Equivalents shall be credited with respect to the Target Award of Performance Units from the Date of Grant until the payment date. If and to the extent that the underlying Performance Units are forfeited, all related Dividend Equivalents shall also be forfeited.

(b) While the Performance Units are outstanding, the Company will keep records of Dividend Equivalents in a bookkeeping account for the Participant. On each payment date for a dividend paid by UGI on its common stock, the Company shall credit to the Participant's account an amount equal to the Dividend Equivalents associated with the Target Award of Performance Units held by the Participant on the record date for the dividend. No interest will be credited to any such account.

(c) The target amount of Dividend Equivalents (100% of the Dividend Equivalents credited to the Participant's account) will be earned if UGI's TSR rank is at the 50th TSR percentile rank for the Performance Period. The Participant can earn up to 200% of the target amount of Dividend Equivalents if UGI's TSR percentile rank exceeds the 50th TSR rank, according to the schedule in Section 2 above. Except as described in Section 3(b) above, or Section 6, if the Participant's employment or service with the Company terminates before December 31, 2020, all Dividend Equivalents will be forfeited.

(d) Dividend Equivalents will be paid in cash at the same time as the underlying Performance Units are paid, after the Committee determines that the conditions to payment have been met. Notwithstanding anything in this Grant Letter to the contrary, the Participant may not accrue Dividend Equivalents in excess of $1,000,000 during any calendar year under all grants under the Plan.

6. Change of Control.

(a) If a Change of Control occurs, the Performance Units and Dividend Equivalents shall not automatically become payable upon the Change of Control, but, instead, shall become payable as described in this Section 6. The Committee may take such other actions with respect to the Performance Units and Dividend Equivalents as it deems appropriate pursuant to the Plan. The term "Change of Control" shall mean a Change of Control of UGI as defined in the Plan. In addition, "Change of Control" shall include (i) any of the events with respect to UGI Utilities, Inc. ("Utilities") defined as a "Change of Control" on Exhibit B hereto to the extent that the Participant is employed by Utilities or a subsidiary of Utilities as of the date of the occurrence of such event, and (ii) any of the events with respect to AmeriGas Propane, Inc. ("AmeriGas") defined as a "Change of Control" on Exhibit C hereto to the extent that the Participant is employed by AmeriGas as of the date of the occurrence of such event.

(b) If a Change of Control occurs during the Performance Period, the Committee shall calculate a Change of Control Amount as follows:

(i) The Performance Period shall end as of the closing date of the Change of Control (the "Change of Control Date") and the TSR ending date calculation for the Performance Period shall be based on the 90 calendar day period ending on the Change of Control Date.

(ii) The Committee shall calculate a "Change of Control Amount" equal to the greater of (i) the Target Award amount or (ii) the amount of Performance Units that would be payable based on the Company's achievement of the Performance Goals as of the Change of Control Date, as determined by the Committee. The Change of Control Amount shall include related Dividend Equivalents and, if applicable, interest as described below.

(iii) The Committee shall determine whether the Change of Control Amount attributable to Performance Units shall be (A) converted to units with respect to shares or other equity interests of the acquiring company or its parent ("Successor Units"), in

which case Dividend Equivalents shall continue to be credited on the Successor Units, or (B) valued based on the Fair Market Value of the Performance Units as of the Change of Control Date and credited to a bookkeeping account for the Participant, in which case interest shall be credited on the amount so determined at a market rate for the period between the Change of Control Date and the applicable payment date. Notwithstanding the provisions of Section 4, all payments on and after a Change of Control shall be made in cash. If alternative (A) above is used, the cash payment shall equal the Fair Market Value on the date of payment of the number of shares or other equity interests underlying the Successor Units, plus accrued Dividend Equivalents. All payments shall be subject to applicable tax withholding.

(c) If a Change of Control occurs during the Performance Period and the Participant continues in employment or service through December 31, 2020, the Change of Control Amount shall be paid in cash between January 1, 2021 and March 15, 2021.

(d) If a Change of Control occurs during the Performance Period, and the Participant has a Termination without Cause or a Good Reason Termination upon or within two years after the Change of Control Date and before December 31, 2020, the Change of Control Amount shall be paid in cash within 30 days after the Participant's separation from service, subject to Section 14 below.

(e) If a Change of Control occurs during the Performance Period, and the Participant terminates employment or service on account of Retirement, Disability or death upon or after the Change of Control Date and before December 31, 2020, the Change of Control Amount shall be paid in cash within 30 days after the Participant's separation from service, subject to Section 14 below; provided that, if required by section 409A, if the Participant's Retirement, Disability or death occurs more than two years after the Change of Control Date, payment will be made between January 1, 2021 and March 15, 2021, and not upon the earlier separation from service.

(f) If a Participant's employment or service terminates on account of Retirement, death or Disability before a Change of Control, and a Change of Control subsequently occurs before the end of the Performance Period, the prorated amount in Section 3(b) shall be calculated by multiplying the fraction described in Section 3(b) by the Change of Control Amount. The prorated Change of Control Amount shall be paid in cash within 30 days after the Change of Control Date, subject to Section 14 below.

7. Restrictive Covenants.

(a) The Participant acknowledges and agrees that, in consideration for the grant of Performance Units, the Participant agrees to comply with all written restrictive covenants and agreements with the Company, including non-competition, non-solicitation and confidentiality covenants (collectively, the "Restrictive Covenants").

(b) The Participant acknowledges and agrees that in the event the Participant breaches any of the Restrictive Covenants:

(i) The Committee may in its discretion determine that the Participant shall forfeit the outstanding Performance Units (without regard to whether the Performance Units have vested), and the outstanding Performance Units shall immediately terminate; and

(ii) If the Participant breaches any of the Restrictive Covenants within 12 months following receipt of any shares of Common Stock upon settlement of the Performance Units, the Committee may in its discretion require the Participant to return to the Company any such shares of Common Stock; provided, that if the Participant has disposed of any such shares of Common Stock received upon settlement of the Performance Units, then the Committee may require the Participant to pay to the Company, in cash, the fair market value of such shares of Common Stock as of the date of disposition.

8. Definitions. For purposes of this Grant Letter, the following terms will have the meanings set forth below:

(a) "*Company*" means UGI and its Subsidiaries (as defined in the Plan).

(b) "*Disability*" means a long-term disability as defined in the Company's long-term disability plan applicable to the Participant.

(c) "*Dividend Equivalent*" means an amount determined by multiplying the number of shares of UGI common stock subject to the target award of Performance Units by the per-share cash dividend, or the per-share fair market value of any dividend in consideration other than cash, paid by UGI on its common stock.

(d) "*Employed by, or provide service to, the Company*" shall mean employment or service as an employee or director of the Company. The Participant shall not be considered to have a termination of employment or service under this Grant Letter until the Participant is no longer employed by, or performing services for, the Company.

(e) "*Good Reason Termination*" shall mean a termination of employment or service initiated by the Participant upon or after a Change of Control upon one or more of the following events:

(i) a material diminution in the authority, duties or responsibilities held by the Participant immediately prior to the Change of Control;

(ii) a material diminution in the Participant's base salary as in effect immediately prior to the Change of Control; or

(iii) a material change in the geographic location at which the Participant must perform services (which, for purposes of this Agreement, means the Participant is required to report, other than on a temporary basis (less than 12 months), to a location which is more than 50 miles from the Participant's principal place of business immediately before the Change of Control, without the Participant's express written consent).

Notwithstanding the foregoing, the Participant shall be considered to have a Good Reason Termination only if the Participant provides written notice to the Company, pursuant to Section 16, specifying in reasonable detail the events or conditions upon which the Participant is basing such Good Reason Termination and the Participant provides such notice within 90 days after the event that gives rise to the Good Reason Termination. Within 30 days after notice has been provided, the Company shall have the opportunity, but shall have no obligation, to cure such events or conditions that give rise to the Good Reason Termination. If the Company does not cure such events or conditions within the 30-day period, the Participant may terminate employment or service with the Company based on Good Reason Termination within 30 days after the expiration of the cure period.

Notwithstanding the foregoing, if the Participant has in effect a Change in Control Agreement with the Company or an Affiliate, the term "Good Reason Termination" shall have the meaning given that term in the Change in Control Agreement.

(f) "*Performance Unit*" means a hypothetical unit that represents the value of one share of UGI common stock.

(g) *Retirement*" means the Participant's retirement under the Retirement Income Plan for Employees of UGI Utilities, Inc., if the Participant is covered by that Retirement Income Plan. "Retirement" for other Company employees means termination of employment or service after attaining (i) age 55 with ten or more years of service with the Company or (ii) age 65 with five or more years of service with the Company.

(h) "*Termination without Cause*" means termination of employment or service by the Company for the convenience of the Company for any reason other than (i) theft or misappropriation of funds or conduct that has an adverse effect on the reputation of the Company, (ii) conviction of a felony or a crime involving moral turpitude, (iii) material breach of the Company's written code of conduct, or other material written employment policies, applicable to the Participant, (iv) breach of any written confidentiality, non-competition or non-solicitation covenant between the Participant and the Company, (v) gross misconduct in the performance of duties, or (vi) intentional refusal or failure to perform the material duties of the Participant's position.

9. Withholding. All payments under this Grant Letter are subject to applicable tax withholding. The Participant shall be required to pay to the Company, or make other arrangements satisfactory to the Company to provide for the payment of, any federal (including FICA), state, local or other taxes that the Company is required to withhold with respect to the payments under this Grant Letter. The Company may withhold from cash distributions to cover required tax withholding, or may withhold Shares to cover required tax withholding in an amount equal to the minimum applicable tax withholding amount.

10. Grant Subject to Plan Provisions and Company Policies.

(a) This grant is made pursuant to the Plan, which is incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. The grant and

payment of Performance Units and Dividend Equivalents are subject to interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (i) the registration, qualification or listing of the Shares, (ii) adjustments pursuant to Section 5(d) of the Plan, and (iii) other requirements of applicable law. The Committee shall have the authority to interpret and construe the grant pursuant to the terms of the Plan, and its decisions shall be conclusive as to any questions arising hereunder.

(b) This Performance Unit grant and Shares issued pursuant to this Performance Unit grant shall be subject to the UGI Corporation Stock Ownership Policy as adopted by the Board of Directors of UGI and any applicable clawback and other policies implemented by the Board of Directors of UGI, as in effect from time to time.

11. No Employment or Other Rights. The grant of Performance Units shall not confer upon the Participant any right to be retained by or in the employ or service of the Company and shall not interfere in any way with the right of the Company to terminate the Participant's employment or service at any time. The right of the Company to terminate at will the Participant's employment or service at any time for any reason is specifically reserved.

12. No Shareholder Rights. Neither the Participant, nor any person entitled to receive payment in the event of the Participant's death, shall have any of the rights and privileges of a shareholder with respect to the Shares related to the Performance Units, unless and until certificates for Shares have been distributed to the Participant or successor.

13. Assignment and Transfers. The rights and interests of the Participant under this Grant Letter may not be sold, assigned, encumbered or otherwise transferred except, in the event of the death of the Participant, by will or by the laws of descent and distribution. If the Participant dies, any payments to be made under this Grant Letter after the Participant's death shall be paid to the Participant's estate. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company and to the Company's parents, subsidiaries, and affiliates.

14. Compliance with Code Section 409A. Notwithstanding the other provisions hereof, this Grant Letter is intended to comply with the requirements of section 409A of the Internal Revenue Code of 1986, as amended, or an exception, and shall be administered accordingly. Any reference to a Participant's termination of employment shall mean a Participant's "separation from service," as such term is defined under section 409A. For purposes of section 409A, each payment of compensation under this Grant Letter shall be treated as a separate payment. Notwithstanding anything in this Grant Letter to the contrary, if the Participant is a "key employee" under section 409A and if payment of any amount under this Grant Letter is required to be delayed for a period of six months after separation from service pursuant to section 409A, payment of such amount shall be delayed as required by section 409A and shall be paid within 10 days after the end of the six-month period. If the Participant dies during such six-month period, the amounts withheld on account of section 409A shall be paid to the personal representative of the Participant's estate within 60 days after the date of the Participant's death. Notwithstanding anything in this Grant Letter to the contrary, if a Change of Control is not a "change in control event" under section 409A, any Performance Units and Dividend Equivalents

that are payable pursuant to Section 6 shall be paid to the Participant between January 1, 2021 and March 15, 2021, and not upon the earlier separation from service, if required by section 409A.

15. Applicable Law. The validity, construction, interpretation and effect of this Grant Letter shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania, without giving effect to the conflicts of laws provisions thereof.

16. Notice. Any notice to UGI provided for in this Grant Letter shall be addressed to UGI in care of the Corporate Secretary at UGI's headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll of the Company, or to such other address as the Participant may designate to the Company in writing. Any notice shall be delivered by hand, sent by telecopy or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

17. Acceptance. By accepting this grant through the Morgan Stanley on-line system, the Participant (i) acknowledges receipt of the Plan incorporated herein, (ii) acknowledges that he or she has read the Grant Summary and Grant Letter and understands the terms and conditions of them, (iii) accepts the Performance Units described in the Grant Letter, (iv) agrees to be bound by the terms of the Plan, including the Grant Letter, and (v) agrees that all the decisions and determinations of the Board or the Committee shall be final and binding on the Participant and any other person having or claiming a right under this Grant.

* * *

EXHIBIT A

UGI CORPORATION
PERFORMANCE UNIT PEER GROUP

RUSSELL MIDCAP UTILITIES
(EXCLUDING TELECOMS)
as of 1/1/2018

Alliant Energy Corporation (LNT)

Ameren Corporation (AEE)

American Water Works Company, Inc. (AWK)

Aqua America, Inc. (WTR)

Atmos Energy Corporation (ATO)

Avangrid, Inc. (AGR)

Calpine Corporation (CPN)

CenterPoint Energy, Inc. (CNP)

CMS Energy Corporation (CMS)

Consolidated Edison, Inc. (ED)

DTE Energy Company (DTE)

Edison International (EIX)

Entergy Corporation (ETR)

Eversource Energy (ES)

FirstEnergy Corp. (FE)

Great Plains Energy Incorporated (GXP)

Hawaiian Electric Industries, Inc. (HE)

MDU Resources Group, Inc. (MDU)

National Fuel Gas Company (NFG)

NiSource Inc (NI)

NRG Energy, Inc. (NRG)

OGE Energy Corp. (OGE)

Pinnacle West Capital Corporation (PNW)

PPL Corporation (PPL)

Public Service Enterprise Group Incorporated (PEG)

SCANA Corporation (SCG)

Sempra Energy (SRE)

The AES Corporation (AES)

Vectren Corp (VVC)

Vistra Energy Corporation (VST)

WEC Energy Group, Inc. (WEC)

Westar Energy, Inc. (WR)

Xcel Energy Inc. (XEL)

EXHIBIT B

Change of Control with Respect to Utilities

For purposes of this Grant Letter, each of the following events shall constitute a “Change of Control” for Participants who are employees of UGI Utilities, Inc. (“Utilities”) or a subsidiary of Utilities as of the date of the occurrence of such event. Unless otherwise defined herein, capitalized terms are used as defined in the Plan (including, without limitation, Exhibit A thereto).

“Change of Control” shall include any of the following events:

(A) UGI and the UGI Subsidiaries fail to own more than fifty percent (50%) of the then outstanding shares of common stock of Utilities or more than fifty percent (50%) of the combined voting power of the then outstanding voting securities of Utilities entitled to vote generally in the election of directors; or

(B) Completion by Utilities of a reorganization, merger or consolidation (a “Business Combination”), in each case, with respect to which all or substantially all of the individuals and entities who were the respective Beneficial Owners of Utilities’ outstanding common stock and voting securities immediately prior to such Business Combination do not, following such Business Combination, Beneficially Own, directly or indirectly, more than fifty percent (50%) of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination in substantially the same proportion as their ownership immediately prior to such Business Combination of Utilities’ outstanding common stock and voting securities, as the case may be; or

(C) Completion of a complete liquidation or dissolution of the Utilities or sale or other disposition of all or substantially all of the assets of Utilities other than to a corporation with respect to which, following such sale or disposition, more than fifty percent (50%) of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors is then owned beneficially, directly or indirectly, by all or substantially all of the individuals and entities who were the Beneficial Owners, respectively, of Utilities’ outstanding common stock and voting securities immediately prior to such sale or disposition in substantially the same proportion as their ownership of Utilities’ outstanding common stock and voting securities, as the case may be, immediately prior to such sale or disposition.

EXHIBIT C

Change of Control with Respect to AmeriGas

For purposes of this Grant Letter, each of the following events shall constitute a “Change of Control” for Participants who are employees of AmeriGas Propane, Inc. (“AmeriGas”) as of the date of the occurrence of such event. Unless otherwise defined herein, capitalized terms are used as defined in the Plan (including, without limitation, Exhibit A thereto).

“Change of Control” shall include any of the following events:

(A) Completion by AmeriGas, the “Public Partnership” or the “Operating Partnership” (as defined in the AmeriGas Propane, Inc. 2010 Long-Term Incentive Plan on behalf of AmeriGas Partners, L.P., including, without limitation, Exhibit A thereto) of a reorganization, merger or consolidation (a “Propane Business Combination”), in each case, with respect to which all or substantially all of the individuals and entities who were the respective Beneficial Owners of the AmeriGas voting securities or of the outstanding units of AmeriGas Partners, L.P. (“Outstanding Units”) immediately prior to such Propane Business Combination do not, following such Propane Business Combination, Beneficially Own, directly or indirectly, (a) if the entity resulting from such Propane Business Combination is a corporation, more than fifty percent (50%) of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of such corporation in substantially the same proportion as their ownership immediately prior to such Combination of the AmeriGas’ voting securities or the Outstanding Units, as the case may be, or, (b) if the entity resulting from such Propane Business Combination is a partnership, more than fifty percent (50%) of the then outstanding common units of such partnership in substantially the same proportion as their ownership immediately prior to such Propane Business Combination of AmeriGas’ voting securities or the Outstanding Units, as the case may be; or

(B) (a) Completion of a complete liquidation or dissolution of AmeriGas, the Public Partnership or the Operating Partnership or (b) sale or other disposition of all or substantially all of the assets of AmeriGas, the Public Partnership or the Operating Partnership other than to an entity with respect to which, following such sale or disposition, (I) if such entity is a corporation, more than fifty percent (50%) of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors is then owned beneficially, directly or indirectly, by all or substantially all of the individuals and entities who were the Beneficial Owners, respectively, of AmeriGas’ voting securities or of the Outstanding Units, as the case may be, immediately prior to such sale or disposition in substantially the same proportion as their ownership of AmeriGas’ voting securities or of the Outstanding Units, as the case may be, immediately prior to such sale or disposition, or, (II) if such entity is a partnership, more than fifty percent (50%) of the then outstanding common units is then owned beneficially, directly or indirectly, by all or substantially all of the individuals and entities who were the Beneficial Owners, respectively, of

AmeriGas' voting securities or of the Outstanding Units, as the case may be, immediately prior to such sale or disposition in substantially the same proportion as their ownership of AmeriGas' voting securities or of the Outstanding Units immediately prior to such sale or disposition; or

(C) UGI and the UGI Subsidiaries fail to own more than fifty percent (50%) of the then outstanding general partnership interests of the Public Partnership or the Operating Partnership; or

(D) UGI and the UGI Subsidiaries fail to own more than fifty percent (50%) of the then outstanding shares of common stock of AmeriGas or more than fifty percent (50%) of the combined voting power of the then outstanding voting securities of AmeriGas entitled to vote generally in the election of directors; or

(E) AmeriGas is removed as the general partner of the Public Partnership by vote of the limited partners of the Public Partnership, or is removed as the general partner of the Public Partnership or the Operating Partnership as a result of judicial or administrative proceedings involving AmeriGas, the Public Partnership or the Operating Partnership.

**UGI UTILITIES, INC.**
**COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES - EXHIBIT 12.1**
**(Thousands of dollars)**

| | Six Months Ended March 31, | Year Ended September 30, | | | |
|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| **Earnings:** | | | | | |
| Earnings before income taxes | $ 209,392 | $ 188,095 | $ 163,271 | $ 200,539 | $ 207,929 |
| Interest expense | 21,813 | 39,831 | 37,285 | 40,400 | 37,897 |
| Amortization of debt discount and expense | 217 | 381 | 345 | 728 | 575 |
| Estimated interest component of rental expense | 1,147 | 2,373 | 2,512 | 2,728 | 2,398 |
| | $ 232,569 | $ 230,680 | $ 203,413 | $ 244,395 | $ 248,799 |
| | | | | | |
| **Fixed Charges:** | | | | | |
| Interest expense | $ 21,813 | $ 39,831 | $ 37,285 | $ 40,400 | $ 37,897 |
| Amortization of debt discount and expense | 217 | 381 | 345 | 728 | 575 |
| Allowance for funds used during construction (capitalized interest) | 525 | 1,608 | 602 | 407 | 227 |
| Estimated interest component of rental expense | 1,147 | 2,373 | 2,512 | 2,728 | 2,398 |
| | $ 23,702 | $ 44,193 | $ 40,744 | $ 44,263 | $ 41,097 |
| | | | | | |
| Ratio of earnings to fixed charges | 9.81 | 5.22 | 4.99 | 5.52 | 6.05 |

**EXHIBIT 31.1**

**CERTIFICATION**

I, Robert F. Beard, certify that:

1. I have reviewed this periodic report on Form 10-Q of UGI Utilities, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2018

/s/ Robert F. Beard

Robert F. Beard
President and Chief Executive Officer

**EXHIBIT 31.2**

**CERTIFICATION**

I, Daniel J. Platt, certify that:

1. I have reviewed this periodic report on Form 10-Q of UGI Utilities, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2018

/s/ Daniel J. Platt

Daniel J. Platt

Vice President - Finance and Chief
Financial Officer

**EXHIBIT 32**

**Certification by the Chief Executive Officer and Chief Financial Officer**

**Relating to a Periodic Report Containing Financial Statements**

I, Robert F. Beard, Chief Executive Officer, and I, Daniel J. Platt, Chief Financial Officer, of UGI Utilities, Inc., a Pennsylvania corporation (the "Company"), hereby certify that to our knowledge:

(1) The Company's periodic report on Form 10-Q for the period ended March 31, 2018 (the "Form 10-Q") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

| CHIEF EXECUTIVE OFFICER | CHIEF FINANCIAL OFFICER |
|---|---|
| /s/ Robert F. Beard | /s/ Daniel J. Platt |
| Robert F. Beard | Daniel J. Platt |
| Date: May 8, 2018 | Date: May 8, 2018 |