UGI ENERGY SERVICES, LLC
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
and MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
for the years ended September 30, 2021 and 2020

UGI ENERGY SERVICES, LLC AND SUBSIDIARIES

TABLE OF CONTENTS

UGI ENERGY SERVICES, LLC AND SUBSIDIARIES

GLOSSARY OF TERMS AND ABBREVIATIONS

Terms and abbreviations used in this document are defined below:

UGI Energy Services and Related Entities

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

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

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

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

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

GHI - GHI Energy, LLC, a Houston-based renewable natural gas company and indirect wholly owned subsidiary of Energy Services

***Pennant* -** Pennant Midstream, LLC, a Delaware limited liability company

***PennEast* -** PennEast Pipeline Company, LLC

Pine Run - Pine Run Gathering, LLC

UGI - UGI Corporation

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

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

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

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

Other Terms and Abbreviations

***AFUDC* -** Allowance for Funds Used During Construction

***AOCI* -** Accumulated Other Comprehensive Income (Loss)

***ARO* -** Asset Retirement Obligation

***ASC* -** Accounting Standards Codification

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

ASC 740 - ASC 740, "Income Taxes"

ASC 820 - ASC 820, "Fair Value Measurement"

ASC 980 - ASC 980, "Regulated Operations"

***ASU* -** Accounting Standards Update

CARES Act - Coronavirus Aid, Relief, and Economic Security Act

CDC - Centers for Disease Control and Prevention

***CMG* -** Columbia Midstream Group, LLC

***CMG Acquisition* -** Acquisition of CMG and Columbia Pennant, LLC on August 1, 2019 pursuant to the CMG Acquisition Agreements

CMG Acquisition Agreements - Agreements related to the CMG Acquisition comprising (1) a purchase and sale agreement related to the CMG acquisition, dated July 2, 2019, by and among Columbia Midstream & Minerals Group, LLC, Energy Services, UGI and TransCanada PipeLine USA Ltd., and (2) a purchase and sale agreement related to the Colombia Pennant, LLC acquisition, dated July 2, 2019, by and among Columbia Midstream & Minerals Group, LLC, Energy Services, and TransCanada PipeLine USA Ltd.

Conemaugh - Conemaugh generation station, a 1,711-megawatt, coal-fired electricity generation station located near Johnstown, Pennsylvania

COVID-19 - A novel strain of coronavirus disease discovered in 2019

Energy Services Credit Agreement - Third Amended and Restated Credit Agreement entered into on March 6, 2020 by Energy Services, as borrower, providing for borrowings up to $260 million, including a letter of credit subfacility of up to $50 million, scheduled to expire in March 2025

***Energy Services Term Loan* -** A seven-year $700 million senior secured term loan agreement entered into on August 13, 2019, with a group of lenders

***FASB* -** Financial Accounting Standards Board

***FERC* -** Federal Energy Regulatory Commission

Fiscal 2015 - The fiscal year ended September 30, 2015

Fiscal 2016 - The fiscal year ended September 30, 2016

Fiscal 2020 - The fiscal year ended September 30, 2020

Fiscal 2021 - The fiscal year ended September 30, 2021

Fiscal 2022 - The fiscal year ending September 30, 2022

Fiscal 2023 - The fiscal year ending September 30, 2023

Fiscal 2024 - The fiscal year ending September 30, 2024

Fiscal 2025 - The fiscal year ending September 30, 2025

Fiscal 2026 - The fiscal year ending September 30, 2026

***GAAP* -** U.S. generally accepted accounting principles

Hunlock - Hunlock station, a 130-megawatt natural gas-fueled electricity generating station located near Wilkes-Barre, Pennsylvania

ICE - Intercontinental Exchange

LNG - Liquefied natural gas

NOL - Net operating loss

***NPNS* -** Normal purchase and normal sale

***NYMEX* -** New York Mercantile Exchange

PennEnergy - PennEnergy Resources, LLC

PJM - PJM Interconnection, LLC

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

ROU - Right-of-use

***RNG* -** Renewable natural gas

***SCAA* -** Storage Contract Administrative Agreements

USD - U.S. Dollar

VIE - Variable Interest Entity

WHO - World Health Organization

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Report of Independent Auditors

To the Member and Management of UGI Energy Services, LLC

We have audited the accompanying consolidated financial statements of UGI Energy Services, LLC and subsidiaries, which comprise the consolidated balance sheets as of September 30, 2021 and 2020, and the related consolidated statements of comprehensive income, cash flows, and changes in member's equity for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of UGI Energy Services, LLC and subsidiaries at September 30, 2021 and 2020, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

December 15, 2021

UGI ENERGY SERVICES, LLC AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Millions of dollars)

	September 30, 2021	September 30, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 197	$ 23
Restricted cash	21	9
Accounts receivable (less allowances for doubtful accounts of $4 and $2, respectively)	119	90
Accounts receivable - related parties	11	9
Inventories	36	25
Derivative instruments	50	18
Prepaid expenses and other current assets	51	40
Total current assets	485	214
Property, plant and equipment:		
Gross property, plant and equipment	1,988	1,960
Accumulated depreciation	(310)	(256)
Net property, plant and equipment	1,678	1,704
Goodwill	337	336
Intangible assets, net	262	280
Derivative instruments	34	7
Investments in equity method investees	163	190
Other assets	42	35
Total assets	$ 3,001	$ 2,766
LIABILITIES AND MEMBER'S EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 10	$ 10
Short-term borrowings	—	19
Accounts payable	127	81
Accounts payable - related parties	13	13
Derivative instruments	23	21
Other current liabilities	41	42
Total current liabilities	214	186
Long-term debt	706	711
Deferred income taxes	290	199
Derivative instruments	21	29
Other noncurrent liabilities	13	14
Total liabilities	1,244	1,139
Member's equity	1,757	1,627
Total liabilities and member's equity	$ 3,001	$ 2,766

See accompanying notes to consolidated financial statements.

UGI ENERGY SERVICES, LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Millions of dollars)

	Year Ended September 30, 2021	Year Ended September 30, 2020
Revenues	$ 1,391	$ 1,210
Costs and expenses:		
Cost of sales (excluding depreciation and amortization shown below)	860	831
Operating and administrative expenses	128	121
Loss on disposal of Conemaugh	—	52
Depreciation and amortization	76	74
Other operating expense, net	9	—
	1,073	1,078
Operating income	318	132
(Loss) income from equity method investees	(62)	27
Interest expense	(42)	(42)
Income before income taxes	214	117
Income tax expense	(69)	(12)
Net income	$ 145	$ 105
Other comprehensive income (loss):		
Net gains (losses) on derivative instruments (net of tax of $(1) and $9, respectively)	3	(23)
Reclassifications of net losses on derivative instruments (net of tax of $(3) and $(1), respectively)	7	3
Other comprehensive income (loss)	10	(20)
Comprehensive income	$ 155	$ 85

See accompanying notes to consolidated financial statements.

UGI ENERGY SERVICES, LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Millions of dollars)

	Year Ended September 30, 2021	Year Ended September 30, 2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 145	$ 105
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	76	74
Deferred income tax expense, net	92	57
Changes in unrealized gains and losses on derivative instruments	(158)	(45)
Loss (income) from equity method investees	62	(27)
Distributions received from equity method investees	22	17
Loss on disposal of Conemaugh	—	52
Other, net	11	8
Net change in:		
Accounts receivable	(12)	(12)
Inventories	(11)	(2)
Accounts payable	57	12
Derivative instruments collateral received	79	—
Other current assets	(11)	(22)
Other current liabilities	(1)	(5)
Net cash provided by operating activities	351	212
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for property, plant and equipment	(54)	(92)
Acquisitions of businesses and assets, net of cash acquired	—	(16)
Investments in equity method investments	(65)	(2)
Other, net	5	(1)
Net cash used by investing activities	(114)	(111)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Distributions	(25)	(50)
Receivables Facility net repayments	(19)	(27)
Repayments of debt	(7)	(7)
Decrease in short-term borrowings	—	(45)
Net cash used by financing activities	(51)	(129)
Cash, cash equivalents and restricted cash increase (decrease)	$ 186	$ (28)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH:		
End of year	$ 218	$ 32
Beginning of year	32	60
Cash, cash equivalents and restricted cash increase (decrease)	$ 186	$ (28)
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid (received) for:		
Interest	$ 40	$ 40
Income taxes	$ (6)	$ (9)

See accompanying notes to consolidated financial statements.

UGI ENERGY SERVICES, LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBER'S EQUITY

(Millions of dollars)

	Member's Equity
Balance at September 30, 2019	$ 1,592
Net income	105
Cash distributions	(50)
Changes in AOCI balance (Note 13)	(20)
Balance at September 30, 2020	$ 1,627
Net income	145
Cash distributions	(25)
Changes in AOCI balance (Note 13)	10
Balance at September 30, 2021	$ 1,757

See accompanying notes to consolidated financial statements.

Note 1 — Nature of Operations

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

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

Note 2 — Summary of Significant Accounting Policies

Basis of Presentation

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

For purposes of comparability, certain prior-year amounts have been reclassified to conform to the current-year presentation.

Principles of Consolidation

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

We eliminate intercompany accounts and transactions when we consolidate. We account for privately held equity securities of entities without readily determinable fair values in which we do not have control, but have significant influence over operating and financial policies, under the equity method. Distributions received from equity method investees are included in cash flows from operating activities on the Consolidated Statements of Cash Flows. For a more detailed description of our equity method investees, see Note 15. Energy Services' wholly-owned, special purpose subsidiary, ESFC, is consolidated for financial statement purposes (see Note 6).

Effects of Regulation

A subsidiary of the Company accounts for the financial effects of regulation in accordance with the ASC 980. In accordance with this guidance, incurred costs that would otherwise be charged to expense are capitalized and recorded as regulatory assets when it is probable that the incurred costs will be recovered through rates in the future. Similarly, we recognize regulatory liabilities when it is probable that regulators will require customer refunds through future rates or when revenue is collected from customers for expenditures that have not yet been incurred. Generally, regulatory assets and liabilities are amortized into expense and income over the periods authorized by the respective regulatory body. At both September 30, 2021 and 2020, regulatory assets of $2 were included in "Other assets" on the Consolidated Balance Sheets. There were no regulatory liabilities recorded at September 30, 2021 and 2020.

Fair Value Measurements

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

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

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

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

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

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

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

Derivative Instruments

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

Certain of our derivative instruments qualify and are designated as cash flow hedges. For cash flow hedges, changes in the fair values of the derivative instruments are recorded in AOCI, to the extent effective at offsetting changes in the hedged item, until earnings are affected by the hedged item. We discontinue cash flow hedge accounting if occurrence of the forecasted transaction is determined to be no longer probable. Hedge accounting is also discontinued for derivatives that cease to be highly effective. We do not designate our commodity derivative instruments as hedges under GAAP. Changes in the fair values of these derivative instruments are reflected in net income. Cash flows from derivative instruments are included in cash flows from operating activities on the Consolidated Statements of Cash Flows.

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

Revenue Recognition

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

Revenue-related taxes collected on behalf of customers and remitted to taxing authorities, principally sales and use taxes, are not included in revenues. Gross receipts taxes are presented on a gross basis. The Company has elected to use the practical expedient to expense the costs to obtain contracts when incurred for contracts that have a term less than one year. The costs incurred to obtain contracts that have durations of longer than one year are not material. See Note 4 for additional disclosures regarding the Company's revenue from contracts with customers.

Accounts Receivable

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

Income Taxes

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

See Note 7 for information regarding the March 27, 2020 enactment of the CARES Act.

Cash, Cash Equivalents and Restricted Cash

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

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

	2021	2020
Cash and cash equivalents	$ 197	$ 23
Restricted cash	21	9
Cash, cash equivalents and restricted cash	$ 218	$ 32

Inventories

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

Property, Plant and Equipment and Related Depreciation

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

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

Goodwill and Intangible Assets.

Intangible Assets. We amortize intangible assets over their estimated useful lives unless we determine their lives to be indefinite. Estimated useful lives of definite-lived intangible assets, primarily consisting of customer relationships (other than customer relationships acquired in the CMG Acquisition), generally do not exceed 15 years. The estimated useful lives of customer relationships acquired in the CMG Acquisition are 35 years.

We test definite-lived intangible assets for impairment whenever events or changes in circumstances indicate that the associated carrying amounts may be impaired. Determining whether an impairment loss occurred requires comparing the carrying amount to the estimated fair value of the asset in accordance with ASC 820. There were no such indicators identified in Fiscal 2021 or Fiscal 2020.

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

We are required to recognize an impairment charge under GAAP if the carrying amount of a reporting unit exceeds its fair value. From time to time, we may assess qualitative factors to determine whether it is more likely than not that the fair value of such reporting unit is less than its carrying amount. We may bypass the qualitative assessment and perform the quantitative assessment by comparing the fair values of the reporting units with their carrying amounts, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized in an amount equal to such excess but not to exceed the total amount of the goodwill of the reporting unit. There were no accumulated goodwill impairment losses at September 30, 2021 and 2020. For further information on our goodwill and intangible assets, see Note 9.

Impairment of Long-Lived Assets

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

During the fourth quarter of Fiscal 2021, the Company identified impairment indicators associated with certain natural gas gathering system asset groups having a carrying value of approximately $100 at September 30, 2021. The impairment indicators resulted from the bankruptcy of a significant customer, as well as payment delinquencies resulting from the deterioration in the financial condition of an additional customer. These events resulted in a significant decline in the current forecasted operating cash flows associated with the related asset groups. The Company performed a recoverability test as a result of these triggering events utilizing an estimate of undiscounted cash flows related to the asset groups. While this analysis currently indicates that such carrying amounts are expected to be recovered, events and/or changes in circumstances may occur in the near term resulting in a change in management’s estimates of undiscounted cash flows. Any such events or changes could ultimately impact recoverability and result in an impairment loss equal to the difference between the calculated fair value of such asset groups and their estimated carrying value.

No provisions for impairments of long-lived assets were recorded during Fiscal 2021. See Note 5 for further information on the loss associated with the disposition of Conemaugh during Fiscal 2020.

Asset Retirement Obligation

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

The obligations associated with its natural gas gathering assets relate primarily to purging and sealing pipelines if abandoned and, in certain instances, the removal of such facilities. With respect to the Company's natural gas gathering and certain of its other assets, AROs were not recorded because the Company plans to operate and maintain these natural gas gathering and other facilities as long as supply and demand for natural gas and natural gas liquids exists, which the Company expects for the foreseeable future. Therefore, the Company believes that these assets have indeterminate lives, and no ARO was recorded at September 30, 2021 and 2020. The Company continues to evaluate its AROs and future developments that could impact its AROs.

Subsequent Events. Management has evaluated the impact of subsequent events through December 15, 2021, the date these financial statements were issued, and the effects of such evaluation have been reflected in the financial statements and related disclosures.

Note 3 — Accounting Changes

New Accounting Standard Adopted in Fiscal 2021

Credit Losses. Effective October 1, 2020, the Company adopted ASU 2016-13, "Measurement of Credit Losses on Financial Instruments," including subsequent amendments, using the modified retrospective approach. This ASU, as subsequently amended, requires entities to estimate lifetime expected credit losses for financial instruments not measured at fair value through net income, including trade and other receivables, net investments in leases, financial receivables, debt securities, and other financial instruments, which may result in earlier recognition of credit losses. Further, the new current expected credit loss model may affect how entities estimate their allowance for losses related to receivables that are current with respect to their payment terms. The adoption of the new guidance did not have a material impact on our consolidated financial statements.

New Accounting Standard Adopted Effective October 1, 2021

Income Taxes. In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes." This ASU simplifies the accounting for income taxes by eliminating certain exceptions within the existing guidance for recognizing deferred taxes for equity method investments, performing intraperiod allocations and calculating income taxes in interim periods. Further, this ASU clarifies existing guidance related to, among other things, recognizing deferred taxes for goodwill and allocated taxes to members of a consolidated group. Effective October 1, 2021, the Company adopted this ASU, as updated, using a prospective approach. The adoption of the new guidance did not have a material impact on our consolidated financial statements.

Note 4 — Revenue from Contracts with Customers

Energy Services recognizes revenue when control of promised goods or services is transferred to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. Energy Services generally has the right to consideration from a customer in an amount that corresponds directly with the value to the customer for performance completed to date. As such, we have elected to recognize revenue in the amount to which we have a right to invoice except in the case of certain of our peaking contracts for which we recognize revenue on a straight-line basis over the term of the contract, consistent with when the performance obligations are satisfied by Energy Services.

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

Energy Services revenues from contracts with customers are discussed below.

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

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

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

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

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

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

(Millions of dollars, except where indicated otherwise)

Revenue Disaggregation

The following table presents our disaggregated revenues during Fiscal 2021 and Fiscal 2020 :

	2021	2020
Revenues from contracts with customers:		
Energy Marketing	$ 1,085	$ 878
Midstream:		
Pipeline	181	168
Peaking	114	106
Other	8	7
Electricity Generation	13	34
Total revenues from contracts with customers	1,401	1,193
Other revenues (a)	(10)	17
Total revenues	$ 1,391	$ 1,210

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

Contract Balances

The timing of revenue recognition may differ from the timing of invoicing to customers or cash receipts. Contract assets represent our right to consideration after the performance obligations have been satisfied when such right is conditioned on something other than the passage of time. There were no contract assets at September 30, 2021 and 2020. Substantially all of our receivables are unconditional rights to consideration and are included in “Accounts receivable.” Amounts billed are generally due within the following month.

Contract liabilities arise when payment from a customer is received before the performance obligations have been satisfied and represent the Company’s obligations to transfer goods or services to a customer for which we have received consideration. The balances of contract liabilities were $5 and $2 at September 30, 2021 and 2020, respectively, and are included in “Other current liabilities” on the Consolidated Balance Sheets.

Note 5 — Acquisitions and Disposition

GHI Acquisition

In July 2020, Energy Services acquired GHI, a Houston, Texas-based renewable natural gas company currently doing business in California, in a business combination for total consideration of $23 including cash of $16. This acquisition was accounted for under the acquisition method and the assets acquired and liabilities assumed were recognized and measured at the acquisition date at fair value.

The total consideration for the acquisition of GHI included the recognition of a contingent consideration liability, which is payable in quarterly installments through November 2022. As of September 30, 2021 and 2020, the contingent consideration liability was $10 and $8, respectively, and was included in “Other current liabilities” and “Other noncurrent liabilities” on the Consolidated Balance Sheets. During Fiscal 2021, changes in the fair value of the contingent consideration resulted in a loss of $9, which is included in “Other operating expense, net” on the 2021 Consolidated Statements of Comprehensive Income.

Disposal of Conemaugh

Conemaugh. In July 2020, Energy Services, through a wholly-owned subsidiary, entered into an agreement to sell its approximate 5.97% ownership interest in Conemaugh. As a result the Company reduced the carrying amount of these assets to their fair values during the third quarter of Fiscal 2020 and recognized a non-cash, pre-tax impairment charge of $52 which amount is reflected in “Loss on disposal of Conemaugh” on the 2020 Consolidated Statement of Comprehensive Income. The fair value of such assets was based upon the agreed upon sales price, and was determined to be a Level 2 measurement within the fair value hierarchy. The sale was completed on September 30, 2020.

(Millions of dollars, except where indicated otherwise)

Note 6 — Debt

Credit Facilities and Short-term Borrowings

Energy Services has a revolving credit facility under the Energy Services Credit Agreement, which expires in March 2025 and includes a $50 sublimit for letters of credit. Borrowings outstanding under this agreement, if any, are classified as "Short-term borrowings" on the Consolidated Balance Sheets. There were no borrowings outstanding under this facility as of September 30, 2021 and 2020.

Accounts Receivable Securitization Facility. Energy Services has a Receivables Facility with an issuer of receivables-backed commercial paper currently scheduled to expire in October 2022. The Receivables Facility, as amended, provides Energy Services with the ability to borrow up to $150 of eligible receivables during the period November to April, and up to $75 of eligible receivables during the period May to October. Energy Services uses the Receivables Facility to fund working capital, margin calls under commodity futures contracts, capital expenditures, dividends and for general corporate purposes.

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

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

	2021	2020
Trade receivables transferred to ESFC during the year	$ 1,353	$ 1,046
ESFC trade receivables sold to the bank during the year	$ 308	$ 182
ESFC trade receivables - end of year (a)	$ 61	$ 50

(a) At September 30, 2021 there were no ESFC trade receivables sold to the bank. At September 30, 2020, the amounts of ESFC trade receivables sold to the bank were $19.

Long Term Debt

Long-term debt comprises the following at September 30:

	2021	2020
Variable-rate term loan due through August 2026 (a)	$ 684	$ 691
Other (b)	42	42
Total long-term debt	726	733
Less: unamortized debt issuance costs	(10)	(12)
Less: current maturities	(10)	(10)
Total long-term debt due after one year	$ 706	$ 711

(a) At September 30, 2021 and 2020, the effective interest rate on the term loan was 5.23% and 5.30%, respectively. We have entered into a pay-fixed, receive variable interest rate swap to effectively fix the underlying variable rate on these borrowings. Term loan borrowings are due in equal quarterly installments of $2, with the balance of the principal being due in full at maturity. Under certain circumstances, Energy Services is required to make additional principal payments if the consolidated total leverage ratio, as defined, is greater than defined thresholds. This term loan is collateralized by substantially all of the assets of Energy Services, subject to certain exceptions and carveouts including, but not limited to, accounts receivable and certain real property.

(Millions of dollars, except where indicated otherwise)

(b) Amounts consist of a finance lease liability with a weighted average remaining lease term of approximately 29 years as of September 30, 2021. The weighted average discount rate on this lease liability was 6.4% for both periods presented. The associated ROU asset as of September 30, 2021 and 2020 was $45 and $47, respectively, and is included within the "Buildings and improvements" category of property, plant and equipment disclosed in Note 8.

Scheduled principal repayments of long-term debt and finance leases for each of the next five fiscal years ending September 30 are as follows: Fiscal 2022 - $10; Fiscal 2023 - $7; Fiscal 2024 - $7; Fiscal 2025 - $7; Fiscal 2026 - $656.

Restrictive Covenants. Our long-term debt and the Energy Services Credit Agreement generally contain customary covenants and default provisions which may include, among other things, restrictions on the incurrence of additional indebtedness and also restrict liens, guarantees, investments, loans and advances, payments, mergers, consolidations, asset transfers, transactions with affiliates, sales of assets, acquisitions and other transactions. The agreement contains standard provisions which require compliance with certain financial ratios. Energy Services was in compliance with all debt covenants as of September 30, 2021.

Note 7 — Income Taxes

The provisions for income taxes consist of the following:

	2021	2020
Current benefit:		
Federal	$ (20)	$ (44)
State	(3)	(1)
Total current benefit	(23)	(45)
Deferred expense:		
Federal	62	44
State	30	13
Total deferred expense	92	57
Total income tax expense	$ 69	$ 12

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

	2021	2020
Statutory federal tax rate	21.0 %	21.0 %
Difference in tax rate due to:		
Effect of U.S. tax legislation	(7.7)	(18.0)
State income taxes, net of federal benefit	7.2	7.5
Allowance for funds used during construction	(0.3)	(0.8)
Tax impacts of PennEast impairment	11.4	—
Other, net	0.4	0.4
Effective tax rate	32.0 %	10.1 %

On March 27, 2020, the CARES Act was enacted into law. The primary tax impact of the legislation was the change in federal net operating loss carryback rules which allowed the Company's U.S. federal tax losses generated in Fiscal 2021 and Fiscal 2020 to be carried back to Fiscal 2016 and Fiscal 2015. The carryback of the Fiscal 2021 and Fiscal 2020 U.S. federal tax losses from a 21% rate environment to offset taxable income in Fiscal 2016 and Fiscal 2015 in a 35% rate environment generated incremental benefits of $16 and $21, respectively.

(Millions of dollars, except where indicated otherwise)

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

	2021	2020
Gross deferred tax liabilities:		
Excess book basis over tax basis of property, plant and equipment	$ 228	$ 192
Investments in equity method investees	—	20
Derivative financial instruments	41	—
Goodwill and other intangible assets	15	10
ROU assets	11	11
Total gross deferred tax liabilities	295	233
Gross deferred tax assets:		
State net operating loss carryforwards	(7)	(6)
Inventory capitalization	(6)	(5)
Investments in equity method investees	(2)	—
Derivative financial instruments	—	(8)
Lease liabilities	(12)	(11)
Other	(9)	(7)
Total gross deferred tax assets	(36)	(37)
Deferred tax assets valuation allowance	27	—
Net deferred tax liabilities	$ 286	$ 196

We join with UGI and its subsidiaries in filing a consolidated federal income tax return. We are charged or credited for our share of current taxes resulting from the effects of our transactions in the UGI consolidated federal income tax return including giving effect to intercompany transactions. UGI's federal income tax returns are settled through the tax year 2017.

In Fiscal 2021 and Fiscal 2020, we joined with UGI as disregarded entities in filing state tax returns. We are charged or credited for our share of current taxes resulting from the effects of our transactions in the UGI combined state income tax returns including giving effect to intercompany transactions. We file separate company income tax returns in a number of states but are subject to state income tax principally in Pennsylvania. Pennsylvania income tax returns are generally subject to examination for a period of three years after the filing of the respective returns.

Valuation allowances against deferred tax assets increased in Fiscal 2021 due to capital losses from the PennEast investment.

At September 30, 2021 and 2020, unrecognized income tax benefits were not material.

<u>Note 8 — Property, Plant and Equipment</u>

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

	2021	2020	Estimated Useful Life
Land	$ 18	$ 20	
Buildings and improvements	69	65	30 - 40 years
Storage and distribution facilities, pipelines and related assets	1,649	1,505	15 - 40 years
Electricity generation assets	211	211	22 - 40 years
Other	32	49	3 - 13 years
Construction in process	9	110	
Gross property, plant and equipment	$ 1,988	$ 1,960	

Depreciation expense totaled $64 and $63 for Fiscal 2021 and Fiscal 2020, respectively.

(Millions of dollars, except where indicated otherwise)

Note 9 — Goodwill and Intangible Assets

Changes in the carrying amount of goodwill are as follows:

Balance at September 30, 2019	$	336
Balance at September 30, 2020	$	336
Purchase accounting adjustments		1
Balance at September 30, 2021	$	337

Intangible assets comprise the following at September 30:

	2021		2020	
Customer relationships	$	299	$	299
Land development rights and other		26		26
Accumulated amortization		(63)		(45)
Intangible assets, net	$	262	$	280

Amortization expense of intangible assets was $18 and $14 for Fiscal 2021 and Fiscal 2020, respectively. Estimated amortization expense of intangible assets during the next five fiscal years is as follows: Fiscal 2022 — $13; Fiscal 2023 — $10; Fiscal 2024 — $10; Fiscal 2025 — $10; Fiscal 2026 — $10.

Note 10 — Commitments and Contingencies

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

Note 11 — Fair Value Measurements

Derivative Instruments

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

	Asset (Liability)							
	Level 1		Level 2		Level 3		Total	
September 30, 2021								
Derivative instruments:								
Assets:								
Commodity contracts	$	314	$	31	$	—	$	345
Liabilities:								
Commodity contracts	$	(196)	$	(12)	$	—	$	(208)
Interest rate contracts	$	—	$	(18)	$	—	$	(18)
September 30, 2020								
Derivative instruments:								
Assets:								
Commodity contracts	$	54	$	7	$	—	$	61
Liabilities:								
Commodity contracts	$	(47)	$	(7)	$	—	$	(54)
Interest rate contracts	$	—	$	(32)	$	—	$	(32)

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

Note 12 — Derivative Instruments & Hedging Activities

We are exposed to certain market risks related to our ongoing business operations. Management uses derivative financial and commodity instruments, among other things, to manage: (1) commodity price risk; and (2) interest rate risk. Although we use derivative financial and commodity instruments to reduce market risk associated with forecasted transactions, we do not use derivative financial and commodity instruments for speculative or trading purposes. The use of derivative instruments is controlled by our risk management and credit policies, which govern, among other things, the derivative instruments we can use, counterparty credit limits and contract authorization limits. Although our commodity derivative instruments extend over a number of years, a significant portion of our commodity derivative instruments economically hedge commodity price risk during the next twelve months. For information on the accounting for our derivative instruments, see Note 2.

The following summarizes the types of derivative instruments used by the Company to manage certain market risks:

Commodity Price Risk

In order to manage market price risk relating to fixed-price sales contracts for natural gas and electricity, the Company enters into NYMEX and over-the-counter natural gas futures and options contracts, ICE natural gas basis swap contracts, and electricity futures and forward physical contracts. The Company also uses NYMEX and over the counter electricity futures contracts to economically hedge the price of a portion of its anticipated future sales of electricity from its electric generation facilities. Also, Midstream & Marketing, from time to time, uses NYMEX futures contracts to economically hedge the gross margin associated with the purchase and anticipated later near-term sale of propane. At September 30, 2021 and 2020, volumes associated with these propane contracts were not material.

Interest Rate Risk

Energy Services has a variable-rate term loan that is indexed to a short-term market interest rate. In order to fix the underlying short-term market interest rate, Energy Services has entered into a pay-fixed, receive-variable interest rate swap to effectively fix the underlying variable rate on a significant portion of the loan's tenor through July 2024. We have designated this interest rate swap as a cash flow hedge.

Quantitative Disclosures Related to Derivative Instruments

The following table summarizes by derivative type the gross notional amounts related to open derivative contracts at September 30, 2021 and 2020 and the final settlement dates of the Company's open derivative contracts as of September 30, 2021, excluding those derivatives that qualified for the NPNS exception:

			Notional Amounts (in millions)	
			September 30,	
Type	Units	Settlements Extending Through	2021	2020
Commodity Price Risk:				
Natural gas futures, forward, basis swap, options and pipeline contracts	Dekatherms	December 2024	310	303
Electricity forward and futures contracts	Kilowatt hours	December 2023	879	1,270
Interest Rate Risk:				
Interest rate swaps	USD	July 2024	$ 649	$ 691

Derivative Instrument Credit Risk

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

We have concentrations of credit risk associated with derivative instruments and we evaluate the creditworthiness of our derivative counterparties on an ongoing basis. As of September 30, 2021, the maximum amount of loss, based upon the gross fair values of the derivative instruments, we would incur if these counterparties failed to perform according to the terms of their contracts was $345. In general, many of our over-the-counter derivative instruments and all exchange contracts call for the posting of collateral by the counterparty or by the Company in the forms of letters of credit, parental guarantees or cash. At September 30, 2021, we had received cash collateral from derivative instrument counterparties totaling $79. In addition, we may have offsetting derivative liabilities and certain accounts payable balances with certain of these counterparties, which further mitigates the previously mentioned maximum amount of losses. We generally do not have credit-risk-related contingent features in our derivative contracts.

Offsetting Derivative Assets and Liabilities

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

In general, 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 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.

(Millions of dollars, except where indicated otherwise)

Fair Value of Derivative Instruments

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

	2021	2020
Derivative assets:		
Derivatives not designated as hedging instruments:		
Commodity contracts	$ 345	$ 61
Total derivative assets - gross	345	61
Gross amounts offset in balance sheet	(182)	(36)
Cash collateral received	(79)	—
Total derivative assets - net	$ 84	$ 25
Derivative liabilities:		
Derivatives designated as hedging instruments:		
Interest rate contracts	$ (18)	$ (32)
Derivatives not designated as hedging instruments:		
Commodity contracts	(208)	(54)
Total derivative liabilities - gross	(226)	(86)
Gross amounts offset in balance sheet	182	36
Total derivative liabilities - net	$ (44)	$ (50)

Effect of Derivative Instruments

The following tables provide information on the effects of derivative instruments on the Consolidated Statements of Comprehensive Income for Fiscal 2021 and Fiscal 2020:

	Gain (Loss) Recognized in AOCI		Gain (Loss) Reclassified from AOCI into Income		Location of Gain (Loss) Reclassified from AOCI into Income
	2021	2020	2021	2020	
Cash Flow Hedges:					
Interest rate contracts	$ 4	$ (32)	$ (10)	$ 4	Interest expense

	Gain (Loss) Recognized in Income		Location of Gain (Loss) Recognized in Income
	2021	2020	
Derivatives Not Designated As Hedging Instruments:			
Commodity contracts	$ (17)	$ 10	Revenues
Commodity contracts	161	(35)	Cost of sales
Total	$ 144	$ (25)	

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

(Millions of dollars, except where indicated otherwise)

Note 13 — Accumulated Other Comprehensive Income

AOCI activity is related to a pay-fixed, receive variable interest rate contract used to fix the variable rate on the Energy Services variable-rate term loan (see Note 6). Changes in AOCI during Fiscal 2021 and Fiscal 2020 are as follows:

	Derivative Instruments
AOCI - September 30, 2019	$ (2)
Other comprehensive loss before reclassification adjustments	(23)
Amounts reclassified from AOCI	3
Other comprehensive loss	(20)
AOCI - September 30, 2020	$ (22)
Other comprehensive income before reclassification adjustments	3
Amounts reclassified from AOCI	7
Other comprehensive income	10
AOCI - September 30, 2021	$ (12)

7

Note 14 — Related Party Transactions

Income taxes. The Company joins with UGI and its subsidiaries in filing a consolidated federal income tax return and the Company and its subsidiaries are considered disregarded entities in the filing of combined state income tax returns. For further information on income taxes, see Notes 2 and 7.

SCAA Activities. From time to time, Energy Services is a party to SCAAs with UGI Utilities which have terms of up to three years. Under the SCAAs, UGI Utilities has, among other things, released certain natural gas storage and transportation contracts (subject to recall for operational purposes) to Energy Services for the terms of the SCAAs. UGI Utilities also transferred certain associated natural gas storage inventories upon the commencement of the SCAAs, receives a transfer of storage inventories at the end of the SCAAs, and makes payments associated with refilling storage inventories during the term of the SCAAs. Energy Services receives payments from UGI Utilities for storage inventories and pipeline transportation and storage capacity charges associated with SCAAs. Energy Services, in turn, provides a firm delivery service and makes certain payments to UGI Utilities for its various obligations under the SCAAs. In conjunction with the SCAAs, Energy Services pays UGI Utilities security deposits.

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

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

Administrative Services. UGI provides certain financial and administrative services to the Company. UGI bills the Company monthly for all direct expenses and for an allocated share of indirect corporate expenses incurred or paid on behalf of the Company. The allocation of indirect UGI corporate expenses to the Company utilizes a weighted, three-component formula comprising revenues, operating expenses and net assets employed and considers the Company's relative percentage of such items to the total of such items for all UGI operating subsidiaries for which general and administrative services were provided. Management believes that this allocation method is reasonable and equitable to the Company.

Propane Sales. From time to time, Energy Services sells propane to AmeriGas on an as needed basis. The sales price is generally based on market prices at the time of sale. There were no sales of propane by Energy Services to AmeriGas during Fiscal 2021 and Fiscal 2020.

(Millions of dollars, except where indicated otherwise)

The following related party balances are included in our consolidated financial statements at September 30:

	2021	2020	Classification on the Consolidated Statements of Comprehensive Income
SCAA Activities:			
SCAA revenues	$ 19	$ 12	Revenues
Costs of SCAA and firm delivery service	$ 2	$ 2	Cost of sales
Gas Supply and Delivery Service:			
Gas supply and delivery service revenues	$ 205	$ 167	Revenues
Costs of natural gas and pipeline capacity purchases	$ 62	$ 45	Cost of sales
Administrative Services:			
Administrative services provided by UGI	$ 16	$ 15	Operating and administrative expenses

	2021	2020	Classification on Consolidated Balance Sheets
SCAA security deposits	$ 7	$ 8	Prepaid expenses and other current assets

Note 15 — Equity Method Investments

Our investments noted below are accounted for under the equity method of accounting as we have the ability to exercise significant influence, but not control, over these entities. These are included in "Investments in equity method investees" on the Consolidated Balance Sheets. Equity method earnings are included in "(Loss) income from equity method investees" on the Consolidated Statements of Comprehensive Income.

PennEast

UGI PennEast, LLC and four other members comprising wholly owned subsidiaries of Southern Company, New Jersey Resources, South Jersey Industries, and Enbridge, Inc., each hold a 20% membership interest in PennEast. PennEast was formed to construct an approximate 120-mile natural gas pipeline from Luzerne County, Pennsylvania to the Trenton-Woodbury interconnection in New Jersey. PennEast is accounted for as an equity method investment as we have the ability to exercise significant influence, but not control, over PennEast. In September 2019, a panel of the U.S. Court of Appeals for the Third Circuit ruled that New Jersey’s Eleventh Amendment immunity barred PennEast from bringing an eminent domain lawsuit in federal court, under the Natural Gas Act, against New Jersey or its agencies. On February 3, 2021, the U.S. Supreme Court issued an order granting PennEast’s petition for a writ of certiorari and the case was argued on April 28, 2021. On June 29, 2021, the U.S. Supreme Court ruled in favor of PennEast, overturning the Third Circuit’s decision that blocked PennEast from exercising federal eminent domain authority over lands in which a state has property rights interests.

Following the favorable Supreme Court decision, the partners of the PennEast project re-assessed the remaining legal and regulatory contingencies which needed to be resolved before construction could commence. Based on the significant remaining legal challenges and the expected further delays in obtaining the necessary regulatory approvals, which were preventing the commencement of construction and commercial operation of the project, the Company concluded that its investment in PennEast was impaired at June 30, 2021, and that such impairment was other-than-temporary. The estimated fair value of the Company’s investment in PennEast was measured using probability-weighted cash flows under an expected present value technique based on management's estimates and assumptions regarding the likelihood of certain outcomes (and the related timing) that would be used by market participants at the time. Based upon this analysis, the Company recognized an other-than-temporary pre-tax impairment charge of $93 in June 2021, which is recorded in “(Loss) income from equity method investees” in the Consolidated Statements of Income.

On September 27, 2021, PennEast ceased further development of the proposed pipeline project. Following this announcement, the estimated fair value was assessed using the liquidation value of equipment held by PennEast and did not result in a significant change compared to June 30, 2021 and no further impairment loss was recognized. The estimated fair value of the

Company's investment in PennEast was determined to be a Level 2 measurement within the fair value hierarchy. The carrying value of our investment in PennEast at September 30, 2021 was not material.

Pennant

On August 1, 2019, Energy Services completed the CMG Acquisition including CMG's approximate 47% interest in Pennant Midstream, LLC for $88 (see Note 5). Pennant operates various natural gas midstream assets in Western Pennsylvania and Eastern Ohio.

Our investment in Pennant at September 30, 2021 and 2020 totaled $93 and $94, respectively. As of September 30, 2021 and 2020, the carrying amount of our investment in Pennant exceeded our share of Pennant's underlying equity in net assets by $92 and $94, respectively. This difference is comprised of basis differences associated with property, plant and equipment of natural gas gathering and natural gas processing assets. This difference is being amortized over 25 to 40 years which represents the useful lives of the underlying assets within Pennant.

The Company assumed a Project Management Agreement with the acquisition of Pennant on August 1, 2019. Pursuant with the terms of this agreement, the Company provides services to Pennant related to management, development, administration and construction of fixed assets. The Company is paid a project management fee throughout the term of the agreement. The amount of the project management fees recognized by the Company with respect to Pennant was not material for all periods presented.

Pine Run

In February 2021, Pine Run, a company jointly owned by Stonehenge and UGI Pine Run, LLC, a wholly-owned subsidiary of Energy Services, completed the acquisition of Pine Run Midstream, LLC from an affiliate of PennEnergy and minority partners for a preliminary purchase price of $205. Pine Run Midstream, LLC operates 43 miles of dry gas gathering pipeline and compression assets in Butler and Armstrong counties in western Pennsylvania. Pine Run is accounted for as an equity method investment as we have the ability to exercise significant influence, but not control, over the entity. The carrying value of our 49% membership interest in Pine Run at September 30, 2021 was $60.

Note 16 — Impact of Global Pandemic

In March 2020, the WHO declared a global pandemic attributable to the outbreak and continued spread of COVID-19 that has had a significant impact throughout the global economy. In connection with the mitigation and containment procedures recommended by the WHO, the CDC, and as imposed by federal, state, and local governmental authorities, including shelter-in-place orders, quarantines and similar restrictions, the Company implemented a variety of procedures to protect its employees, third-party business partners, and customers worldwide. The Company continues to provide essential products and services to its customers in a safe and reliable manner, and will continue to do so in compliance with mandated restrictions presented by each of the markets it serves. The Company continues to evaluate and react to the potential effects of a prolonged disruption and the continued impact on its results of operations. These items may include, but are not limited to: the financial condition of its customers; decreased availability and demand for its products and services; realization of accounts receivable; impairment considerations related to certain current assets, long-lived assets and goodwill; delays related to current and future projects; and the effects of government stimulus efforts including tax legislation in response to COVID-19. While its operations and financial performance continue to be impacted by COVID-19, the Company cannot predict the duration or magnitude of the outbreak and the total effects on its business, financial position, results of operations, liquidity or cash flows at this time.

Recent Developments

In March 2020, the WHO declared a global pandemic attributable to the outbreak and continued spread of COVID-19 that has had a significant impact throughout the global economy. In connection with the mitigation and containment procedures recommended by the WHO, the CDC, and as imposed by federal, state, and local governmental authorities, including shelter-in-place orders, quarantines and similar restrictions, we implemented a variety of procedures to protect our employees, third-party business partners, and customers. Although our results continue to be impacted by COVID-19, we continue to provide essential products and services to our customers in a safe and reliable manner and will continue to do so in compliance with mandated restrictions presented by each of the markets we serve. We continue to evaluate and react to the potential effects of a prolonged disruption and the continued impact on our results of operations. These items may include, but are not limited to: the financial condition of our customers; decreased availability and demand for our products and services; realization of accounts receivable; impairment considerations related to certain current assets, long-lived assets and goodwill; delays related to current and future projects; and the effects of government stimulus efforts including tax legislation (see "Interest Expense and Income Taxes" below and Note 7 to the consolidated financial statements) in response to COVID-19.

We cannot predict the duration or total magnitude of the pandemic and the total effects on our business, financial position, results of operations, liquidity or cash flows at this time, but we remain focused on managing our financial condition and liquidity throughout this global crisis.

Executive Overview

Energy Services' net income was $145 million for Fiscal 2021 compared to $105 million for Fiscal 2020. Our Fiscal 2021 results reflect after-tax gains on commodity derivative instruments not associated with current-period transactions of $113 million compared to $30 million in Fiscal 2020. Fiscal 2021 results reflect a $93 million after-tax impairment loss associated with our investment in PennEast. Fiscal 2020 results reflect a $37 million after-tax loss associated with the disposal of Conemaugh and after-tax acquisition and integration expenses associated with CMG of $1 million. Although these items are reflected in our GAAP results, we have excluded these items from our non-GAAP measures. See "Non-GAAP Financial Measures" below.

Excluding the impacts of commodity derivative instruments not associated with current-period transactions, the losses related to the impairment of our investment in PennEast and the Fiscal 2020 disposal of Conemaugh, and the CMG acquisition and integration expenses, adjusted net income for Fiscal 2021 was $12 million higher than the prior year. This increase principally reflects incremental margin from capacity management and renewable energy marketing activities.

Non-GAAP Financial Measures

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

UGI ENERGY SERVICES, LLC AND SUBSIDIARIES

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

	Year Ended September 30,	
(Millions of dollars)	2021	2020
Adjusted total margin:		
Total revenues	$ 1,391	$ 1,210
Cost of sales	(860)	(831)
Total margin	531	379
Net gains on commodity derivative instruments not associated with current-period transactions	(158)	(45)
Adjusted total margin	$ 373	$ 334
Adjusted operating income:		
Operating income	$ 318	$ 132
Net gains on commodity derivative instruments not associated with current-period transactions	(158)	(45)
Loss on disposal of Conemaugh	—	52
CMG acquisition and integration expenses	—	2
Adjusted operating income	$ 160	$ 141
Adjusted income before income taxes:		
Income before income taxes	$ 214	$ 117
Net gains on commodity derivative instruments not associated with current-period transactions	(158)	(45)
Impairment of investment in PennEast	93	—
Loss on disposal of Conemaugh	—	52
CMG acquisition and integration expenses	—	2
Adjusted income before income taxes	$ 149	$ 126
Adjusted net income:		
Net income	$ 145	$ 105
Net gains on commodity derivative instruments not associated with current-period transactions	(113)	(30)
Impairment of investment in PennEast	93	—
Loss on disposal of Conemaugh	—	37
CMG acquisition and integration expenses	—	1
Adjusted net income	$ 125	$ 113

Analysis of Results of Operations

The following analysis compares Energy Services results of operations for Fiscal 2021 with Fiscal 2020.

Energy Services	2021	2020	Increase	
(Dollars in millions)				
Revenues	$ 1,391	$ 1,210	$ 181	15 %
Total margin (a)	$ 531	$ 379	$ 152	40 %
Operating and administrative expenses (b)	$ 128	$ 121	$ 7	6 %
Operating income (c)	$ 318	$ 132	$ 186	141 %
Income before income taxes (d)	$ 214	$ 117	$ 97	83 %
Non-GAAP financial measures (e):				
Adjusted total margin	$ 373	$ 334	$ 39	12 %
Adjusted operating income	$ 160	$ 141	$ 19	13 %
Adjusted income before income taxes	$ 149	$ 126	$ 23	18 %
Adjusted net income	$ 125	$ 113	$ 12	11 %

(a) Total margin represents total revenues less total cost of sales. Total margin for Fiscal 2021 and Fiscal 2020 includes net pre-tax gains of $158 million and $45 million, respectively, on commodity derivative instruments not associated with current-period transactions.
(b) Fiscal 2020 includes $2 million of acquisition and integration expenses associated with CMG.
(c) Fiscal 2020 includes a $52 million loss associated with the disposal of Conemaugh.
(d) Fiscal 2021 includes a $93 million impairment loss associated with our investment in PennEast.
(e) These financial measures are non-GAAP financial measures and are not in accordance with, or an alternative to, GAAP and should be considered in addition to, and not a substitute for, the comparable GAAP measures. See "Non-GAAP Financial Measures" above.

Average temperatures across Energy Services' energy marketing territory during Fiscal 2021 were 6.9% warmer than normal and 2.6% warmer than the prior year.

Revenues in Fiscal 2021 and Fiscal 2020 include $15 million of net unrealized losses and $3 million of net unrealized gains, respectively, on commodity derivative instruments not associated with current period transactions. Excluding the effects on revenues of these commodity derivative instruments, revenues increased $199 million compared to the prior year principally reflecting increased revenues from natural gas ($144 million) and renewable energy ($27 million) marketing activities and higher capacity management revenues ($24 million) which were impacted by the timing of certain mark-to-market contract settlements. Higher revenues associated with electricity marketing ($8 million) and natural gas gathering activities ($6 million) also contributed to the increase. These factors were partially offset by the absence of revenues attributable to Energy Services' former ownership interest in Conemaugh ($19 million). Cost of sales were $860 million in Fiscal 2021 compared to $831 million in Fiscal 2020. Cost of sales in Fiscal 2021 and Fiscal 2020 includes $173 million and $42 million, respectively, of net unrealized gains on commodity derivative instruments not associated with current-period transactions. Excluding the effects on cost of sales of these commodity derivative instruments, total cost of sales increased $160 million. This increase primarily reflects higher cost of sales related to natural gas ($138 million), renewable energy ($20 million), and electricity ($7 million) marketing activities, partially offset by the absence of costs attributable to Energy Services' former ownership interest in Conemaugh ($10 million). The increases in both natural gas revenues and cost of sales during Fiscal 2021 are largely attributable to higher average natural gas prices compared to the prior year partially offset by lower volumes attributable to weather that was warmer than the prior year.

Total margin increased $152 million in Fiscal 2021. Adjusted total margin increased $39 million principally reflecting improved capacity management margin ($24 million), higher margin from renewable energy ($7 million) and natural gas ($5 million) marketing activities, and higher margin from natural gas gathering activities ($6 million). These margin improvements include the impact of acquisitions and new assets placed into service since the fourth quarter of Fiscal 2020, and were partially offset by the absence of margins attributable to Energy Services' former ownership interest in Conemaugh ($9 million).

Operating income and income before income taxes increased $186 million and $97 million, respectively, in Fiscal 2021. Adjusted operating income and adjusted income before income taxes increased $19 million and $23 million, respectively. The increase in adjusted operating income principally reflects the increase in adjusted total margin, partially offset by higher operating and administrative expenses attributable to an increase in employee and benefits-related costs and increases related to new assets placed into service and an adjustment to the contingent consideration related to the GHI acquisition ($9 million). The increase in adjusted income before income taxes reflects the previously mentioned increase in adjusted operating income and higher equity income ($4 million) primarily from incremental equity method earnings related to the investment in Pine Run.

Interest Expense and Income Taxes

Interest expense in Fiscal 2021 and Fiscal 2020 was $42 million in each period. Interest expense is attributable to borrowings on the Energy Services Term Loan, the Energy Services Credit Agreement and the Receivables Facility.

Income tax expense in Fiscal 2021 and Fiscal 2020 includes $16 million and $21 million, respectively, of tax benefits resulting from the carryback of an NOL under the CARES Act. Excluding this benefit, the effective income tax rate was approximately 28% in Fiscal 2021 compared to approximately 27% in the prior year.

Liquidity and Capital Resources

The Company expects to have sufficient liquidity including cash on hand and available borrowing capacity to continue to support long-term commitments and ongoing operations despite uncertainties associated with the outbreak and continued spread of COVID-19. The Company's liquidity has been positively influenced by continued low commodity prices experienced during Fiscal 2021 and overall decreased margin calls and collateral deposits associated with derivative instruments. In addition, the Company does not have any near-term term loan maturities. While the Company's operations and financial performance continue to be impacted by COVID-19, it is a rapidly evolving situation and the Company cannot predict the ultimate impact that COVID-19 will have on its liquidity, debt covenants, financial condition or the timing of capital expenditures. Energy Services was in compliance with all debt covenants as of September 30, 2021.

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

Our cash and cash equivalents totaled $197 million at September 30, 2021 and $23 million at September 30, 2020. Our restricted cash balances at September 30, 2021 and 2020, principally comprising cash in brokerage accounts that are restricted from withdrawal, totaled $21 million and $9 million, respectively. Our cash and cash equivalents at September 30, 2021 includes $79 million of cash collateral received from derivative counterparties resulting from the impact of rising commodity prices and an accumulation of derivative assets associated with our commodity derivative instruments. Our debt outstanding at September 30, 2021, totaled $716 million (including current maturities of long-term debt of $10 million). Our debt outstanding at September 30, 2020, totaled $740 million (including current maturities of long-term debt of $10 million and short-term borrowings of $19 million). Total long-term debt outstanding at September 30, 2021, including current maturities, comprises $684 million of Energy Services Term Loan and $42 million of other long-term debt principally comprising a finance lease liability, and is net of $10 million of unamortized debt issuance costs.

Credit Facilities

At September 30, 2021 and 2020, there were no borrowings outstanding under the Energy Services Credit Agreement. The average daily and peak short-term borrowings outstanding under the Energy Services Credit Agreement during Fiscal 2021 were $3 million and $32 million, respectfully. The average daily and peak short-term borrowings outstanding under the Energy Services Credit Agreement during Fiscal 2020 were $18 million and $77 million, respectively.

Receivables Facility. Energy Services also has a Receivables Facility with an issuer of receivables-backed commercial paper. On October 22, 2021, the expiration date of the Receivables Facility was extended to October 21, 2022. The Receivables Facility provides Energy Services with the ability to borrow up to $150 million of eligible receivables during the period November through April, and up to $75 million of eligible receivables during the period May through October. Energy Services uses the Receivables Facility to fund working capital, margin calls under commodity futures contracts, capital expenditures, dividends and for general corporate purposes.

At September 30, 2021, the outstanding balance of trade receivables was $61 million, none of which was sold to the bank. At September 30, 2020, the outstanding balance of trade receivables was $50 million of which $19 million was sold to the bank. Amounts sold to the bank are reflected as “Short-term borrowings” on the Consolidated Balance Sheets. During Fiscal 2021 and Fiscal 2020, peak sales of receivables were $87 million and $97 million, respectively. During Fiscal 2021 and 2020, average daily amounts sold were $21 million and $45 million, respectively.

Cash Flows

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

Cash flows from operating activities can be significantly affected by year-to-year variations in changes in operating working capital reflecting changes in energy commodity prices, principally changes in prices for natural gas. Cash flow from investing activity is principally affected by cash expenditures for property, plant and equipment and cash paid for acquisitions of businesses and assets. Changes in cash flow from financing activities are primarily due to issuances and repayments of long-term debt, short-term borrowings and capital contributions from, and cash distributions to, Enterprises.

Operating Activities: Cash flow from operating activities was $351 million in Fiscal 2021 compared to $212 million in Fiscal 2020. Cash flow from operating activities before changes in operating working capital was $250 million in Fiscal 2021 compared to $241 million in Fiscal 2020. Changes in operating working capital provided (used) operating cash flow of $101 million in Fiscal 2021 compared to $(29) million in Fiscal 2020. Changes in operating working capital in Fiscal 2021 principally reflect cash generated from changes in accounts payable and cash received from commodity derivative instrument collateral deposits.

Investing Activities: Cash flow used by investing activities was $114 million in Fiscal 2021 compared to $111 million in Fiscal 2020. Cash capital expenditures for property, plant and equipment totaled $54 million in Fiscal 2021 compared to $92 million in Fiscal 2020. Cash flow used by investing activities during Fiscal 2021 include contributions of $56 million to fund the acquisition of Pine Run Midstream, LLC.

Financing Activities: Cash flow used by financing activities was $51 million in Fiscal 2021 and $129 million in Fiscal 2020. Such cash flows during Fiscal 2021 included $25 million of cash distributions paid to Enterprises and $19 million of net repayments made on the Receivables Facility. During Fiscal 2020, such cash flows included $50 million of cash distributions to Enterprises and $27 million of net repayments on the Receivables Facility.

Capital Expenditures

Our capital expenditures include continued investments in midstream assets and renewable energy projects. During Fiscal 2021 and Fiscal 2020, our capital expenditures totaled $43 million and $92 million, respectively. The decrease in capital expenditures during Fiscal 2021 largely relates to use of funds to invest in Pine Run. We expect capital expenditures of approximately $130 million in Fiscal 2022 which include continued investments in midstream assets and renewable energy projects.

Contractual Obligations and Commitments

The following is a summary of our significant contractual obligations existing as of September 30, 2021:

	Payments Due by Period				
(Millions of dollars)	Total	Fiscal 2022	Fiscal 2023 - 2024	Fiscal 2025 - 2026	Thereafter
Long-term debt (a)	$ 726	$ 10	$ 14	$ 663	$ 39
Interest on long-term-fixed rate debt (a)(b)(c)	170	36	70	64	—
Operating leases	6	2	3	—	1
Supply contracts	1,202	466	252	103	381
Derivative instruments (d)	26	17	8	1	—
Total	$ 2,130	$ 531	$ 347	$ 831	$ 421

(a) Based upon stated maturity dates for debt outstanding at September 30, 2021.

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

(c) Calculated using applicable interest rates or forward interest rate curves and leverage ratios, as of September 30, 2021.

(d) Represents the sum of amounts due if derivative instrument liabilities were settled at the September 30, 2021 amounts reflected in the Consolidated Balance Sheet (but excluding amounts associated with interest rate contracts).

Related Party Transactions

See Note 14 to Consolidated Financial Statements for a discussion of related party transactions.

Recently Issued Accounting Pronouncements

See Note 3 to Consolidated Financial Statements for a discussion of the effects of recently issued accounting guidance.