

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2001

Commission file number 1-1398

UGI UTILITIES, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Pennsylvania
(STATE OR OTHER JURISDICTION
OF INCORPORATION OR ORGANIZATION)

23-1174060
(I.R.S. EMPLOYER IDENTIFICATION NO.)

100 Kachel Boulevard, Suite 400, Green Hills Corporate Center
Reading, PA 19607
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)

(610) 796-3400
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: None

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS REQUIRED
TO BE FILED BY SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING
THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS
REQUIRED TO FILE SUCH REPORTS) AND (2) HAS BEEN SUBJECT TO SUCH FILING
REQUIREMENTS FOR THE PAST 90 DAYS.

YES X NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405
of Regulation S-K is not contained herein, and will not be contained, to the
best of registrant's knowledge, in definitive proxy or information statements
incorporated by reference in Part III of this Form 10-K or any amendment to this
Form 10-K. [X]

At December 1, 2001 there were 26,781,785 shares of UGI Utilities Common Stock,
par value \$2.25 per share, outstanding, all of which were held, beneficially and
of record, by UGI Corporation.

TABLE OF CONTENTS

		PAGE
PART I	BUSINESS	
Items 1 and 2	Business and Properties.....	2
	General.....	2
	Gas Utility Operations.....	2
	Electric Utility Operations.....	6
Item 3	Legal Proceedings.....	11
Item 4	Submission of Matters to a Vote of Security Holders.....	13
PART II	SECURITIES AND FINANCIAL INFORMATION	
Item 5	Market for Registrant's Common Equity and Related Stockholder Matters.....	13
Item 6	Selected Financial Data.....	14
Item 7	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	15
Item 7A	Quantitative and Qualitative Disclosures About Market Risk.....	25
Item 8	Financial Statements and Supplementary Data.....	25
Item 9	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....	25
PART III	UGI UTILITIES, INC. MANAGEMENT AND SECURITY HOLDERS	
Item 10	Directors and Executive Officers of the Registrant.....	26
Item 11	Executive Compensation.....	31
Item 12	Security Ownership of Certain Beneficial Owners and Management.....	39
Item 13	Certain Relationships and Related Transactions.....	41
PART IV	ADDITIONAL EXHIBITS, SCHEDULES AND REPORTS	
Item 14	Exhibits, Financial Statement Schedules and Reports on Form 8-K.....	41
	Signatures.....	45
	Index to Financial Statements and Financial Statement Schedule.....	F-2

PART I: BUSINESS

ITEMS 1 AND 2. BUSINESS AND PROPERTIES

GENERAL

UGI Utilities, Inc. ("Utilities" or the "Company") is a public utility company that owns and operates (i) a natural gas distribution utility serving 14 counties in eastern and southeastern Pennsylvania ("Gas Utility"), and (ii) an electric utility serving parts of Luzerne and Wyoming counties in northeastern Pennsylvania ("Electric Utility"). In response to state deregulation legislation, effective October 1, 1999 we transferred our electric generation assets to our non-utility subsidiary, UGI Development Company ("UGID"). UGID contributed certain of its generation assets to a joint venture with a subsidiary of Allegheny Energy, Inc. in December 2001. We are a wholly owned subsidiary of UGI Corporation ("UGI").

Utilities was incorporated in Pennsylvania in 1925 as the successor to a business founded in 1882. We are subject to regulation by the Pennsylvania Public Utility Commission ("PUC"). Our executive offices are located at 100 Kachel Boulevard, Suite 400, Green Hills Corporate Center, Reading, Pennsylvania 19607, and our telephone number is (610) 796-3400. In this report, the terms "Company" and "Utilities," as well as the terms, "our," "we," and "its," are sometimes used to refer to UGI Utilities, Inc. or, collectively, UGI Utilities, Inc. and its consolidated subsidiaries.

GAS UTILITY OPERATIONS

NATURAL GAS CHOICE AND COMPETITION ACT

On June 22, 1999, Pennsylvania's Natural Gas Choice and Competition Act ("Gas Competition Act") was signed into law. The purpose of the Gas Competition Act was to provide all natural gas consumers in Pennsylvania with the ability to purchase their gas supplies from the supplier of their choice. Under the Gas Competition Act, natural gas distribution companies ("NGDCs") like Gas Utility may continue to sell gas to customers, and such sales of gas, as well as distribution services provided by NGDCs, continue to be subject to price regulation by the Pennsylvania Public Utility Commission ("PUC").

Generally, Pennsylvania NGDCs will serve as the supplier of last resort for all residential and small commercial and industrial customers unless the PUC approves another supplier of last resort. The Gas Competition Act requires energy marketers seeking to serve customers of NGDCs to accept assignment of a portion of the NGDC's interstate pipeline capacity and storage contracts at contract rates, thus avoiding the creation of stranded costs.

On October 1, 1999, Gas Utility filed its restructuring plan with the PUC pursuant to the Gas Competition Act. On June 29, 2000, the PUC entered its order ("Gas Restructuring Order") approving Gas Utility's restructuring plan substantially as filed. Gas Utility designed its

restructuring plan to ensure reliability of gas supply deliveries to Gas Utility on behalf of residential and small commercial customers. In addition, the plan changed Gas Utility's base rates for firm customers. It also changed the calculation of purchased gas cost rates. See "Utility Regulation and Rates."

Since October 1, 2000, all of Gas Utility's customers have had the option to purchase their gas supplies from an alternative gas supplier. Large commercial and industrial customers of Gas Utility have been able to purchase their gas from other suppliers since 1982. During fiscal year 2001, no third party supplier qualified to serve any residential or small commercial customer in Gas Utility's service territory. Management believes neither the Gas Competition Act nor the Gas Restructuring Order will have a material adverse impact on the Company's financial condition or results of operations.

SERVICE AREA; REVENUE ANALYSIS

Gas Utility distributes natural gas to approximately 277,000 customers in portions of 14 eastern and southeastern Pennsylvania counties through its distribution system of approximately 4,600 miles of gas mains. The service area consists of approximately 3,000 square miles and includes the cities of Allentown, Bethlehem, Easton, Harrisburg, Hazleton, Lancaster, Lebanon and Reading, Pennsylvania. Located in Gas Utility's service area are major production centers for basic industries such as specialty metals, aluminum and glass. For the fiscal years ended September 30, 2001, 2000 and 1999, revenues of Gas Utility accounted for approximately 86%, 82% and 82%, respectively, of our total consolidated revenues.

System throughput (the total volume of gas sold to or transported for customers within Gas Utility's distribution system) for the 2001 fiscal year was approximately 77.3 billion cubic feet ("bcf"). System sales of gas accounted for approximately 45% of system throughput, while gas transported for commercial and industrial customers (who bought their gas from others) accounted for approximately 55% of system throughput. Based on industry data for 1999, residential customers account for approximately 33% of total system throughput by local gas distribution companies in the United States. By contrast, for the 2001 fiscal year, Gas Utility's residential customers represented 26% of its total system throughput.

SOURCES OF SUPPLY AND PIPELINE CAPACITY

Gas Utility meets its service requirements by utilizing a diverse mix of natural gas purchase contracts with producers and marketers, and storage and transportation service contracts. These arrangements enable Gas Utility to purchase gas from Gulf Coast, Mid-Continent, Appalachian and Canadian sources. For the transportation and storage function, Utilities has agreements with a number of pipeline companies, including Texas Eastern Transmission Corporation, Columbia Gas Transmission Corporation and Transcontinental Gas Pipeline Corporation.

GAS SUPPLY CONTRACTS

During fiscal year 2001, Gas Utility purchased approximately 37 bcf of natural gas for sale to customers. Approximately 92% of the volumes purchased were supplied under agreements with nine major suppliers of natural gas. The remaining 8% of gas purchased was supplied by 30 producers and marketers. Gas supply contracts are generally no longer than one year.

SEASONAL VARIATION

Because many of its customers use gas for heating purposes, Gas Utility's sales are seasonal. Approximately 61% of fiscal year 2001 throughput and approximately 71% of earnings before interest expense, income taxes, depreciation and amortization occurred during the winter season from November through March.

COMPETITION

Natural gas is a fuel that competes with electricity and oil, and to a lesser extent, with propane and coal. Competition among these fuels is primarily a function of their comparative price and the relative cost and efficiency of fuel utilization equipment. Electric utilities in Gas Utility's service area are seeking new load, primarily in the new construction market. Fuel oil dealers compete for customers in all categories, including industrial customers. Gas Utility responds to this competition with marketing efforts designed to retain and grow its customer base.

In substantially all of its service territory, Gas Utility is the only regulated gas distribution utility having the right, granted by the PUC or by law, to provide gas distribution services. Under the Gas Competition Act, retail customers may purchase their natural gas from a supplier other than Gas Utility. Commercial and industrial customers in Gas Utility's service territory have been able to do this since 1982. Gas Utility will provide transportation services for residential and small commercial retail customers who purchase natural gas from others, however, as of December 1, 2001, no marketer had qualified to serve those customers.

Many of Gas Utility's commercial and industrial customers have the ability to switch to an alternate fuel at any time and, therefore, are served on an interruptible basis under rates which are competitively priced with respect to their alternate fuel. Gas Utility's profitability from these customers, therefore, is affected by the difference, or "spread," between the customers' delivered cost of gas and the customers' delivered alternate fuel cost. See "Utility Regulation and Rates - Gas Utility Rates." Commercial and industrial customers representing 17% of total system throughput have locations which afford them the option, although none has exercised it, of seeking transportation service directly from interstate pipelines, thereby bypassing Gas Utility. The majority of customers in this group are served under transportation contracts having three- to twenty-year terms. Included in these two groups are Utilities' ten largest customers in terms of annual volume. All of these customers have contracts with Utilities, eight of which extend into fiscal year 2004. No single customer represents, or is anticipated to represent, more than 1% of the total revenues of Gas Utility.

OUTLOOK FOR GAS SERVICE AND SUPPLY

Gas Utility anticipates having adequate pipeline capacity and sources of supply available to it to meet the full requirements of all firm customers on its system through fiscal year 2002. Supply mix is diversified, market priced, and delivered pursuant to a number of long- and short-term firm transportation and storage arrangements, including transportation contracts held by some of Utilities' larger customers.

During fiscal year 2001, Gas Utility supplied transportation service to two major cogeneration installations and two utility generation sites. Gas Utility continues to pursue opportunities to supply natural gas to electric generation projects located in its service territory. Gas Utility also continues to seek new residential, commercial and industrial customers for both firm and interruptible service. In the residential market sector, Gas Utility connected approximately 8,300 residential heating customers during fiscal year 2001, a 5% increase from the previous year. Of those new customers, new home construction accounted for over 6,000 heating customers. Customers converting from other energy sources, primarily oil, and existing non-heating gas customers who have added gas heating systems to replace other energy sources, accounted for the balance of the additions. The number of new commercial and industrial customers was over 1,000.

Utilities continues to monitor and participate extensively in rulemaking and individual rate and tariff proceedings before the Federal Energy Regulatory Commission ("FERC") affecting the rates and the terms and conditions under which Gas Utility transports and stores natural gas. Among these proceedings are those arising out of certain FERC orders and/or pipeline filings which relate to (i) the pricing of pipeline services in a competitive energy marketplace; (ii) the flexibility of the terms and conditions of pipeline service tariffs and contracts; and (iii) pipelines' requests to increase their base rates, or change the terms and conditions of their storage and transportation services.

Gas Utility's objective in negotiations with interstate pipeline and natural gas suppliers, and in litigation before regulatory agencies, is to assure availability of supply, transportation and storage alternatives to serve market requirements at the lowest cost possible, taking into account the need for security of supply. Consistent with that objective, Gas Utility negotiates the terms of firm transportation capacity on all pipelines serving Gas Utility, arranges for appropriate storage and peak-shaving resources, negotiates with producers for competitively priced gas purchases and aggressively participates in regulatory proceedings related to transportation rights and costs of service.

ELECTRIC UTILITY OPERATIONS

ELECTRICITY GENERATION CUSTOMER CHOICE AND COMPETITION ACT

On January 1, 1997, Pennsylvania's Electricity Generation Customer Choice and Competition Act ("ECC Act") became effective. The ECC Act permits all Pennsylvania retail electric customers to choose their electric generation supplier. Pursuant to the Act, all electric utilities were required to file restructuring plans with the PUC which, among other things, included unbundled prices for electric generation, transmission and distribution and a competitive transition charge (CTC) for the recovery of "stranded costs" which would be paid by all customers receiving distribution service. Stranded costs generally are electric generation-related costs that traditionally would be recoverable in a regulated environment but may not be recoverable in a competitive electric generation market. Under the ECC Act, Electric Utility generally may not increase prices for electric generation as long as stranded costs are being recovered through the CTC. In accordance with the restructuring proceedings discussed below, Utilities expects to collect a CTC from commercial and industrial customers until September 2002 and from all other distribution customers until May 2003. Under the ECC Act, Electric Utility remains obligated to provide energy at the capped rates to customers who do not choose alternate suppliers. Electric Utility will continue to be the only regulated electric utility having the right, granted by the PUC or by law, to distribute electric energy in its service territory.

On June 19, 1998, the PUC entered its Opinion and Order (the "Restructuring Order") in Electric Utility's restructuring proceeding under the ECC Act. The Restructuring Order authorized Electric Utility to recover from its customers approximately \$32.5 million in stranded costs (on a full revenue requirements basis, which includes all income and gross receipts taxes) over a four-year period which commenced January 1, 1999 through a CTC, together with carrying charges on unrecovered balances of 7.94%. Electric Utility's recoverable stranded costs include approximately \$8.7 million for the termination of a 1993 power purchase agreement with Foster Wheeler Penn Resources, Inc., an independent power producer. Since January 1, 1999, all of Electric Utility's customers have been permitted to select an alternative electric generation supplier. Customers choosing another supplier currently receive an average generation "shopping credit" (developed from system-wide generation rates) of 4.3 cents per kilowatt hour ("kwh"), which will remain in effect until recovery of the CTC is complete.

Electric Utility estimates that its power generation rates will remain capped for commercial and industrial customers until September 2002 and for all other customers until May 2003. Because Electric Utility has discontinued regulatory accounting, which permitted it to adjust customer charges to reflect changes in Electric Utility's power costs, quarterly results have been, and future results are likely to be, more volatile than they were prior to deregulation, due in large part to seasonal variations in such costs. Results will also be affected by the number of customers who choose to purchase their power from other suppliers during any given time period.

SERVICE AREA; REVENUE ANALYSIS

Electric Utility supplies electric service to approximately 61,400 customers in portions of Luzerne and Wyoming Counties in northeastern Pennsylvania through a system consisting of approximately 2,100 miles of transmission and distribution lines and 14 transmission substations. For fiscal year 2001, about 51% of sales volume came from residential customers, 32% from commercial customers and 9% from industrial customers. Non-tariff sales of electricity and miscellaneous income accounted for 8% of sales volume. Electricity transported for customers who purchased their power from others pursuant to the ECC Act represented approximately 2% of fiscal year 2001 sales volume. For the 2001, 2000 and 1999 fiscal years, revenues of Electric Utility accounted for approximately 14%, 18% and 18%, respectively, of our total consolidated revenues.

SOURCES OF SUPPLY

Effective October 1, 1999, Utilities transferred its electric generation assets to its non-utility subsidiary, UGI Development Company ("UGID"). These generation assets consisted principally of Utilities' Hunlock generating station ("Hunlock Station"), located near Kingston, Pennsylvania and its 1.11% interest in the Conemaugh generating station ("Conemaugh Station"), located near Johnstown, Pennsylvania. Effective December 8, 2000, UGID entered into a partnership with a subsidiary of Allegheny Energy, Inc. for the purpose of owning and operating electric generation facilities. UGID contributed Hunlock Station, coal inventory and \$6 million to the partnership and Allegheny contributed a 44 megawatt gas combustion electric generator. UGID has the right to purchase half the output of the partnership's generation at cost. During fiscal year 2001, Electric Utility purchased approximately 30% of its energy requirements from UGID. Electric Utility has contracts in place or control over generation representing most of its expected on-peak energy requirements for fiscal year 2002. It plans to meet the balance of its energy needs with short-term contracts and spot market purchases.

Electric Utility distributes both electricity that it purchases from others (including UGID) and electricity that customers purchase from other suppliers. At September 30, 2001, alternate suppliers served customers representing less than 2% of system load. Electric Utility expects to continue to provide energy to the great majority of its customers.

ENVIRONMENTAL FACTORS

The operation of Hunlock Station complies with the air quality standards of the Pennsylvania Department of Environmental Resources ("DER") with respect to stack emissions. Under the Federal Water Pollution Control Act, UGID has a permit from the DER to discharge water from Hunlock Station into the North Branch of the Susquehanna River. The Federal Clean Air Act Amendments of 1990 (the "Clean Air Act Amendments") impose emissions limitations for certain compounds, including sulfur dioxide and nitrous oxides. Both the Conemaugh Station and the Hunlock Station are in material compliance with these emission standards.

SEASONALITY

Sales and distribution of electricity for residential heating purposes accounted for approximately 21% of the total sales of Electric Utility during fiscal year 2001. Electricity competes with natural gas, oil, propane and other heating fuels in this use. Approximately 54% of volume occurred during the six coldest months of fiscal year 2001 (November through April), demonstrating modest seasonality favoring winter due to the use of electricity for residential heating purposes.

UTILITY REGULATION AND RATES

PENNSYLVANIA PUBLIC UTILITY COMMISSION JURISDICTION

Utilities' gas and electric utility operations, which exclude electric generation, are subject to regulation by the PUC as to rates, terms and conditions of service, accounting matters, issuance of securities, contracts and other arrangements with affiliated entities, and various other matters. As noted earlier, effective October 1, 1999, Utilities contributed its electric generation assets to UGID. UGID has FERC authority to sell power at market-based rates. Generally, UGID is not subject to regulation by the PUC.

FERC ORDERS 888 AND 889

In April 1996, FERC issued Orders No. 888 and 889, which established rules for the use of electric transmission facilities for wholesale transactions. FERC has also asserted jurisdiction over the transmission component of electric retail choice transactions. In compliance with these orders, the PJM Interconnection, LLC ("PJM"), of which Utilities is a member, has filed an open access transmission tariff with the FERC establishing transmission rates and procedures for transmission within the PJM control area. Under the PJM tariff and associated agreements, Electric Utility is entitled to receive certain revenues when its transmission facilities are used by third parties.

GAS UTILITY RATES

The Gas Restructuring Order included an increase in firm, core-market base rates, effective October 1, 2000. The increase, calculated in accordance with the Gas Competition Act, was designed to generate approximately \$16.7 million in additional annual revenues. The Order also provided that Gas Utility reduce its purchased gas cost rates by an annualized amount of \$16.7 million for the first 14 months following the base rate increase.

Beginning December 1, 2001, Gas Utility must reduce its purchased gas cost rates by an amount equal to the margin it receives from customers served under interruptible rates to the extent they use capacity contracted for by Gas Utility for core-market requirements. As a result of these changes in its regulated rates, Gas Utility expects that the risk to operating results associated with year-to-year fluctuations in interruptible revenues will be mitigated and that

operating results will be more sensitive to heating season weather and less sensitive to market prices of alternative fuel than in the past.

BASE RATES

As stated above, Gas Utility's current base rates went into effect October 1, 2000 pursuant to The Gas Restructuring Order. See Note 2 to the Company's Consolidated Financial Statements.

PURCHASED GAS COST RATES

Gas Utility's gas service tariff contains Purchased Gas Cost ("PGC") rates which provide for annual increases or decreases in the rate per thousand cubic feet ("mcf") which Gas Utility charges for natural gas sold by it, to reflect Utilities' projected cost of purchased gas. PGC rates may also be adjusted quarterly, or monthly, to reflect purchased gas costs. Each proposed annual PGC rate is required to be filed with the PUC six months prior to its effective date. During this period the PUC holds hearings to determine whether the proposed rate reflects a least-cost fuel procurement policy consistent with the obligation to provide safe, adequate and reliable service. After completion of these hearings, the PUC issues an order permitting the collection of gas costs at levels which meet that standard. The PGC mechanism also provides for an annual reconciliation. Utilities has two PGC rates. PGC (1) is applicable to small, firm, core market customers consisting of the residential and small commercial and industrial classes; PGC (2) is applicable to firm, contractual, high-load factor customers served on three separate rates. In addition, residential customers maintaining a high load factor may qualify for the PGC (2) rate. The Gas Restructuring Order provided for initial adjustments to Gas Utility's PGC rates as described above, as well as ongoing adjustments, commencing December 1, 2001, to reflect margins, if any, from interruptible rate customers who do not obtain their own pipeline capacity.

ELECTRIC UTILITY RATES

Electric Utility's rates for electric generation are capped through approximately September 2002 for commercial and industrial customers and approximately May 2003 for all other customers. See "Electricity Generation Customer Choice and Competition Act." The ECC Act obligates Electric Utility to act as "provider of last resort" to customers who do not choose alternate generation suppliers. Electric Utility is actively participating in the regulatory process to ensure that Electric Utility recovers all its costs of providing generation when the rate cap period ends.

STATE TAX SURCHARGE CLAUSES

Utilities' gas and electric service tariffs contain state tax surcharge clauses. The surcharges are recomputed whenever any of the tax rates included in their calculation are changed. These clauses protect Utilities from the effect of increases in most of the Pennsylvania taxes to which it is subject, however, any increase in Electric Utility's state tax surcharge is generally subject to the rate caps discussed above.

UTILITY FRANCHISES

Utilities holds certificates of public convenience issued by the PUC and certain "grandfather rights" predating the adoption of the Pennsylvania Public Utility Code and its predecessor statutes which it believes are adequate to authorize it to carry on its business in substantially all the territory to which it now renders gas and electric service. Under applicable Pennsylvania law, Utilities also has certain rights of eminent domain as well as the right to maintain its facilities in streets and highways in its territories.

OTHER GOVERNMENT REGULATION

In addition to regulation by the PUC, the gas and electric utility operations of Utilities are subject to various federal, state and local laws governing environmental matters, occupational health and safety, pipeline safety and other matters. Certain of Utilities' activities involving the interstate movement of natural gas, the transmission of electricity, transactions with non-utility generators of electricity, like UGID, and other matters, are also subject to the jurisdiction of FERC.

Utilities is subject to the requirements of the federal Resource Conservation and Recovery Act, CERCLA and comparable state statutes with respect to the release of hazardous substances on property owned or operated by Utilities. See ITEM 3. "LEGAL PROCEEDINGS -- Environmental Matters-Manufactured Gas Plants." The electric generation activities of Utilities are also subject to the Clean Air Act Amendments, the Federal Water Pollution Control Act and comparable state statutes and regulations. See "ELECTRIC UTILITY OPERATIONS -- Environmental Factors."

EMPLOYEES

At September 30, 2001, Utilities and its subsidiaries had approximately 1,100 employees.

BUSINESS SEGMENT INFORMATION

The table stating the amounts of revenues, operating income (loss) and identifiable assets attributable to Utilities' operating segments for the 2001, 2000 and 1999 fiscal years appears in Note 10 "Segment Information" of Notes to Consolidated Financial Statements included in this Report and is incorporated herein by reference.

ITEM 3. LEGAL PROCEEDINGS

With the exception of the matters set forth below, no material legal proceedings are pending involving Utilities, any of its subsidiaries or any of their properties, and no such proceedings are known to be contemplated by governmental authorities.

Environmental Matters - Manufactured Gas Plants

In the late 1800s through the mid-1900s, UGI Utilities and its former subsidiaries owned and operated a number of manufactured gas plants ("MGPs") prior to the general availability of natural gas. Some constituents of coal tars and other residues of the manufactured gas process are today considered hazardous substances under the Superfund Law and may be present on the sites of former MGPs. Between 1882 and 1953, UGI Utilities owned the stock of subsidiary gas companies in Pennsylvania and elsewhere and also operated the business of some gas companies under agreement. Pursuant to the requirements of the Public Utility Holding Company Act of 1935, UGI Utilities divested all of its utility operations other than those which now constitute Gas Utility and Electric Utility.

UGI Utilities does not expect its costs for investigation and remediation of hazardous substances at Pennsylvania MGP sites to be material to its results of operations because UGI Utilities is currently permitted to include in rates, through future base rate proceedings, prudently incurred remediation costs associated with such sites. UGI Utilities has been notified of several sites outside Pennsylvania on which (1) MGPs were formerly operated by it or owned or operated by its former subsidiaries and (2) either environmental agencies or private parties are investigating the extent of environmental contamination or performing environmental remediation. UGI Utilities is currently litigating two claims against it relating to out-of-state sites.

Fishbein Family Partnership v. PPG Industries, Inc., et al. In July 1993, Public Service Electric and Gas Company ("PSE&G") joined Utilities as a third-party defendant in a civil action in the United States District Court for the District of New Jersey, seeking damages as a result of contamination relating to the former manufactured gas plant operations at Halladay Street in Jersey City, New Jersey. The case principally involved claims by the Fishbein Family Partnership against PPG Industries, Inc. for damages associated with chemical contamination unrelated to gas plant operations. In November 2001, the parties agreed voluntarily to dismiss all claims by and against PSE&G without prejudice. Thus, all claims against Utilities will be dismissed, although they could be re-instituted in the future.

Consolidated Edison Company of New York v. UGI Utilities, Inc. On September 20, 2001, Consolidated Edison Company of New York ("ConEd") filed suit against UGI Utilities, Inc. in the United States District Court for the Southern District of New York, seeking contribution from Utilities for an allocated share of response costs associated with investigating and assessing gas plant related contamination at former manufactured gas plant sites in eleven communities in Westchester County, New York. The complaint alleges that Utilities "owned and operated" the plants prior to 1904. The complaint also seeks a declaration that Utilities is responsible for an

allocated percentage of future investigative and remedial costs at the sites. ConEd has not stated the amount of the costs it has incurred to date and has provided no information on which Utilities could make an estimate. Utilities is currently investigating its involvement at these sites.

EnergyNorth Natural Gas, Inc. v. UGI Utilities, Inc. By letter dated October 26, 2000, EnergyNorth Natural Gas, Inc. ("EnergyNorth") notified Utilities that it has filed suit in the United States District Court for the District of New Hampshire, seeking contribution from Utilities for response and remediation costs associated with contamination on the site of a former manufactured gas plant allegedly operated by former subsidiaries of Utilities. EnergyNorth has not stated the amount of the costs and has provided no information on which Utilities could make an estimate. Utilities is currently investigating its involvement with this site and is actively defending the suit.

Management believes that under applicable law UGI Utilities should not be liable in those instances in which a former subsidiary operated an MGP. There could be, however, significant future costs of an uncertain amount associated with environmental damage caused by MGPs outside Pennsylvania that UGI Utilities directly operated, or that were owned or operated by former subsidiaries of UGI Utilities, if a court were to conclude that the subsidiary's separate corporate form should be disregarded.

RELATED MATTER

UGI Utilities, Inc. v. Insurance Co. of North America, et. al. On February 11, 1999, UGI Utilities, Inc. filed suit in the Court of Common Pleas of Montgomery County, Pennsylvania against more than fifty insurance companies, including Insurance Services, Ltd. (AEGIS). The complaint alleges that the defendants breached contracts of insurance by failing to indemnify Utilities for certain environmental costs. To date, Utilities has recovered a significant portion of its claims through settlements with most of the defendants, including AEGIS. The court has not yet set a date for trial of the claims against the remaining defendants.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders during the last fiscal quarter of fiscal year 2001.

PART II: SECURITIES AND FINANCIAL INFORMATION

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY
AND RELATED STOCKHOLDER MATTERS

MARKET INFORMATION

All of the outstanding shares of the Company's Common Stock are owned by UGI and are not publicly traded.

DIVIDENDS

Cash dividends declared on the Company's Common Stock totaled \$35.3 million in fiscal year 2001, \$44 million in fiscal year 2000 and \$29 million in fiscal year 1999. In addition, during fiscal year 2001, the Company declared a non-cash dividend of property with a net book value of \$4.3 million.

ITEM 6. SELECTED FINANCIAL DATA

	Year Ended September 30,				
	2001	2000	1999	1998	1997
	----	----	----	----	----
	(Thousands of dollars)				
FOR THE PERIOD:					
INCOME STATEMENT DATA:					
Revenues	\$584,762	\$436,942	\$420,647	\$422,283	\$461,208
	=====	=====	=====	=====	=====
Net income	\$ 48,137	\$ 50,476	\$ 38,868	\$ 35,551	\$ 38,711
Dividends on preferred stock	1,550	1,550	1,550	2,160	2,764
	-----	-----	-----	-----	-----
Net income after dividends on preferred stock	\$ 46,587	\$ 48,926	\$ 37,318	\$ 33,391	\$ 35,947
	=====	=====	=====	=====	=====
AT PERIOD END:					
BALANCE SHEET DATA:					
Total assets	\$784,409	\$751,137	\$717,169	\$690,317	\$681,378
	=====	=====	=====	=====	=====
Capitalization:					
Debt:					
Bank loans	\$ 57,800	\$100,400	\$ 87,400	\$ 68,400	\$ 67,000
Long-term debt including current maturities:	208,477	172,924	180,047	187,170	169,294
	-----	-----	-----	-----	-----
Total debt	266,277	273,324	267,447	255,570	236,294
	-----	-----	-----	-----	-----
Preferred stock subject to mandatory redemption	20,000	20,000	20,000	20,000	35,187
Common equity	235,757	224,473	219,560	211,242	200,494
	-----	-----	-----	-----	-----
Total capitalization	\$522,034	\$517,797	\$507,007	\$486,812	\$471,975
	=====	=====	=====	=====	=====
RATIO OF CAPITALIZATION:					
Total debt	51.0%	52.8%	52.8%	52.5%	50.0%
UGI Utilities preferred stock	3.8%	3.9%	3.9%	4.1%	7.5%
Common equity	45.2%	43.3%	43.3%	43.4%	42.5%
	-----	-----	-----	-----	-----
	100.0%	100.0%	100.0%	100.0%	100.0%
	=====	=====	=====	=====	=====

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS
OF OPERATIONS

FISCAL 2001 COMPARED WITH FISCAL 2000

Year Ended September 30, ----- (Millions of dollars)	2001 ----	2000 ----	Increase (Decrease) -----	
GAS UTILITY:				
Revenues	\$500.8	\$359.0	\$141.8	39.5%
Total margin (a)	\$177.9	\$170.8	\$ 7.1	4.2%
EBITDA (b)	\$108.0	\$105.3	\$ 2.7	2.6%
Operating income	\$ 87.8	\$ 86.2	\$ 1.6	1.9%
System throughput - bcf	77.3	79.7	(2.4)	(3.0)%
Degree days - % colder (warmer) than normal	2.0%	(9.9)%	--	--
ELECTRIC UTILITY:				
Revenues	\$ 83.9	\$ 77.9	\$ 6.0	7.7%
Total margin (a)	\$ 28.6	\$ 40.5	\$(11.9)	(29.4)%
EBITDA (b)	\$ 14.3	\$ 19.6	\$ (5.3)	(27.0)%
Operating income	\$ 10.7	\$ 15.1	\$ (4.4)	(29.1)%
Distribution sales - gwh	945.5	907.2	38.3	4.2%

bcf - billions of cubic feet. gwh - millions of kilowatt hours.

- (a) Total margin represents revenues less cost of sales and revenue-related taxes, i.e. gross receipts taxes. For financial statement purposes, gross receipts taxes are included in "taxes other than income taxes" on the Consolidated Statements of Income. As of January 1, 2000, Pennsylvania's Natural Gas Choice and Competition Act eliminated the gross receipts tax on sales of natural gas.
- (b) EBITDA (earnings before interest expense, income taxes, depreciation and amortization) should not be considered as an alternative to net income (as an indicator of operating performance) or as an alternative to cash flow (as a measure of liquidity or ability to service debt obligations) and is not a measure of performance or financial condition under accounting principles generally accepted in the United States.

GAS UTILITY. Although temperatures based upon heating degree days were colder in Fiscal 2001, total system throughput declined 3.0% as the impact of the colder weather was more than offset by lower interruptible and firm delivery service volumes, the impact of price-induced customer conservation, and the effects of a slowing economy. Natural gas prices were significantly higher in Fiscal 2001 than in the prior year. The higher prices resulted in fuel switching by many of our interruptible customers, who have the ability to switch to alternate fuels, and encouraged price-

induced conservation by many of our firm customers. Throughput to our firm-residential, commercial and industrial ("core-market") customers increased 3.3 bcf (10.6%) reflecting the impact of the colder Fiscal 2001 weather.

The significant increase in Gas Utility revenues is primarily a result of higher core-market revenues reflecting greater purchased gas cost ("PGC") rates and higher off-system sales revenues. Gas Utility's tariffs permit it to pass through prudently incurred gas costs to its core-market customers through higher PGC rates.

Gas Utility cost of gas totaled \$322.9 million in Fiscal 2001 compared with \$184.2 million in Fiscal 2000 principally reflecting the higher average PGC rates and, to a lesser extent, higher core-market and off-system sales.

Gas Utility total margin increased \$7.1 million reflecting a \$12.1 million increase in core-market margin partially offset by lower total margin from interruptible customers. The decline in interruptible margin reflects lower average interruptible unit margins due to a decline in the spread between oil and natural gas prices and the lower interruptible throughput.

Gas Utility EBITDA increased \$2.7 million as the previously mentioned increase in total margin and higher pension income resulting primarily from the impact of investment gains in prior years was partially offset by higher operating and administrative expenses. The increase in operating and administrative expenses includes, among other things, greater allowances for uncollectible accounts reflecting significantly higher Fiscal 2001 customer bills and lower income from environmental insurance litigation settlements. Such settlements totaled \$0.9 million in Fiscal 2001 compared with \$4.5 million in Fiscal 2000. Depreciation expense increased \$1.1 million reflecting greater depreciation associated with distribution system capital expenditures.

ELECTRIC UTILITY. Distribution system sales in Fiscal 2001 increased 4.2% on favorable weather. Revenues increased as a result of the higher distribution system sales as well as off-system sales of electricity generated by Energy Ventures, our joint-venture electricity generation business (see "Regulatory Matters" below). Cost of sales totaled \$51.9 million in Fiscal 2001 compared to \$33.9 million in the prior year. The increase reflects higher per-unit purchased power costs, the impact on cost of sales resulting from the formation of Energy Ventures, and the higher Fiscal 2001 sales.

Electric Utility total margin decreased \$11.9 million as a result of the higher purchased power costs. Because the generation component of Electric Utility's rates are currently subject to rate caps, increases in the cost of electricity purchased by Electric Utility negatively impacts earnings. EBITDA declined less than the decline in total margin principally reflecting lower power production expenses subsequent to the formation of Energy Ventures and lower utility realty taxes. Depreciation expense decreased \$0.9 million reflecting the impact of the formation of Energy Ventures.

INTEREST EXPENSE. The greater interest expense in Fiscal 2001 resulted primarily from greater long-term debt outstanding.

FISCAL 2000 COMPARED WITH FISCAL 1999

Year Ended September 30, ----- (Millions of dollars)	2000 ----	1999 ----	Increase -----	
GAS UTILITY:				
Revenues	\$359.0	\$345.6	\$ 13.4	3.9%
Total margin	\$170.8	\$160.6	\$ 10.2	6.4%
EBITDA	\$105.3	\$ 87.0	\$ 18.3	21.0%
Operating income	\$ 86.2	\$ 68.0	\$ 18.2	26.8%
System throughput - bcf	79.7	76.1	3.6	4.7%
Degree days - % (warmer) than normal	(9.9)%	(12.8)%	--	--
ELECTRIC UTILITY:				
Revenues	\$ 77.9	\$ 75.0	\$ 2.9	3.9%
Total margin	\$ 40.5	\$ 38.6	\$ 1.9	4.9%
EBITDA	\$ 19.6	\$ 16.8	\$ 2.8	16.7%
Operating income	\$ 15.1	\$ 12.8	\$ 2.3	18.0%
Distribution sales - gwh	907.2	900.4	6.8	0.8%

GAS UTILITY. Weather in Gas Utility's service territory was 9.9% warmer than normal in Fiscal 2000 but 3.8% colder than in Fiscal 1999. The increase in system throughput during Fiscal 2000 resulted from higher interruptible delivery service volumes and higher sales to our core-market customers.

The increase in Gas Utility's revenues during Fiscal 2000 principally resulted from (1) a \$13.1 million increase in core-market revenues reflecting higher sales and higher average PGC rates partially offset by the impact of the elimination of gross receipts tax revenue effective January 1, 2000 pursuant to Pennsylvania's Gas Competition Act and (2) a \$5.9 million increase in revenues from interruptible customers. These increases in revenue were partially offset by lower off-system sales and firm delivery service revenues. Gas Utility cost of gas was \$184.2 million in Fiscal 2000 compared with \$172.0 million in Fiscal 1999. The increase reflects higher average PGC rates and higher core-market sales partially offset by lower costs associated with the decline in off-system sales.

Gas Utility total margin increased \$10.2 million reflecting (1) a \$4.2 million increase in total interruptible retail and interruptible delivery service margin; (2) a \$4.9 million increase in core-market margin; and (3) slightly higher firm delivery service total margin.

Gas Utility EBITDA and operating income increased \$18.3 million and \$18.2 million, respectively, as a result of (1) the higher total margin; (2) a \$5.0 million increase in other income; and (3) a decrease in net operating expenses. Other income in Fiscal 2000 includes, among other things, (1) income from the refund of revenue-related tax overpayments made in prior years

(including associated interest); (2) interest income from PGC undercollections; and (3) higher income from a construction project and other activities. Gas Utility's net operating expenses declined \$3.1 million, despite an increase in distribution system maintenance expenses, principally reflecting (1) \$4.5 million in income from insurance litigation settlements and (2) \$0.9 million from adjustments to incentive compensation accruals.

ELECTRIC UTILITY. Electric sales for Fiscal 2000 increased 0.8% on weather that was slightly colder than in the prior year. Revenues increased as a result of the higher sales as well as an increase in transmission revenues from wholesale transmission services which have been unbundled as a result of electric customer choice. Cost of sales increased to \$33.9 million in Fiscal 2000 from \$33.2 million in Fiscal 1999 reflecting the higher sales and higher costs associated with wholesale transmission services.

Electric Utility total margin increased \$1.9 million principally reflecting the impact of lower average power costs and higher sales. EBITDA and operating income also increased reflecting higher total margin and a \$2.5 million increase in other income principally from the sale of pollution credits. These increases were partially offset by higher utility realty taxes and greater power production maintenance expenses.

INTEREST EXPENSE. The higher interest expense in Fiscal 2000 is primarily a result of greater levels of bank loan debt outstanding.

FINANCIAL CONDITION AND LIQUIDITY

CAPITALIZATION AND LIQUIDITY

Utilities' debt outstanding at September 30, 2001 totaled \$266.3 million. Included in this amount is \$57.8 million under revolving credit agreements.

Utilities may borrow up to a total of \$97 million under its revolving credit agreements. The revolving credit agreements contain financial covenants including interest coverage ratios, minimum working capital, and minimum tangible net worth. In November 2001, Utilities filed a shelf registration statement with the U.S. Securities and Exchange Commission covering a total of \$123 million of debt securities. The registration statement was declared effective on November 6, 2001.

Management believes that Utilities' cash flow from operations and borrowings under its bank credit agreements will satisfy Utilities' cash needs in Fiscal 2002. For a more detailed discussion of Utilities' debt and credit facilities, see Note 3 to Consolidated Financial Statements.

CASH FLOWS

OPERATING ACTIVITIES. Cash provided by operating activities was \$76.1 million in Fiscal 2001 compared to \$81.4 million in Fiscal 2000. Cash flow before changes in operating working capital was \$72.3 million in Fiscal 2001 compared with \$83.3 million in Fiscal 2000. Changes in operating working capital provided \$3.8 million of cash in Fiscal 2001. In Fiscal 2000, changes in operating working capital required \$1.9 million of operating cash flows.

INVESTING ACTIVITIES. Expenditures for property, plant and equipment totaled \$36.8 million in Fiscal 2001 compared with \$36.4 million in Fiscal 2000. In December 2001, the Company contributed \$6 million in cash to Energy Ventures in addition to its Hunlock Creek generating station and certain related assets totaling \$4.2 million.

FINANCING ACTIVITIES. During Fiscal 2001, we paid dividends to UGI of \$35.3 million compared with \$44.0 million in Fiscal 2000. In addition, we made cash dividend payments on our preferred stock of \$1.6 million. During Fiscal 2001, we issued \$50 million face value of Medium-Term Notes. We used the proceeds to repay maturing long-term debt and for working capital purposes including reducing amounts outstanding under our revolving credit agreements. During Fiscal 2001, UGI made a capital contribution of \$4.0 million to fund a portion of our investment in Energy Ventures.

CAPITAL EXPENDITURES

In the following table, we present capital expenditures by business segment for Fiscal 2001, 2000 and 1999. We also provide amounts we expect to spend in Fiscal 2002. We expect to finance a substantial portion of Fiscal 2002 capital expenditures from cash generated by operations and the remainder from borrowings under our credit facilities.

Year Ended September 30, ----- (Millions of dollars)	2002 ----- (estimate)	2001 -----	2000 -----	1999 -----
Gas Utility	\$37.1	\$31.8	\$31.7	\$31.9
Electric Utility	5.1	5.0	4.7	4.5
	-----	-----	-----	-----
	\$42.2	\$36.8	\$36.4	\$36.4
	=====	=====	=====	=====

REGULATORY MATTERS

GAS RESTRUCTURING ORDER. On June 29, 2000, the Pennsylvania Public Utility Commission ("PUC") issued its order ("Gas Restructuring Order") approving Gas Utility's restructuring plan filed by Gas Utility pursuant to Pennsylvania's Natural Gas Choice and Competition Act (see Note 2 to Consolidated Financial Statements). Among other things, the implementation of the Gas Restructuring Order resulted in an increase in Gas Utility's core-market base rates effective October 1, 2000. This base rate increase was designed to generate approximately \$16.7 million in additional net annual revenues. The Gas Restructuring Order also provided that effective October 1, 2000, Gas Utility must reduce

its PGC rates by an annualized amount of \$16.7 million for the first 14 months following the base rate increase.

Beginning December 1, 2001, Gas Utility is required to reduce its PGC rates by an amount equal to the margin it receives from customers served under interruptible rates to the extent they use capacity contracted by Gas Utility for core-market customers. As a result, Gas Utility expects that beginning in Fiscal 2002 operating results will be less sensitive to the market prices of alternative fuels and more sensitive to the effects of heating-season weather.

TRANSFERS OF ASSETS. On September 30, 2001, pursuant to PUC authorization, Gas Utility transferred certain of its liquefied natural gas ("LNG") and propane air facilities to an unregulated affiliate, UGI Energy Services, Inc. (a second-tier, wholly owned subsidiary of UGI). The reduction in Gas Utility's base rates resulting from the transfer, adjusted for the transfer's impact on net operating expenses, is not expected to have a material effect on Gas Utility's future results.

On December 8, 2000, our wholly owned subsidiary, UGID, contributed its coal-fired Hunlock Creek generating station ("Hunlock") and certain related assets having a net book value of approximately \$4.2 million, and \$6 million in cash, to Hunlock Creek Energy Ventures ("Energy Ventures"), a general partnership jointly owned by the Company and a subsidiary of Allegheny Energy, Inc. ("Allegheny"). Also on December 8, 2000, Allegheny contributed a newly constructed, gas-fired combustion turbine generator to be operated at the Hunlock site. Under the terms of our arrangement with Allegheny, each partner is entitled to purchase 50% of the output of the joint venture at cost. Prior to the formation of Energy Ventures, Hunlock produced a significant portion of Electric Utility's electricity requirements. The contribution of Hunlock to Energy Ventures results in lower Electric Utility power production and depreciation expenses but higher cost of sales because Electric Utility must purchase a greater percentage of its electricity needs from others, including Energy Ventures.

MANUFACTURED GAS PLANTS

From the late 1800s through the mid-1900s, Utilities and its former subsidiaries owned and operated a number of manufactured gas plants ("MGPs") prior to the general availability of natural gas. Some constituents of coal tars and other residues of the manufactured gas process are today considered hazardous substances under the Superfund Law and may be present on the sites of former MGPs. Between 1882 and 1953, UGI Utilities owned the stock of subsidiary gas companies in Pennsylvania and elsewhere and also operated the businesses of some gas companies under agreement. Pursuant to the requirements of the Public Utility Holding Company Act of 1935, Utilities divested all of its utility operations other than those which now constitute Gas Utility and Electric Utility.

Utilities does not expect its costs for investigation and remediation of hazardous substances at Pennsylvania MGP sites to be material to its results of operations because Gas Utility is currently permitted to include in rates, through future base rate proceedings, prudently incurred remediation costs associated with such sites. Utilities has been notified of several sites outside

Pennsylvania on which (1) MGPs were formerly operated by it or owned or operated by its former subsidiaries and (2) either environmental agencies or private parties are investigating the extent of environmental contamination or performing environmental remediation. Utilities is currently litigating two claims against it relating to out-of-state sites.

Management believes that under applicable law Utilities should not be liable in those instances in which a former subsidiary operated an MGP. There could be, however, significant future costs of an uncertain amount associated with environmental damage caused by MGPs outside Pennsylvania that Utilities directly operated, or that were owned or operated by former subsidiaries of Utilities, if a court were to conclude that the subsidiary's separate corporate form should be disregarded.

Utilities has filed suit against more than fifty insurance companies alleging that the defendants breached contracts of insurance by failing to indemnify Utilities for certain environmental costs. The suit seeks to recover more than \$11 million in such costs. During 2001 and 2000, Utilities entered into settlement agreements with several of the insurers and recorded pre-tax income of \$0.9 million and \$4.5 million, respectively, which amounts are included in operating and administrative expenses in the Consolidated Statements of Income.

ADOPTION OF NEW ACCOUNTING STANDARDS

Effective October 1, 2000, we adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133, as amended, establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that all derivative instruments be recognized as either assets or liabilities and measured at fair value. The accounting for changes in fair value depends upon the purpose of the derivative instrument and whether it is designated and qualifies for hedge accounting. To the extent a derivative instrument qualifies and is designated as a hedge of the variability of cash flows associated with a forecasted transaction ("cash flow hedge"), the effective portion of the gain or loss on such derivative instrument is generally reported in other comprehensive income and the ineffective portion, if any, is reported in net income. Such amounts reported in other comprehensive income are reclassified into net income when the forecasted transaction affects earnings. If a cash flow hedge is discontinued because it is probable that the forecasted transaction will not occur, the net gain or loss is immediately reclassified into net income. To the extent the derivative instruments qualify and are designed as hedges of changes in the fair value of an existing asset, liability or firm commitment ("fair value hedge"), the gain or loss on the hedging instrument is recognized in earnings along with changes in the fair value of the hedged asset, liability or firm commitment attributable to the hedged risk.

In the past we have, on occasion, used a managed program of derivative instruments including natural gas and oil futures contracts to preserve gross margin associated with certain of our natural gas customer. These contracts were designated as cash flow hedges.

In addition, we are a party to a number of contracts that have elements of a derivative instrument. These contracts include, among others, binding purchase orders, contracts which provide for the delivery of natural gas, and service contracts that require the counterparty to provide commodity

storage, transportation or capacity service to meet our normal sales commitments. Although many of these contracts have the requisite elements of a derivative instrument, these contracts are not subject to the accounting requirements of SFAS 133 because they provide for the delivery of products or services in quantities that are expected to be used in the normal course of operating our business or the value of the contract is directly associated with the price or value of a service. The adoption of SFAS 133 did not materially impact our Fiscal 2001 results of operations or financial position.

MARKET RISK DISCLOSURES

Gas utility's tariffs contain clauses which permit recovery of substantially all of the cost of natural gas it sells to its customers. The recovery clauses provide for a periodic adjustment for the difference between the total amount actually collected from customers and the recoverable costs incurred. Because of this ratemaking mechanism, there is limited commodity price risk associated with our Gas Utility operations.

Electric Utility's electricity distribution business purchases most of its electric power needs under power supply arrangements of various lengths and on the spot market. Prices for electricity can be volatile especially during periods of high demand or tight supply. Because the generation component of Electric Utility's rates are subject to rate caps as a result of the Electricity Restructuring Order that are expected to extend through September 2002 in the case of its commercial and industrial customers and May 2003 in the case of its residential customers, any increases in the cost of electricity purchased by Electric Utility will negatively impact Electric Utility's results. Electric Utility has mitigated this electricity cost exposure by entering into power and capacity contracts for a substantial portion of these periods.

We have both fixed-rate and variable-rate debt. Changes in interest rates impact the cash flows of variable-rate debt but generally do not impact its fair value. Conversely, changes in interest rates impact the fair value of fixed-rate debt but do not impact their cash flows.

Our variable-rate debt includes borrowings under our revolving credit agreements. These agreements provide for interest rates on borrowings that are indexed to short-term market interest rates. Based upon the average level of borrowings outstanding under these agreements in Fiscal 2001 and Fiscal 2000, an increase in short-term interest rates of 100 basis points (1%) would have increased annual interest expense by \$0.7 million and \$0.8 million, respectively.

The remainder of our debt outstanding is subject to fixed rates of interest. A 100 basis point increase in market interest rates would result in decreases in the fair value of this fixed-rate debt of \$8.5 million and \$7.2 million at September 30, 2001 and 2000, respectively. A 100 basis point decrease in market interest rates would result in increases in the fair value of this fixed-rate debt of \$9.2 million and \$7.8 million at September 30, 2001 and 2000, respectively.

We also use fixed-rate long-term debt as a source of capital. As these fixed-rate long-term debt issues mature, we may refinance such debt with newly issued debt having then-current market interest rates, which rates may be higher or lower than the interest rate on the refinanced debt. On

occasion we enter into interest rate protection agreements to reduce market interest rate risk associated with forecasted issuances of debt.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board ("FASB") recently issued SFAS No. 141, "Business Combinations" ("SFAS 141"); SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"); SFAS No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"); and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144").

SFAS 141 addresses financial accounting and reporting for business combinations. Under SFAS 141, all business combinations initiated after June 30, 2001 are required to be accounted for using the purchase method of accounting. Among other provisions, SFAS 141 establishes specific criteria for the recognition of intangible assets separate from goodwill acquired in a purchase business combination. Although SFAS 141 supersedes Accounting Principles Board ("APB") Opinion No. 16, "Business Combinations," and SFAS No. 38, "Accounting for Preacquisition Contingencies of Purchased Enterprises," it does not change many of their provisions relating to the application of the purchase method.

SFAS 142 addresses the financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB Opinion No. 17, "Intangible Assets." SFAS 142 addresses the financial accounting and reporting for intangible assets acquired individually or with a group of other assets (excluding those acquired in a business combination) at acquisition and also addresses the financial accounting and reporting for goodwill and other intangible assets subsequent to their acquisition. Under SFAS 142, an intangible asset will be amortized over its useful life unless that life is determined to be indefinite. Goodwill and other intangible assets with indefinite lives will be tested for impairment at least annually.

We adopted the provisions of SFAS 142 effective October 1, 2001. Because we do not have significant intangible assets subject to SFAS 142, the adoption of SFAS 142 did not impact our results of operations or financial position.

SFAS 143 addresses financial accounting and reporting for legal obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred with a corresponding increase in the carrying value of the related asset. Entities shall subsequently charge the retirement cost to expense using a systematic and rational method over the related asset's useful life and adjust the fair value of the liability resulting from the passage of time through charges to interest expense. The Company is required to adopt SFAS 143 effective October 1, 2002. The Company is currently in the process of evaluating the impact SFAS 143 will have on its financial condition and results of operations.

SFAS 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" ("SFAS 121"), and the accounting and reporting provisions of APB No. 30, "Reporting the Results of Operations-Reporting the Effects of

Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," as it relates to the disposal of a segment of a business. SFAS 144 establishes a single accounting model for long-lived assets to be disposed of based upon the framework of SFAS 121, and resolves significant implementation issues of SFAS 121. SFAS 144 is effective for the Company October 1, 2002. The Company believes that the adoption of SFAS 144 will not have a material impact on its financial position or results of operations.

FORWARD-LOOKING STATEMENTS

Information contained above in this Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this Report on Form 10-K may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such statements use forward-looking words such as "believe," "plan," "anticipate," "continue," "estimate," "expect," "may," "will," or other similar words. These statements discuss plans, strategies, events or developments that we expect or anticipate will or may occur in the future.

A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. We believe that we have chosen these assumptions or bases in good faith and that they are reasonable. However, we caution you that actual results almost always vary from assumed facts or bases, and the differences between actual results and assumed facts or bases can be material, depending on the circumstances. When considering forward-looking statements, you should keep in mind the following important factors which could affect our future results and could cause those results to differ materially from those expressed in our forward-looking statements: (1) adverse weather conditions resulting in reduced demand; (2) price volatility and availability of oil, electricity and natural gas and the capacity to transport to market areas; (3) changes in laws and regulations, including safety, tax and accounting matters; (4) competitive pressures from the same and alternative energy sources; (5) liability for environmental claims; (6) customer conservation measures and improvements in energy efficiency and technology resulting in reduced demand; (7) adverse labor relations; (8) large customer defaults; (9) liability for personal injury and property damage arising from explosions and other catastrophic events from operating hazards and risks incidental to generating and distributing electricity and transporting, storing and distributing natural gas, including liability in excess of insurance coverage; (10) political, regulatory and economic conditions in the United States, (11) interest rate fluctuations and other capital market conditions.

These factors are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. Other unknown or unpredictable factors could also have material adverse effects on future results. We undertake no obligation to update publicly any forward-looking statement whether as a result of new information or future events.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

"Quantitative and Qualitative Disclosures About Market Risk" are contained in Management's Discussion and Analysis of Financial Condition and Results of Operations under the caption "Market Risk Disclosures" and are incorporated here by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and the financial statement schedule set forth on pages F-1 to F-26 and page S-1 of this report are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

DIRECTORS

Name - - - - -	Age ---	Utilities Director Since -----	Principal Occupation and Other Directorships (1) -----
Lon R. Greenberg	51	1994	Mr. Greenberg has been Chairman of the Board of Directors of Utilities since August 1996. He was formerly Vice Chairman of the Board from 1995 to 1996, and Senior Vice President - Legal and Corporate Development from 1989 to 1994.
James W. Stratton	65	1979	Chairman, Chief Executive Officer, and a director of Stratton Management Company (since 1972), an investment advisory firm. He is also Chairman and a director of EFI, a financial services firm (since 1979). Mr. Stratton serves as a director of UGI Utilities, Inc.; AmeriGas Propane, Inc.; Stratton Growth Fund, Inc.; Stratton Monthly Dividend REIT Shares, Inc.; Stratton Small-Cap Value Fund; Teleflex, Inc.; and BE&K, Inc.
Richard C. Gozon	63	1989	Mr. Gozon is Executive Vice President of Weyerhaeuser Company (an integrated forest products company), a position he has held since 1994. He was formerly Director (1984 to 1993), President and Chief Operating Officer of Alco Standard Corporation (a provider of paper and office products) (1988 to 1993); Executive Vice President and Chief Operating Officer (1987); Vice President (1982 to 1988); President (1979 to 1987) of Paper Corporation of America. He also serves as a director of AmeriSource Bergen Corp. and Triumph Group, Inc.

Name - - - - -	Age ---	Utilities Director Since -----	Principal Occupation and Other Directorships (1) -----
Stephen D. Ban	61	1991	Dr. Ban is the past President and Chief Executive Officer of the Gas Research Institute (gas industry research and development funded by distributors, transporters, and producers of natural gas), a position he held from April 1987 through December 1999. He formerly served as Executive Vice President. Prior to coming to GRI in 1981, he was Vice President, Research and Development of Bituminous Materials, Inc. Dr. Ban also serves as a director of Energen Corporation.
Robert J. Chaney	59	1999	President and Chief Executive Officer of the Company (since March 1999). He previously served as Executive Vice President - Utilities (1998 to 1999) and Vice President and General Manager-Gas Utility Division of the Company (1991 to 1998).
Marvin O. Schlanger	53	1998	Mr. Schlanger is Chairman of the Board and Chief Executive Officer of Resolution Performance Products, Inc. (a global producer and marketer of intermediate and specialty chemicals) (November 2000 to present). Mr. Schlanger is also a Principal in the firm of Cherry Hill Chemical Investments, L.L.C. (management services and capital for chemical and allied industries) (October 1998 to present). He was President and Chief Executive Officer (May 1998 to October 1998), Executive Vice President and Chief Operating Officer (1994 to 1998) and a director (1994 to 1998) of ARCO Chemical Company. Mr. Schlanger also held the position of Senior Vice President of ARCO Chemical Company and President of ARCO Chemical Americas Company (1992 to 1994). Mr. Schlanger also served as interim President of OneChem, Ltd. (1999 to 2000). Mr. Schlanger is also a director of OneChem, Ltd.; and Wellman, Inc.

Name - - - - -	Age ---	Utilities Director Since -----	Principal Occupation and Other Directorships (1) -----
Thomas F. Donovan	68	1998	Mr. Donovan retired as Vice Chairman of Mellon Bank on January 31, 1997, a position he had held since 1988. He continues to serve as a director of Nuclear Electric Insurance Ltd.
Anne Pol	54	1999 (and 1993-1997)	Mrs. Pol is President and Chief Operating Officer of Trex Enterprises Corporation (a high technology research and development company (October 2001 to present). She previously served as Senior Vice President, Thermo Electron Corporation (environmental monitoring and analytical instruments and a major producer of recycling equipment, biomedical products and alternative energy systems), a position she held beginning 1998. She previously served as Vice President (1996 to 1998). Mrs. Pol also served as President, Pitney Bowes Shipping and Weighing Systems Division, a business unit of Pitney Bowes Inc. (mailing and related business equipment) (1993 to 1996); Vice President, New Product Programs in the Mailings Systems Division of Pitney Bowes Inc. (1991 to 1993); and Vice President, Manufacturing Operations in the Mailing Systems Division of Pitney Bowes Inc. (1990 to 1991).

(1) All of the directors except Mr. Chaney also serve as directors of UGI Corporation. In addition, Messrs. Greenberg, Donovan, Gozon, and Stratton serve as directors of AmeriGas Propane, Inc., the General Partner of AmeriGas Partners, L.P.

EXECUTIVE OFFICERS

Name - ----	Age ---	Position -----
Lon R. Greenberg	51	Chairman of the Board of Directors
Robert J. Chaney	59	President and Chief Executive Officer
Peter G. Terranova	50	Vice President -Operations
John C. Barney	53	Senior Vice President-Finance
Brendan P. Bovaird	53	Vice President and General Counsel
Mark R. Dingman	53	Vice President and General Manager - Electric Utility
Vicki O. Ebner	43	Vice President - Marketing and Gas Supply

Directors are elected annually. All officers are elected for a one-year term at the organizational meeting of the Board of Directors held each year.

There are no family relationships between any of the directors or any of the officers or between any of the officers and any of the directors.

The following is a summary of the business experience of the executive officers listed above during at least the last five years:

Lon R. Greenberg

Mr. Greenberg is Chairman of the Board of the Company (since August 1996), having served as a Director since 1994; he is also Chairman (since 1996), Chief Executive Officer (since August 1995) and President (since 1994) of UGI. In addition, he is Chairman of AmeriGas Propane, Inc. (since August 1996). Mr. Greenberg previously served as President and Chief Executive Officer of AmeriGas Propane, Inc. (1996 to 2000).

Robert J. Chaney

Mr. Chaney is President and Chief Executive Officer of the Company (since March 1999). He previously served as Executive Vice President - Utilities (1998 to 1999) and Vice President and General Manager-Gas Utility Division of the Company (1991 to 1998).

Mark R. Dingman

Mr. Dingman is Vice President and General Manager-Electric Utility Division of the Company (since 1990).

John C. Barney

Mr. Barney is Senior Vice President-Finance of Utilities (since March 1999). Previously, Mr. Barney served as Vice President-Finance and Accounting (1992 to 1999).

Brendan P. Bovaird

Mr. Bovaird is Vice President and General Counsel of the Company (since April 1995). He is also Vice President and General Counsel of UGI Corporation and AmeriGas Propane, Inc. (since April 1995). Mr. Bovaird previously served as Division Counsel and Member of the Executive and Operations Committees of Wyeth-Ayerst International Inc. (1992 to 1995).

Peter G. Terranova

Mr. Terranova is Vice President - Operations (since 1999). He previously served as Vice President - Marketing and Rates (1994-2000).

Vicki O. Ebner

Mrs. Ebner is Vice President - Marketing, Rates and Gas Supply (since 1999). She previously served as Vice President - Gas Supply (1998-1999), Customer Relations Manager - Harrisburg (1996-1998) and Manager - Gas Supply Services and Regulatory Affairs (1991-1995).

ITEM 11. EXECUTIVE COMPENSATION

The following table shows cash and other compensation paid or accrued to the Company's Chief Executive Officer and each of its four other most highly compensated executive officers, (collectively, the "Named Executives") for the last three fiscal years.

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	FISCAL YEAR	Annual Compensation			Long Term Compensation			
		SALARY	BONUS (1)	OTHER ANNUAL COMPEN-SATION (2)	Awards		Payouts	
					RESTRICTED STOCK AWARDS (3)	SECURITIES UNDERLYING OPTIONS/SARS (5)	LTIP PAYOUTS (6)	ALL OTHER COMPENSATION (4)
Robert J. Chaney President and Chief Executive Officer (6)	2001	\$285,500	\$144,144	\$7,511	\$64,688 \$133,450	0	\$0	\$9,609
	2000	\$264,307	\$141,570	\$5,898	\$0	45,000 (8)	\$0	\$7,569
	1999	\$221,445	\$72,109	\$7,817	\$142,625	5,556 (7b)	\$0	\$5,742
Lon R. Greenberg, Chairman (5) (6)	2001	\$667,799	\$595,010	\$14,849	\$323,438 \$1,000,875	0	\$0	\$20,939
	2000	\$640,662	\$262,836	\$13,092	\$0	225,000 (8)	\$0	\$20,147
	1999	\$587,139	\$266,766	\$11,359	\$611,260	225,000 (7a)	\$0	\$18,273
Brendan P. Bovaird, Vice President and General Counsel (5) (6)	2001	\$222,283	\$96,708	\$4,860	\$38,813 \$120,105	0	\$0	\$6,112
	2000	\$210,392	\$49,349	\$6,332	\$0	28,000 (8)	\$0	\$5,927
	1999	\$189,600	\$53,048	\$14,399	\$142,625	0	\$0	\$5,215
John C. Barney Senior Vice President - Finance	2001	\$170,826	\$51,710	\$3,157	\$31,050 \$68,059	0	\$0	\$5,167
	2000	\$164,848	\$58,806	\$1,899	\$0	15,000 (8)	\$0	\$4,453
	1999	\$150,279	\$33,055	\$0	\$101,875	0	\$0	\$4,156
Peter G. Terranova Vice President - Operations	2001	\$142,997	\$49,487	\$3,739	\$16,819 \$49,377	0	\$0	\$4,392
	2000	\$140,062	\$52,208	\$0	0	0	\$0	\$3,746
	1999	\$128,252	\$65,188	\$0	0	8,000 (8)	\$0	\$3,202

(1) Bonuses earned under the Annual Bonus Plan are for the year reported, regardless of the year paid. The Company's Annual Bonus Plan is based on the achievement of business and/or financial performance objectives which support business plans and goals. Bonus opportunities vary by position and for Fiscal 2001 ranged from 0% to 87% of base salary for Mr. Chaney, 0% to 173% of base salary for Mr. Greenberg, 0% to 92% of base salary for Mr. Bovaird, 0% to 52% of base salary for Mr. Barney, and 0% to 45% of base salary for Mr. Terranova.

(2) Amounts represent tax payment reimbursements for certain benefits.

(3) Effective January 1, 2001 and September 24, 2001, the Board of Directors of the Company, and with respect to Messrs. Greenberg and Bovaird, the Board of Directors of UGI Corporation, approved performance-contingent restricted stock awards to the Named Executives, under the UGI Corporation 2000 Stock Incentive Plan. Under this plan, shares of UGI Common Stock were awarded based on the Company's progress in achieving strategic initiatives and goals contained in the Company's 2000 Budget and Plan.

The performance contingency for the January 2001 restricted stock awards has been met. Accordingly, the restriction period will end on December 31, 2003. The performance requirement was an average closing price per share on the New York Stock Exchange equal to \$26.00 for a period of five consecutive trading days. The performance contingency for the September 2001 restricted stock awards has also been met and the restriction period will end on December 31, 2003. That

performance requirement was an average closing price per share on the New York Stock Exchange equal to \$29.00 for a period of five consecutive trading days. When the restriction period ends, the executive will also receive an amount of cash equal to the per share dividends paid on UGI Common Stock during the restriction period multiplied by the number of restricted Shares awarded.

The dollar values shown in the table above represent the aggregate value of each award on the date of grant, determined by multiplying the number of shares awarded by the closing price of UGI Common Stock on the effective dates of the respective grants.

Based on the closing stock price of UGI Common Stock on the New York Stock Exchange on September 28, 2001, Mr. Chaney's 7,500 restricted shares had a value of \$203,250, Mr. Greenberg's 50,000 restricted shares had a market value of \$1,355,000; Mr. Bovaird's 6,000 restricted shares had a market value of \$162,600; Mr. Barney's 3,750 restricted shares had a value of \$101,625 and Mr. Terranova's 2,500 restricted shares had a value of \$67,750.

- (4) Amounts represent matching contributions by the Company or UGI in accordance with the provisions of the UGI Utilities, Inc. Employee Savings Plan and/or allocations under the Executive Retirement Plan. During 2001, 2000 and 1999, the following contributions were made to the Named Executives: (i) under the Employee Savings Plan: for each of Messrs. Greenberg and Chaney, \$3,825, \$3,825, and \$3,600; Mr. Barney, \$3,825, \$3,825, and \$3,403; Mr. Terranova \$3,825, \$3,600 and \$3,206; Mr. Bovaird, \$3,825, \$3,825, and \$3,509 (ii) under the Supplemental Executive Retirement Plan: Mr. Greenberg, \$17,114, \$16,592, and \$14,673; Mr. Bovaird, \$2,287, \$2,102, and \$1,706; Mr. Chaney, \$5,784, \$3,744, and \$2,142; Mr. Barney, \$1,342, \$752 and \$213; Mr. Terranova, \$567, \$146 and \$0.
- (5) Compensation for Mr. Greenberg is attributable to his employment as Chairman, President and Chief Executive Officer of UGI Corporation. Compensation for Mr. Bovaird is attributable to his employment as Vice President and General Counsel of UGI Corporation. Mr. Greenberg and Mr. Bovaird receive no compensation from UGI Utilities, Inc.
- (6) Compensation reported for Messrs. Greenberg, Bovaird and Chaney is also reported in the Proxy Statement for UGI's 2002 Annual Meeting of Shareholders and is not additive.
- (7)
 - (a) Non-qualified stock options granted on June 4, 1999 under the UGI 1997 Stock Option and Dividend Equivalent Plan (the "1997 Plan") without the opportunity to earn dividend equivalents described below.
 - (b) Non-qualified stock options granted under the 1997 Plan which included the opportunity for participants to earn an amount equivalent to the dividends paid on shares covered by options, subject to a comparison of the total return realizable on a share of UGI's Common Stock with the total return achieved by each member of a group of comparable peer companies over a three-year period beginning January 1, 1997 and ending December 31, 1999. No dividend equivalents were earned for these options.
- (8) Non-qualified stock options granted effective January 1, 2001 under the 1997 Plan without the opportunity to earn dividend equivalents.

OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

The following table shows information for fiscal year 2001 concerning exercised and unexercised stock options for shares of UGI Common Stock for each of the Named Executives.

Option Exercises in Fiscal 2001 And Fiscal Year-End Option Values						
Name	Number of Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at Fiscal Year End		Value of Unexercised In-The-Money Options at Fiscal Year End*	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Robert J. Chaney	30,000	\$177,027	13,639		\$ 95,132 (1)	
			35,000		\$156,625 (2)	
			8,333		\$ 39,373 (5)	
			5,556		\$ 32,503 (8)	
			15,000	30,000	\$ 97,125 (4)	\$194,250 (4)
Lon R. Greenberg	20,000	\$155,694	73,959		\$515,864 (1)	
			200,000		\$895,000 (2)	
			112,500	112,500	\$756,563 (3)	\$756,563 (3)
			75,000	150,000	\$485,625 (4)	\$971,250 (4)
Brendan P. Bovaird	5,007	\$ 44,234				
	9,333	\$ 76,196	30,000	18,667	\$134,250 (2)	\$120,869 (4)
John C. Barney	0	\$ 0	5,000	10,000	\$ 32,375 (4)	\$ 64,750 (4)
			10,000		\$ 44,750 (9)	
Peter C. Terranova			2,667	5,333	\$ 17,269 (4)	\$34,531' (4)
	5,000	\$ 33,125	15,000		\$ 67,125 (9)	

* The fiscal 2001 year-end closing stock price was \$27.10

- (1) Value is calculated using the difference between \$20.125 (1992 SODEP option price) and \$27.10 multiplied by the number of shares underlying the option.
- (2) Value is calculated using the difference between \$22.625 (1997 SODEP option grant price at December 10, 1996) and \$27.10 multiplied by the number of shares underlying the option
- (3) Value is calculated using the difference between \$20.375 (1997 SODEP option grant price at June 4, 1999) and \$27.10 multiplied by the number of shares underlying the option.
- (4) Value is calculated using the difference between \$20.625 (1997 SODEP option price at January 1, 2000) and \$27.10 multiplied by the number of shares underlying the option.
- (5) Value is calculated using the difference between \$22.375 (1997 SODEP grant price at September 29, 1998) and \$27.10 multiplied by the number of shares underlying the option.
- (6) Value is calculated using the difference between \$21.750 (1997 SODEP grant price at July 25, 2000) and \$27.10 multiplied by the number of shares underlying the option.
- (7) Value is calculated using the difference between \$20.625 (1992 Non-Qualified Stock Option Plan option grant price at December 18, 1995) and \$27.10 multiplied by the number of shares underlying the option.
- (8) Value is calculated using the difference between \$21.250 (1997 SODEP grant price at February 23, 1999) and \$27.10 multiplied by the number of shares underlying the option
- (9) Value is calculated using the difference between \$22.625 (1992 Non Qualified Stock Option Plan option grant price at December 10, 1996) and \$27.10 multiplied by the number of shares underlying the option.

RETIREMENT BENEFITS

The following table shows the annual benefits payable upon retirement to the Named Executive Officers under the Retirement Income Plan for Employees of UGI Utilities, Inc. and participating employers (the "Retirement Plan") and the UGI Supplemental Executive Retirement Plan. The amounts shown assume the executive retires in 2001 at age 65, and that the aggregate benefits are not subject to statutory maximums.

PENSION PLAN BENEFITS TABLE

ANNUAL PLAN BENEFIT FOR YEARS CREDITED SERVICE SHOWN (1)

FINAL 5-YEAR AVERAGE ANNUAL EARNINGS (2) -----	5 YEARS -----	10 YEARS -----	15 YEARS -----	20 YEARS -----	25 YEARS -----	30 YEARS -----	35 YEARS -----	40 YEARS -----
\$ 100,000	\$ 9,500	\$ 19,000	\$ 28,500	\$ 38,000	\$ 47,500	\$ 57,000	\$ 66,500	\$ 68,400 (3)
\$ 200,000	\$ 19,000	\$ 38,000	\$ 57,000	\$ 76,000	\$ 95,000	\$114,000	\$ 133,000	\$ 136,800 (3)
\$ 300,000	\$ 28,500	\$ 57,000	\$ 85,500	\$114,000	\$142,500	\$171,000	\$ 199,500	\$ 205,200 (3)
\$ 400,000	\$ 38,000	\$ 76,000	\$114,000	\$152,000	\$190,000	\$228,000	\$ 266,000	\$ 273,600 (3)
\$ 500,000	\$ 47,500	\$ 95,000	\$142,500	\$190,000	\$237,500	\$285,000	\$ 332,500	\$ 342,000 (3)
\$ 600,000	\$ 57,000	\$114,000	\$171,000	\$228,000	\$285,000	\$342,000	\$ 399,000	\$ 410,400 (3)
\$ 700,000	\$ 66,500	\$133,000	\$199,500	\$266,000	\$332,500	\$399,000	\$ 465,500	\$ 478,800 (3)
\$ 800,000	\$ 76,000	\$152,000	\$228,000	\$304,000	\$380,000	\$456,000	\$ 532,000	\$ 547,200 (3)
\$ 900,000	\$ 85,500	\$171,000	\$256,500	\$342,000	\$427,500	\$513,000	\$ 598,500	\$ 615,600 (3)
\$1,000,000	\$ 95,000	\$190,000	\$285,000	\$380,000	\$475,000	\$570,000	\$ 665,000	\$ 684,000 (3)
\$1,100,000	\$104,500	\$209,000	\$313,500	\$418,000	\$522,500	\$627,000	\$ 731,500	\$ 752,400 (3)
\$1,200,000	\$114,000	\$228,000	\$342,000	\$456,000	\$570,000	\$684,000	\$ 798,000	\$ 820,800 (3)
\$1,300,000	\$123,500	\$247,000	\$370,500	\$494,000	\$617,500	\$741,000	\$ 864,500	\$ 889,200 (3)
\$1,400,000	\$133,000	\$266,000	\$399,000	\$532,000	\$665,000	\$798,000	\$ 931,000	\$ 957,600 (3)
\$1,500,000	\$142,500	\$285,000	\$427,500	\$570,000	\$712,500	\$855,000	\$ 997,500	\$1,026,000 (3)
\$1,600,000	\$152,000	\$304,000	\$456,000	\$608,000	\$760,000	\$912,000	\$1,064,000	\$1,094,400 (3)

(1) Annual benefits are computed on the basis of straight life annuity amounts. These amounts include pension benefits, if any, to which a participant may be entitled as a result of participation in a pension plan of a subsidiary during previous periods of employment. The amounts shown do not take into account exclusion of up to 35% of the estimated primary Social Security benefit. The Retirement Plan provides a minimum benefit equal to 25% of a participant's final 12 months' earnings, reduced proportionately for less than 15 years of credited service at retirement. The minimum Retirement Plan Benefit is not subject to Social Security offset. Messrs. Greenberg, Barney, Chaney, Terranova and

Bovaird had, respectively, 21 years, 29 years, 37 years, 15 years and 6 years of estimated credited service at September 30, 2001.

- (2) Consists of (i) base salary, commissions and cash payments under the UGI and Utilities Annual Bonus Plans, and (ii) deferrals thereof permitted under the Internal Revenue Code.
- (3) The maximum benefit under the Retirement Plan and the Supplemental Executive Retirement Plan is equal to 60% of a participant's highest consecutive 12 months' earnings during the last 120 months.

SEVERANCE PAY PLAN FOR SENIOR EXECUTIVE EMPLOYEES

The UGI Corporation Senior Executive Employee Severance Pay Plan (the "UGI Severance Plan") assists certain senior level employees of Utilities, including Messrs. Greenberg, Bovaird, Chaney, Barney and Terranova in the event their employment is terminated without fault on their part. Specified benefits are payable to a senior executive covered by the UGI Severance Plan if the senior executive's employment is involuntarily terminated for any reason other than for cause or as a result of the senior executive's death or disability.

The UGI Severance Plan provides for cash payments equal to a participant's compensation for a period of time ranging from 3 months to 15 months (30 months in the case of Mr. Greenberg), depending on length of service. In addition, a participant receives the cash equivalent of his or her target bonus under the Annual Bonus Plan, pro-rated for the number of months served in the fiscal year. However, if the termination occurs in the last two months of the fiscal year, the Chief Executive Officer has the discretion to determine whether the participant will receive a pro-rated target bonus, or the actual annual bonus which would have been paid after the end of the fiscal year, assuming that the participant's entire bonus was contingent on meeting the applicable financial performance goal. The Plan also provides for separation pay equal to one day's pay per month of service, not to exceed 12 months' compensation. Certain employee benefits are continued under the Plan for a period of up to 15 months (30 months in the case of Mr. Greenberg). Utilities has the option to pay a participant the cash equivalent of those employee benefits.

In order to receive benefits under the UGI Severance Plan, a senior executive is required to execute a release which discharges Utilities and its affiliates from liability for any claims the senior executive may have against any of them, other than claims for amounts or benefits due to the executive under any plan, program or contract provided by or entered into with Utilities or its affiliates. The senior executive is also required to cooperate in attending to matters pending at the time of his or her termination of employment.

CHANGE OF CONTROL ARRANGEMENTS

Named Executives Employed by UGI Corporation. Messrs. Greenberg and Bovaird each have an agreement with UGI Corporation (the "Agreement") which provides certain benefits in the event of a change of control of UGI. The Agreements operate independently of the UGI Severance Plan, continue through July 2004, and are automatically extended in one-year increments thereafter unless, prior to a change of control, UGI terminates an Agreement. In the absence of a change of control, each Agreement will terminate when, for any reason, the executive terminates his employment with UGI or its subsidiaries.

A change of control is generally deemed to occur if: (i) any person (other than the executive, his affiliates and associates, UGI or any of its subsidiaries, any employee benefit plan of UGI or any of its subsidiaries, or any person or entity organized, appointed, or established by UGI or its subsidiaries for or pursuant to the terms of any such employee benefit plan), together with all affiliates and associates of such person, acquires securities representing 20% or more of

either (x) the then outstanding shares of common stock of UGI or (y) the combined voting power of UGI's then outstanding voting securities; (ii) individuals who at the beginning of any 24-month period constitute the Board of Directors (the "Incumbent Board") and any new director whose election by the Board, or nomination for election by UGI's shareholders, was approved by a vote of at least a majority of the Incumbent Board, cease for any reason to constitute a majority thereof; (iii) UGI is reorganized, merged or consolidated with or into, or sells all or substantially all of its assets to, another corporation in a transaction in which former shareholders of UGI do not own more than 50% of the outstanding common stock and the combined voting power, respectively, of the then outstanding voting securities of the surviving or acquiring corporation after the transaction; or (iv) UGI is liquidated or dissolved.

Upon a change of control, the Agreement provides for an immediate cash payment equal to the market value of any pending target award under UGI's long-term compensation plan.

Severance benefits are payable under the Agreements if there is a termination of the executive's employment without cause at any time within three years after a change of control. In addition, following a change of control, the executive may elect to terminate his or her employment without loss of severance benefits in certain specified contingencies, including termination of officer status; a significant adverse change in authority, duties, responsibilities or compensation; the failure of UGI to comply with and satisfy any of the terms of the Agreement; or a substantial relocation or excessive travel requirements.

An executive who is terminated with rights to severance compensation under an Agreement will be entitled to receive an amount equal to 1.0 or 1.5 (2.5 in the case of Mr. Greenberg) times his average total cash remuneration for the preceding five calendar years. If the severance compensation payable under the Agreement, either alone or together with other payments to an executive, would constitute "excess parachute payments," as defined in Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), the executive will also receive an amount to satisfy the executive's additional tax burden.

Named Executives Employed by UGI Utilities, Inc. Messrs. Chaney, Barney and Terranova each have an agreement with UGI Utilities (the "Agreement") which provides certain benefits in the event of a change of control of Utilities or of UGI. The Agreements operate independently of the UGI Severance Plan, continue through July 2004, and are automatically extended in one-year increments thereafter unless, prior to a change of control, the Company terminates an Agreement. In the absence of a change of control, each Agreement will terminate when, for any reason, the executive terminates his employment with Utilities or its subsidiaries.

A change of control is generally deemed to occur if a change of control of UGI, as defined above, occurs or if: (i) UGI and its subsidiaries fail to own more than fifty percent of the combined voting power of the Company's then outstanding voting securities, (ii) the Company is reorganized, merged or consolidated with or into, or sells all or substantially all of its assets to, another corporation in a transaction in which former shareholders of the Company do not own more than 50% of the outstanding common stock and the combined voting power, respectively,

of the then outstanding voting securities of the surviving or acquiring corporation after the transaction, or (iii) the Company is liquidated or dissolved.

Upon a change of control, the Agreement provides for an immediate cash payment equal to the market value of any pending target award under Utilities' long-term compensation plan.

Severance benefits are payable under the Agreements if there is a termination of the executive's employment without cause at any time within three years after a change of control. In addition, following a change of control, the executive may elect to terminate his or her employment without loss of severance benefits in certain specified contingencies, including termination of officer status; a significant adverse change in authority, duties, responsibilities or compensation; the failure of the Company to comply with and satisfy any of the terms of the Agreement; or a substantial relocation or excessive travel requirements.

An executive who is terminated with rights to severance compensation under an Agreement will be entitled to receive an amount equal to 1.0 or 1.5 times his average total cash remuneration for the preceding five calendar years. If the severance compensation payable under the Agreement, either alone or together with other payments to an executive, would constitute "excess parachute payments," as defined in Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), the executive will also receive an amount to satisfy the executive's additional tax burden.

COMPENSATION OF DIRECTORS

Messrs. Chaney and Greenberg are not compensated for service on the Board of Directors or on any Committee of the Board. The other members of the Company's Board of Directors also serve on the UGI Board and receive no additional compensation for service on the Company's Board. The Company reimburses UGI for 50% of the attendance fees and expenses incurred by the non-employee directors of UGI.

COMPENSATION COMMITTEE

The members of the UGI Utilities, Inc. Compensation and Management Development Committee are Richard C. Gozon (Chairman), Thomas F. Donovan and Anne Pol.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

At December 1, 2001, UGI Corporation held 100% of the Company's Common Stock. UGI is located at 460 North Gulph Road, King of Prussia, PA 19406.

The following table sets forth, as of October 31, 2001, the number of shares of Common Stock of UGI beneficially owned by each director of the Company and each of the Named Executives, as well as all directors and executive officers as a group. Mr. Greenberg is the beneficial owner of approximately 2.1% of UGI's Common Stock. All other directors, Named Executives and executive officers own less than 1% of UGI's outstanding shares. The total number of shares beneficially owned by all directors and executive officers includes shares subject to options exercisable within 60 days.

SECURITY OWNERSHIP OF MANAGEMENT			
Name of Beneficial Owner	Number of Shares and Nature of Beneficial Ownership Excluding Options (1) (2)	Number of Exercisable Stock Options	Total
Stephen D. Ban (3)	15,371	11,700	27,071
John C. Barney (4)	8,333	15,000	23,333
Brendan P. Bovaird (5)	22,690	30,000	52,697
Robert J. Chaney	38,450	77,528	115,978
Thomas F. Donovan	4,741	8,800	13,541
Richard C. Gozon	24,048	13,800	37,848
Lon R. Greenberg (6)	111,867	461,459	573,326
Anne Pol	9,615	8,800	18,415
Marvin O. Schlanger	7,928	8,800	16,728
James W. Stratton (7)	14,057	13,800	27,857
Peter G. Terranova (8)	4,613	17,667	22,280
All directors and executive officers as a group (13 total)	306,916	683,104	990,020 (9)

(1) The director or officer has sole voting and investment power unless otherwise specified.

(2) The number of Shares shown includes Deferred Units ("Units") acquired through the 1997 Amended and Restated Directors' Equity Compensation Plan. Units are neither actual shares nor other securities, but each Unit will be converted to one share of Common Stock and paid out to directors upon their retirement or termination of

service. The number of Units included for each director is as follows: Messrs. Donovan (2,772), Stratton (12,060), Schlanger (5,559), Gozon (17,051), Ban (8,578) and Mrs. Pol (7,888).

- (3) Dr. Ban has 6,793 shares in a revocable trust.
- (4) Mr. Barney holds 216 shares represented by units held in the UGI Stock Fund of the 401(k) Employee Savings Plan, based on September 30, 2001 Savings Plan statements. Mr. Barney disclaims beneficial ownership of 200 Shares owned by an adult son.
- (5) Mr. Bovaird holds 19,993 shares jointly with his spouse and 2,697 Shares represented by units held in the UGI Stock Fund of the 401(k) Employee Savings Plan, based on September 30, 2001 Saving Plan statements.
- (6) Mr. Greenberg holds 88,220 shares jointly with his spouse and 5,832 Shares represented by units held in the UGI Stock Fund of the 401(k) Employee Savings Plan, based on September 30, 2001 Saving Plan statements.
- (7) Mr. Stratton holds 1,997 shares jointly with his spouse.
- (8) Mr. Terranova holds 3,220 shares represented by units held in the UGI Stock Fund of the 401(k) Employee Savings Plan, based on September 30, 2001 Savings Plan statements.
- (9) The total number of shares beneficially owned by the directors and officers as a group represents approximately 4% of UGI's outstanding Shares.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In fiscal year 2001 UGI allocated 45%, or \$5.3 million, of its general corporate expenses to Utilities.

PART IV: ADDITIONAL EXHIBITS, SCHEDULES AND REPORTS

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULE, AND REPORTS ON FORM 8-K

(a) DOCUMENTS FILED AS PART OF THIS REPORT:

(1) FINANCIAL STATEMENTS:

Included under Item 8 are the following financial statements and supplementary data:

Report of Independent Public Accountants

Consolidated Balance Sheets as of September 30, 2001 and 2000

Consolidated Statements of Income for the fiscal years ended September 30, 2001, 2000 and 1999

Consolidated Statements of Cash Flows for the fiscal years ended September 30, 2001, 2000 and 1999

Consolidated Statements of Stockholders' Equity for the fiscal years ended September 30, 2001, 2000 and 1999

Notes to Consolidated Financial Statements

(2) FINANCIAL STATEMENT SCHEDULE:

For the years ended September 30, 2001, 1999 and 1998

II- Valuation and Qualifying Accounts

We have omitted all other financial statement schedules because the required information is (1) not present; (2) not present in amounts sufficient to require submission of the schedule; or (3) included elsewhere in the financial statements or notes thereto contained in this report.

(3) List of Exhibits:

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

INCORPORATION BY REFERENCE				
Exhibit No.	Exhibit	Registrant	Filing	Exhibit
3.1	Utilities' Articles of Incorporation	Utilities	Registration Statement No. 333-72540	3
3.2	Bylaws of UGI Utilities as in effect since September 26, 1995	Utilities	Form 10-K (9/30/95)	3.2
4	Instruments defining the rights of security holders, including indentures. (The Company agrees to furnish to the Commission upon request a copy of any instrument defining the rights of holders of its long-term debt not required to be filed pursuant to the description of Exhibit 4 contained in Item 601 of Regulation S-K)			
4.1	Utilities' Articles of Incorporation and Bylaws referred to in Exhibit Nos. 3.1 and 3.2			
4.2	Indenture between Utilities and First Union National Bank (formerly, First Fidelity Bank, N.A. Pennsylvania,) Trustee, dated as of August 1, 1993 and related 6.5% Note due 2003	UGI	Form 10-K (9/30/93)	(4)e
4.3	Form of Fixed Rate Medium-Term Note	Utilities	Form 8-K (8/26/94)	(4)i
4.4	Form of Fixed Rate Series B Medium-Term Note	Utilities	Form 8-K (8/1/96)	4(i)
4.5	Form of Floating Rate Series B Medium-Term Note	Utilities	Form 8-K (8/1/96)	4(ii)
4.6	Service Agreement for comprehensive delivery service (Rate CDS) dated February 23, 1998 between UGI Utilities, Inc. and Texas Eastern Transmission Corporation	UGI	Form 10-K (9/30/00)	10.40
4.7	Officer's Certificate establishing Medium-Term Notes series	Utilities	Form 8-K (8/26/94)	4(iv)
4.9	Form of Officer's Certificate establishing Series B Medium-Term Notes under the Indenture	Utilities	Form 8-K (8/1/96)	4(iv)

INCORPORATION BY REFERENCE

Exhibit No.	Exhibit	Registrant	Filing	Exhibit
10.1	Service Agreement (Rate FSS) dated as of November 1, 1989 between Utilities and Columbia, as modified pursuant to the orders of the Federal Energy Regulatory Commission at Docket No. RS92-5-000 reported at Columbia Gas Transmission Corp., 64 FERC P. 61,060 (1993), order on rehearing, 64 FERCP. 61,365 (1993)	UGI	Form 10-K (9/30/95)	10.5
10.2	Service Agreement (Rate FTS) dated June 1, 1987 between Utilities and Columbia, as modified by Supplement No. 1 dated October 1, 1988; Supplement No. 2 dated November 1, 1989; Supplement No. 3 dated November 1, 1990; Supplement No. 4 dated November 1, 1990; and Supplement No. 5 dated January 1, 1991, as further modified pursuant to the orders of the Federal Energy Regulatory Commission at Docket No. RS92-5-000 reported at Columbia Gas Transmission Corp., 64 FERC P. 61,060 (1993), order on rehearing, 64 FERCP. 61,365 (1993)	Utilities	Form 10-K (12/31/90)	(10)o.
10.3	Transportation Service Agreement (Rate FTS-1) dated November 1, 1989 between Utilities and Columbia Gulf Transmission Company, as modified pursuant to the orders of the Federal Energy Regulatory Commission in Docket No. RP93-6-000 reported at Columbia Gulf Transmission Co., 64 FERCP. 61,060 (1993), order on rehearing, 64 FERCP. 61,365 (1993)	Utilities	Form 10-K (12/31/90)	(10)p.
10.4**	UGI Corporation 1992 Directors' Stock Plan	UGI	Form 10-Q (6/30/92)	(10)ff
10.5**	UGI Corporation Directors' Deferred Compensation Plan Amended and Restated as of January 1, 2000	UGI	Form 10-K (9/30/00)	10.6
10.6**	UGI Corporation Directors' Equity Compensation Plan Amended and Restated as of January 1, 2000	UGI	Form 10-K (9/30/00)	10.9
10.7**	UGI Corporation 1992 Stock Option and Dividend Equivalent Plan, as amended May 19, 1992	UGI	Form 10-Q (6/30/92)	(10)ee
10.8**	UGI Corporation Annual Bonus Plan dated March 8, 1996	UGI	Form 10-Q (6/30/96)	10.4
10.9**	UGI Utilities, Inc. Annual Bonus Plan dated March 8, 1996'	Utilities	Form 10-Q (6/30/96)	10.4
10.10**	1997 Stock Purchase Loan Plan	UGI	Form 10-K (9/30/97)	10.16
10.11**	UGI Corporation Senior Executive Employee Severance Pay Plan effective January 1, 1997	UGI	Form 10-K (9/30/97)	10.12
10.12**	UGI Corporation 1992 Non-Qualified Stock Option Plan, as amended	UGI	Form 10-K (9/30/00)	10.39

INCORPORATION BY REFERENCE

Exhibit No.	Exhibit	Registrant	Filing	Exhibit
10.13**	UGI Corporation 2000 Directors' Stock Option Plan	UGI	Form 10-K (9/30/99)	10.13
10.14**	UGI Corporation 2000 Stock Incentive Plan	UGI	Form 10-Q (6/30/00)	10.1
10.15**	Service Agreement for comprehensive delivery service (Rate CDS) dated February 23, 1999 between UGI Utilities, Inc. and Texas Eastern Transmission Corporation	UGI	Form 10-K (9/30/00)	10.41
10.16**	UGI Corporation 1997 Stock Option and Dividend Equivalent Plan	UGI	Form 10-Q (3/31/97)	10.2
10.17**	UGI Corporation Supplemental Executive Retirement Plan Amended and Restated effective October 1, 1996	UGI	Form 10-Q (6/30/98)	10
10.18 **	Summary of Terms of UGI Corporation 1999 Restricted Stock Awards	UGI	Form 10-Q (6/30/99)	10
10.20**	Description of Change of Control arrangements for Messrs. Greenberg and Bovaird	UGI Corporation	Form 10-K (9/30/99)	10.33
10.21**	Description of Change of Control arrangements for Messrs. Chaney, Barney and Terranova	UGI Corporation	Form 10-K (9/30/99)	10.34
10.22**	Consulting Services Agreement dated as of August 1, 2000 between Stephen D. Ban and UGI Corporation	UGI Corporation	Form 10-K (9/30/00)	10.38
*10.23	Power Sales Agreement between UGI Utilities, Inc. and UGI Development Company dated as of November 30, 2001			
*10.24	Partnership Agreement of Hunlock Creek Energy Ventures dated December 8, 2001 by and between UGI Hunlock Development Company and Allegheny Energy Supply Hunlock Creek LLC			
*12.1	Computation of Ratio of Earnings to Fixed Charges			
*12.2	Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends			
21	Subsidiaries of the Registrant	Utilities	Form 10-K (9/30/00)	21
*23	Consent of Arthur Andersen LLP			

* Filed herewith.

** As required by Item 14(a)(3), this exhibit is identified as a compensatory plan or arrangement.

b. Reports on Form 8-K.
During the last quarter of fiscal year 2001, the Company filed no Current Reports on Form 8-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

UGI UTILITIES, INC.

Date: December 11, 2001

By: John C. Barney

John C. Barney
Senior Vice President - Finance

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below on December 11, 2001 by the following persons on behalf of the Registrant in the capacities indicated.

Signature -----	Title -----
Robert J. Chaney ----- Robert J. Chaney	President and Chief Executive Officer (Principal Executive Officer) and Director
Lon R. Greenberg ----- Lon R. Greenberg	Chairman and Director
John C. Barney ----- John C. Barney	Senior Vice President - Finance (Principal Financial Officer and Principal Accounting Officer)
Stephen D. Ban ----- Stephen D. Ban	Director
Thomas F. Donovan ----- Thomas F. Donovan	Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below on December 11, 2001 by the following persons on behalf of the Registrant in the capacities indicated.

Signature	Title
Richard C. Gozon ----- Richard C. Gozon	Director
Anne Pol ----- Anne Pol	Director
Marvin O. Schlanger ----- Marvin O. Schlanger	Director
James W. Stratton ----- James W. Stratton	Director

Supplemental Information to be Furnished With Reports Filed Pursuant to Section 15(d) of the Act by Registrants Which Have Not Registered Securities Pursuant to Section 12 of the Act:

No annual report or proxy material was sent to security holders in fiscal year 2001.

UGI UTILITIES, INC. AND SUBSIDIARIES

FINANCIAL INFORMATION
FOR INCLUSION IN ANNUAL REPORT ON FORM 10-K
YEAR ENDED SEPTEMBER 30, 2001

UGI UTILITIES, INC. AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

	Pages

Financial Statements:	
Report of Independent Public Accountants	F-3
Consolidated Balance Sheets as of September 30, 2001 and 2000	F-4 to F-5
Consolidated Statements of Income for the years ended September 30, 2001, 2000 and 1999	F-6
Consolidated Statements of Cash Flows for the years ended September 30, 2001, 2000 and 1999	F-7
Consolidated Statements of Stockholder's Equity for the years ended September 30, 2001, 2000 and 1999	F-8
Notes to Consolidated Financial Statements	F-9 to F-26
Financial Statement Schedule:	
For the years ended September 30, 2001, 2000 and 1999:	
II - Valuation and Qualifying Accounts	S-1

We have omitted all other financial statement schedules because the required information is either (1) not present; (2) not present in amounts sufficient to require submission of the schedule; or (3) included elsewhere in the financial statements or related notes.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholder of UGI Utilities, Inc.:

We have audited the accompanying consolidated balance sheets of UGI Utilities, Inc. and subsidiaries as of September 30, 2001 and 2000, and the related consolidated statements of income, cash flows and stockholder's equity for each of the three years in the period ended September 30, 2001. These financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of UGI Utilities, Inc. and subsidiaries as of September 30, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2001 in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in the Index to Financial Statements and Financial Statement Schedule is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects, the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Philadelphia, Pennsylvania
November 16, 2001

UGI UTILITIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Thousands of dollars)

	September 30,	
	2001	2000
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,711	\$ 15,575
Accounts receivable (less allowances for doubtful accounts of \$3,151 and \$2,061, respectively)	39,152	33,341
Accrued utility revenues	11,110	10,486
Inventories	48,074	36,934
Deferred income taxes	5,527	336
Regulatory assets	--	7,195
Prepaid expenses and other current assets	2,178	3,077
	-----	-----
Total current assets	113,752	106,944
Property, plant and equipment		
Gas utility	734,661	717,119
Electric utility	108,423	128,712
General	12,113	11,974
	-----	-----
	855,197	857,805
Less accumulated depreciation and amortization	(276,429)	(287,835)
	-----	-----
Net property, plant and equipment	578,768	569,970
Regulatory assets	56,155	55,081
Other assets	35,734	19,142
	-----	-----
Total assets	\$ 784,409	\$ 751,137
	=====	=====

See accompanying notes to consolidated financial statements.

UGI UTILITIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Thousands of dollars, except per share)

	September 30,	
	2001	2000
	-----	-----
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ --	\$ 15,000
Bank loans	57,800	100,400
Accounts payable	67,456	54,138
Employee compensation and benefits accrued	8,356	7,846
Dividends and interest accrued	5,392	4,547
Income taxes accrued	11,138	6,607
Customer deposits and refunds	6,032	10,272
Other current liabilities	21,264	11,521
	-----	-----
Total current liabilities	177,438	210,331
Long-term debt	208,477	157,924
Deferred income taxes	121,890	114,681
Deferred investment tax credits	8,783	9,182
Other noncurrent liabilities	12,064	14,546
Commitments and contingencies (note 8)		
Preferred stock subject to mandatory redemption, without par value (note 7)	20,000	20,000
Common stockholder's equity:		
Common Stock, \$2.25 par value (authorized - 40,000,000 shares; issued and outstanding - 26,781,785 shares)	60,259	60,259
Additional paid-in capital	72,792	68,559
Retained earnings	102,706	95,655
	-----	-----
Total common stockholder's equity	235,757	224,473
	-----	-----
Total liabilities and stockholders' equity	\$ 784,409	\$ 751,137
	=====	=====

See accompanying notes to consolidated financial statements.

UGI UTILITIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Thousands of dollars)

	Year Ended September 30,		
	2001	2000	1999
Revenues	\$ 584,762	\$ 436,942	\$ 420,647
Costs and expenses:			
Gas, fuel and purchased power	374,781	218,119	205,221
Operating and administrative expenses	88,310	85,425	86,740
Operating and administrative expenses - related parties	5,277	4,159	4,946
Taxes other than income taxes	9,182	17,052	25,232
Depreciation and amortization	23,767	23,612	23,005
Other income, net	(15,111)	(12,660)	(5,168)
	486,206	335,707	339,976
Operating income	98,556	101,235	80,671
Interest expense	18,988	18,353	17,532
Income before income taxes	79,568	82,882	63,139
Income taxes	31,431	32,406	24,271
Net income	48,137	50,476	38,868
Dividends on preferred stock	1,550	1,550	1,550
Net income after dividends on preferred stock	\$ 46,587	\$ 48,926	\$ 37,318

See accompanying notes to consolidated financial statements.

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

	Year Ended September 30,		
	2001	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 48,137	\$ 50,476	\$ 38,868
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	23,767	23,612	23,005
Deferred income taxes, net	(2,016)	2,866	5,792
Provision for uncollectible accounts	8,269	4,386	4,269
Pension income	(5,671)	(2,930)	(2,278)
Other	(177)	4,892	887
	72,309	83,302	70,543
Net change in:			
Accounts receivable and accrued utility revenues	(14,704)	(14,823)	(6,588)
Inventories	(14,508)	(8,831)	357
Deferred fuel costs	9,948	(3,751)	(5,120)
Accounts payable	13,318	16,257	(966)
Other current assets and liabilities	9,769	9,293	3,935
Net cash provided by operating activities	76,132	81,447	62,161
CASH FLOWS FROM INVESTING ACTIVITIES:			
Expenditures for property, plant and equipment	(36,783)	(36,391)	(36,384)
Net costs of property, plant and equipment disposals	(1,407)	(838)	(741)
Cash contribution to partnership	(6,000)	--	--
Net cash used by investing activities	(44,190)	(37,229)	(37,125)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payment of dividends	(36,809)	(45,563)	(30,550)
Issuance of long-term debt	50,603	--	--
Repayment of long-term debt	(15,000)	(7,143)	(7,143)
Bank loans increase (decrease)	(42,600)	13,000	19,000
Capital contribution from UGI Corporation	4,000	--	--
Net cash used by financing activities	(39,806)	(39,706)	(18,693)
Cash and cash equivalents increase (decrease)	\$ (7,864)	\$ 4,512	\$ 6,343
CASH AND CASH EQUIVALENTS:			
End of period	\$ 7,711	\$ 15,575	\$ 11,063
Beginning of period	15,575	11,063	4,720
Increase (decrease)	\$ (7,864)	\$ 4,512	\$ 6,343

See accompanying notes to consolidated financial statements.

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

	Common Stock	Additional Paid-in Capital	Retained Earnings
	-----	-----	-----
Balance September 30, 1998	\$ 60,259	\$ 68,559	\$ 82,424
Net income			38,868
Cash dividends - common stock			(29,000)
Cash dividends - preferred stock			(1,550)
	-----	-----	-----
Balance September 30, 1999	60,259	68,559	90,742
Net income			50,476
Cash dividends - common stock			(44,013)
Cash dividends - preferred stock			(1,550)
	-----	-----	-----
Balance September 30, 2000	60,259	68,559	95,655
Net income			48,137
Capital contribution by UGI Corporation		4,000	
Cash dividends - common stock			(35,259)
Cash dividends - preferred stock			(1,550)
Dividends of net assets			(4,277)
Other		233	
	-----	-----	-----
Balance September 30, 2001	\$ 60,259	\$ 72,792	\$ 102,706
	=====	=====	=====

See accompanying notes to consolidated financial statements.

UGI UTILITIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATION PRINCIPLES

UGI Utilities, Inc. ("UGI Utilities"), a wholly owned subsidiary of UGI Corporation ("UGI"), owns and operates a natural gas distribution utility ("Gas Utility") in parts of eastern and southeastern Pennsylvania and an electricity distribution utility and electricity generation business (together referred to as "Electric Utility") in northeastern Pennsylvania. We refer to UGI Utilities and its subsidiaries collectively as "The Company" or "We." Our consolidated financial statements include the accounts of UGI Utilities and its majority-owned subsidiaries. We eliminate all significant intercompany accounts and transactions when we consolidate. On October 1, 1999, Electric Utility's interests in its electric generation assets were transferred to UGI Utilities' wholly owned non-utility subsidiary, UGI Development Company ("UGIDC"). UGIDC has been granted "Exempt Wholesale Generator" status by the Federal Energy Regulatory Commission.

RECLASSIFICATIONS

We have reclassified certain prior-period balances to conform with the current period presentation.

USE OF ESTIMATES

We make estimates and assumptions when preparing financial statements in conformity with accounting principles generally accepted in the United States. These estimates and assumptions affect the reported amounts of assets and liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

REGULATED OPERATIONS

Gas Utility and Electric Utility's electricity distribution business are subject to regulation by the Pennsylvania Public Utility Commission ("PUC"). We account for all of our regulated Gas Utility and Electric Utility operations in accordance with Statement of Financial Accounting Standards ("SFAS") No. 71, "Accounting for the Effects of Certain Types of Regulation" ("SFAS 71"). SFAS 71 requires us to record the effects of rate regulation in the financial statements. If a separable portion of Gas Utility or Electric Utility no longer meets the provisions of SFAS 71, we are required to eliminate the financial statement effects of regulation for that portion of our operations.

On June 29, 2000, the PUC entered its order ("Gas Restructuring Order") in Gas Utility's restructuring plan filed by Gas Utility pursuant to Pennsylvania's Natural Gas Choice and Competition Act ("Gas Competition Act"). Based upon the provisions of the Gas Restructuring Order and the Gas Competition Act, we believe Gas Utility's regulatory assets continue to satisfy

UGI UTILITIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

the criteria of SFAS 71. For further information on the impact of the Gas Competition Act and Pennsylvania's Electricity Customer Choice Act ("Electricity Choice Act"), see Note 2.

CONSOLIDATED STATEMENTS OF CASH FLOWS

We define cash equivalents as all highly liquid investments with maturities of three months or less when purchased. We record cash equivalents at cost plus accrued interest, which approximates market value.

We paid interest totaling \$17,543 in 2001, \$17,941 in 2000, and \$16,894 in 1999. We paid income taxes totaling \$29,000 in 2001, \$23,108 in 2000, and \$19,642 in 1999.

REVENUE RECOGNITION

Gas Utility and Electric Utility record regulated revenues for service provided to the end of each month which includes an accrual for certain unbilled amounts based upon estimated usage. We reflect Gas Utility and Electric Utility rate increases or decreases in revenues from effective dates permitted by the PUC. Nonregulated revenues are recognized as services are performed.

INVENTORIES

Our inventories are stated at the lower of cost or market. We determine cost principally on an average cost method except for appliances for which we use the specific identification method.

INCOME TAXES

UGI Utilities' regulated operations record deferred income taxes in the Consolidated Statements of Income resulting from the use of accelerated depreciation methods based upon amounts recognized for ratemaking purposes. UGI Utilities also records a deferred tax liability for tax benefits that are flowed through to ratepayers when temporary differences originate and establishes a regulatory income tax asset for the probable increase in future revenues that will result when the temporary differences reverse.

We are amortizing deferred investment tax credits related to UGI Utilities' plant additions over the service lives of the related property. UGI Utilities reduces its deferred income tax liability for the future tax benefits that will occur when the deferred investment tax credits, which are not taxable, are amortized. We also reduce the regulatory income tax asset for the probable reduction in future revenues that will result when such deferred investment tax credits amortize.

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. The result of this allocation is generally consistent with income taxes calculated on a separate return basis.

UGI UTILITIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

PROPERTY, PLANT AND EQUIPMENT AND RELATED DEPRECIATION

We record property, plant and equipment at cost. We charge to accumulated depreciation the original cost of UGI Utilities' retired plant, together with the net cost of removal, for financial accounting purposes.

We record depreciation expense for Gas Utility's and Electric Utility's plant and equipment on a straight-line method over the estimated average remaining lives of the various classes of depreciable property. Depreciation expense as a percentage of the related average depreciable base for Gas Utility was 2.6% in 2001, 2.6% in 2000, and 2.7% in 1999. Depreciation expense as a percentage of the related average depreciable base for Electric Utility was 3.0% in 2001, 3.5% in 2000, and 3.2% in 1999. Depreciation expense was \$22,701 in 2001, \$23,000 in 2000, and \$22,371 in 1999.

We evaluate the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. We evaluate recoverability based upon undiscounted future cash flows expected to be generated by such assets.

COMPUTER SOFTWARE COSTS

We include in property, plant and equipment costs associated with computer software we develop or obtain for use in our businesses. We amortize computer software costs on a straight-line basis over expected periods of benefit not exceeding ten years once the installed software is ready for its intended use.

DEFERRED FUEL COSTS

Gas Utility's tariffs contain clauses which permit recovery of certain purchased gas costs ("PGCs"). The clauses provide for a periodic adjustment for the difference between the total amount collected from customers under each clause and the recoverable costs incurred. We defer the difference between amounts recognized in revenues and the applicable gas costs incurred until they are subsequently billed or refunded to customers.

ENVIRONMENTAL LIABILITIES

We accrue environmental investigation and cleanup costs when it is probable that a liability exists and the amount or range of amounts can be reasonably estimated. Our estimated liability for environmental contamination is reduced to reflect anticipated participation of other responsible parties but is not reduced for possible recovery from insurance carriers. We do not discount to present value the costs of future expenditures for environmental liabilities. We intend to pursue recovery of any incurred costs through all appropriate means, including regulatory relief. Gas Utility is permitted to amortize as removal costs site-specific environmental investigation and remediation costs, net of related third-party payments, associated with Pennsylvania sites. Gas Utility is currently permitted to include in rates, through future base rate proceedings, a five-year average of such prudently incurred removal costs.

DERIVATIVE INSTRUMENTS

Effective October 1, 2000, we adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133, as amended, establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that all derivative instruments be recognized as either assets or liabilities and measured at fair value. The accounting for changes in fair value depends upon the purpose of the derivative instrument and whether it is designated and qualifies for hedge accounting. To the extent a derivative instrument qualifies and is designated as a hedge of the variability of cash flows associated with a forecasted transaction ("cash flow hedge"), the effective portion of the gain or loss on such derivative instrument is generally reported in other comprehensive income and the ineffective portion, if any, is reported in net income. Such amounts reported in other comprehensive income are reclassified into net income when the forecasted transaction affects earnings. If a cash flow hedge is discontinued because it is probable that the forecasted transaction will not occur, the net gain or loss is immediately reclassified into net income. To the extent derivative instruments qualify and are designated as hedges of changes in the fair value of an existing asset, liability or firm commitment ("fair value hedge"), the gain or loss on the hedging instrument is recognized in earnings along with changes in the fair value of the hedged asset, liability or firm commitment attributable to the hedged risk.

In the past we have, on occasion, used a managed program of derivative instruments including natural gas and oil futures contracts to preserve gross margin associated with certain of our natural gas customers. These contracts were designated as cash flow hedges. During the year ended September 30, 2001, the amount of cash flow hedge gain reclassified to earnings because it became probable that the original forecasted transactions would not occur was \$1,034 which amount is included in other income. There were no gains or losses from hedge ineffectiveness or from excluding a portion of a derivative instruments' gain or loss from the assessment of hedge effectiveness related to derivatives designated as fair value or cash flow hedges during 2001. There was no gain or loss recognized in earnings as a result of a hedged firm commitment no longer qualifying as a fair value hedge. We did not have any derivative instruments outstanding at September 30, 2001.

We are a party to a number of contracts that have elements of a derivative instrument. These contracts include, among others, binding purchase orders, contracts which provide for the delivery of natural gas, and service contracts that require the counterparty to provide commodity storage, transportation or capacity service to meet our normal sales commitments. Although many of these contracts have the requisite elements of a derivative instrument, these contracts are not subject to the accounting requirements of SFAS 133 because they provide for the delivery of products or services in quantities that are expected to be used in the normal course of operating our business or the value of the contract is directly associated with the price or value of a service. The adoption of SFAS 133 did not materially impact our 2001 results of operations or financial position.

COMPREHENSIVE INCOME

Comprehensive income comprises net income and other comprehensive income (loss) which is primarily comprised of nonowner changes in equity. For all periods presented, comprehensive income was the same as net income.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board ("FASB") recently issued SFAS No. 141, "Business Combinations" ("SFAS 141"); SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"); SFAS No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"); and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144").

SFAS 141 addresses financial accounting and reporting for business combinations. Under SFAS 141, all business combinations initiated after June 30, 2001 are required to be accounted for using the purchase method of accounting. Among other provisions, SFAS 141 establishes specific criteria for the recognition of intangible assets separate from goodwill acquired in a purchase business combination. Although SFAS 141 supersedes Accounting Principles Board ("APB") Opinion No. 16, "Business Combinations" and SFAS No. 38, "Accounting for Preacquisition Contingencies of Purchased Enterprises," it does not change many of their provisions relating to the application of the purchase method.

SFAS 142 addresses the financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB Opinion No. 17, "Intangible Assets." SFAS 142 addresses the financial accounting and reporting for intangible assets acquired individually or with a group of other assets (excluding those acquired in a business combination) at acquisition and also addresses the financial accounting and reporting for goodwill and other intangible assets subsequent to their acquisition. Under SFAS 142, an intangible asset will be amortized over its useful life unless that life is determined to be indefinite. Goodwill and other intangible assets with indefinite lives will be tested for impairment at least annually.

We adopted SFAS 142 effective October 1, 2001. Because the Company does not have significant intangible assets including those resulting from prior business acquisitions, the adoption of SFAS 142 did not have a material impact on its results of operations or financial position.

SFAS 143 addresses financial accounting and reporting for legal obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred with a corresponding increase in the carrying value of the related asset. Entities shall subsequently charge the retirement cost to expense using a systematic and rational method over the asset's useful life and adjust the fair value of the liability resulting from the passage of time through charges to interest expense. We are required to adopt SFAS

143 effective October 1, 2002. We are currently in the process of evaluating the impact SFAS 143 will have on our financial condition and results of operations.

SFAS 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" ("SFAS 121") and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" as it relates to the disposal of a segment of a business. SFAS 144 establishes a single accounting model for long-lived assets to be disposed of based upon the framework of SFAS 121, and resolves significant implementation issues of SFAS 121. SFAS 144 is effective for the Company October 1, 2002. We believe that the adoption of SFAS 144 will not have a material impact on its financial position or results of operations.

2. UTILITY REGULATORY MATTERS

Gas Utility

Gas Competition Act. On June 22, 1999, the Gas Competition Act was signed into law. The purpose of the Gas Competition Act is to provide all natural gas consumers in Pennsylvania with the ability to purchase their gas supplies from the supplier of their choice. Under the Gas Competition Act, local gas distribution companies ("LDCs") may continue to sell gas to customers, and such sales of gas, as well as distribution services provided by LDCs, continue to be subject to price regulation by the PUC. As of January 1, 2000, the Gas Competition Act, in conjunction with a companion bill, eliminated the gross receipts tax on sales of gas.

Generally, LDCs will serve as the supplier of last resort for all residential and small commercial and industrial customers unless the PUC approves another supplier of last resort. The Gas Competition Act requires energy marketers seeking to serve customers of LDCs to accept assignment of a portion of the LDC's pipeline capacity and storage contracts at contract rates, thus avoiding the creation of stranded costs. After July 1, 2002, a natural gas supplier may petition the PUC to avoid such contract release or assignment. However, such petition may be granted only if the LDC fully recovers the cost of contracts.

On June 29, 2000, the PUC issued the Gas Restructuring Order approving Gas Utility's restructuring plan filed by Gas Utility pursuant to the Gas Competition Act. Among other things, the implementation of the Gas Restructuring Order resulted in an increase in Gas Utility's core-market base rates effective October 1, 2000. This base rate increase was designed to generate approximately \$16,700 in additional net annual revenues. The Gas Restructuring Order also provided that effective October 1, 2000, Gas Utility must reduce its PGC rates by an annualized amount of \$16,700 for the first 14 months following the base rate increase.

Beginning December 1, 2001, Gas Utility is required to reduce its PGC rates by an amount equal to the margin it receives from customers served under interruptible rates to the extent they use capacity contracted by Gas Utility for core-market customers. As a result, Gas Utility

expects that beginning in Fiscal 2002 operating results will be less sensitive to the market prices of alternative fuels and more sensitive to the effects of heating-season weather.

Transfer of Assets. On May 24, 2001, the PUC approved Gas Utility's application for approval to transfer its liquefied natural gas ("LNG") and propane air ("LP") facilities, along with related assets, to an unregulated affiliate, Energy Services, Inc., a second-tier wholly owned subsidiary of UGI. The associated reduction in Gas Utility's base rates, adjusted for the impact of the transfer on net operating expenses, is not expected to have a material effect on our results of operations. Gas Utility transferred the LNG and LP assets, which had a net book value of \$4,277, on September 30, 2001. The transfer is reflected as a dividend of net assets on the 2001 Consolidated Statement of Stockholder's Equity.

Electric Utility

Electric Utility Restructuring Order. On June 19, 1998, the PUC entered its Opinion and Order ("Electricity Restructuring Order") in Electric Utility's restructuring proceeding pursuant to the Electricity Customer Choice Act. Under the terms of the Electricity Restructuring Order, commencing January 1, 1999, Electric Utility is authorized to recover \$32,500 in stranded costs (on a full revenue requirements basis which includes all income and gross receipts taxes) over a four-year period through a Competitive Transition Charge ("CTC") (together with carrying charges on unrecovered balances of 7.94%) and to charge unbundled rates for generation, transmission and distribution services. Stranded costs are electric generation-related costs that traditionally would be recoverable in a regulated environment but may not be recoverable in a competitive electric generation market. The recoverable stranded costs include \$8,692 for the buy-out of a 1993 power purchase agreement with an independent power producer.

Under the terms of the Electricity Restructuring Order and in accordance with the Electricity Customer Choice Act, Electric Utility generally may not increase the generation component of prices as long as stranded costs are being recovered through the CTC. This generation rate cap is expected to extend through September 2002 in the case of Electric Utility's commercial and industrial customers and May 2003 in the case of Electric Utility's residential customers. Since January 1, 1999, all of Electric Utility's customers have been permitted to select an alternative generation supplier. Customers choosing an alternative supplier receive a "shopping credit." As permitted by the Electricity Restructuring Order, on October 1, 1999, Electric Utility transferred its electric generation assets to its wholly owned nonregulated subsidiary, UGIDC.

Formation of Hunlock Creek Energy Ventures. On December 8, 2000, UGIDC contributed its coal-fired Hunlock Creek generating station ("Hunlock") and certain related assets having a net book value of \$4,214, and \$6,000 in cash, to Energy Ventures, a general partnership jointly owned by the Company and a subsidiary of Allegheny Energy, Inc. ("Allegheny"). The contribution was recorded at its carrying value and no gain was recognized by the Company. Also on December 8, 2000, Allegheny contributed a newly constructed, gas-fired combustion turbine generator to be operated at the Hunlock site. Under the terms of our arrangement with Allegheny, each partner is entitled to purchase 50% of the output of the joint venture at cost. Total purchases from Energy Ventures in 2001 were \$7,966.

UGI UTILITIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Regulatory Assets and Liabilities

The following regulatory assets and liabilities are included in our accompanying balance sheets at September 30:

	2001	2000
Regulatory assets:		
Income taxes recoverable	\$ 51,761	\$ 47,667
Power agreement buy-out	1,338	3,536
Other postretirement benefits	2,633	2,869
Deferred fuel costs	--	7,195
Other	423	1,009
Total regulatory assets	\$ 56,155	\$ 62,276
Regulatory liabilities:		
Other postretirement benefits	\$ 4,339	\$ 4,014
Deferred fuel costs	2,752	--
Total regulatory liabilities	\$ 7,091	\$ 4,014

UGI UTILITIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. DEBT

Long-term debt comprises the following at September 30:

	2001	2000
Medium-Term Notes:		
7.25% Notes, due November 2017	\$ 20,000	\$ 20,000
7.17% Notes, due June 2007	20,000	20,000
6.17% Notes, due March 2001	--	15,000
7.37% Notes, due October 2015	22,000	22,000
6.73% Notes, due October 2002	26,000	26,000
6.62% Notes, due May 2005	20,000	20,000
7.14% Notes, due December 2005 (including unamortized premium of \$533, effective rate 6.64%)	30,533	--
7.14% Notes, due December 2005	20,000	--
6.50% Senior Notes, due August 2003 (less unamortized discount of \$56 and \$76, respectively)	49,944	49,924
Total long-term debt	208,477	172,924
Less current maturities	--	(15,000)
Long-term debt due after one year	\$ 208,477	\$ 157,924

Scheduled repayments of long-term debt for each of the next five fiscal years ending September 30 are as follows: 2002 - \$0; 2003 - \$76,000; 2004 - \$0; 2005 - \$20,000; 2006 - \$50,000.

At September 30, 2001, UGI Utilities had revolving credit agreements with four banks providing for borrowings of up to \$97,000. These agreements expire at various dates through June 2004. UGI Utilities may borrow at various prevailing interest rates, including LIBOR. UGI Utilities pays quarterly commitment fees on these credit lines. UGI Utilities had borrowings under these agreements totaling \$57,800 at September 30, 2001 and \$100,400 at September 30, 2000, which we classify as bank loans. The weighted-average interest rates on bank loans were 5.69% at September 30, 2001 and 7.12% at September 30, 2000.

UGI Utilities' credit agreements have restrictions on such items as total debt, working capital, debt service, and payments for investments. They also require consolidated tangible net worth of at least \$125,000. At September 30, 2001, UGI Utilities had not satisfied the minimum working capital requirement under its revolving credit agreements. This default was cured within the thirty-day period allowed under such agreements.

UGI UTILITIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. INCOME TAXES

The provisions for income taxes consist of the following:

	2001	2000	1999
Current expense:			
Federal	\$ 25,344	\$ 22,721	\$ 13,989
State	8,103	6,819	4,490
Total current expense	33,447	29,540	18,479
Deferred (benefit) expense	(1,618)	3,264	6,190
Investment tax credit amortization	(398)	(398)	(398)
Total income tax expense	\$ 31,431	\$ 32,406	\$ 24,271

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

	2001	2000	1999
Statutory federal tax rate	35.0%	35.0%	35.0%
Difference in tax rate due to:			
State income taxes, net of federal benefit	6.5	6.1	6.3
Deferred investment tax credit amortization	(0.5)	(0.5)	(0.7)
Other, net	(1.5)	(1.5)	(2.2)
Effective tax rate	39.5%	39.1%	38.4%

UGI UTILITIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

	2001	2000
Excess book basis over tax basis of property, plant and equipment	\$ 99,928	\$ 95,905
Regulatory assets	23,301	25,604
Other	9,705	7,411
Gross deferred tax liabilities	132,934	128,920
Deferred investment tax credits	(3,644)	(3,810)
Employee-related expenses	(6,067)	(5,452)
Power purchase agreement liability	(1,487)	(2,167)
Other	(5,373)	(3,146)
Gross deferred tax assets	(16,571)	(14,575)
Net deferred tax liabilities	\$ 116,363	\$ 114,345

UGI Utilities had recorded deferred tax liabilities of approximately \$33,928 as of September 30, 2001 and \$31,698 as of September 30, 2000 pertaining to utility temporary differences, principally a result of accelerated tax depreciation, the tax benefits of which previously were or will be flowed through to ratepayers. These deferred tax liabilities have been reduced by deferred tax assets of \$3,644 at September 30, 2001 and \$3,810 at September 30, 2000, pertaining to utility deferred investment tax credits. UGI Utilities had recorded a regulatory income tax asset related to these net deferred taxes of \$51,761 as of September 30, 2001 and \$47,667 as of September 30, 2000. This regulatory income tax asset represents future revenues expected to be recovered through the ratemaking process. We will recognize this regulatory income tax asset in deferred tax expense as the corresponding temporary differences reverse and additional income taxes are incurred.

5. EMPLOYEE RETIREMENT PLANS

DEFINED BENEFIT PENSION AND OTHER POSTRETIREMENT PLANS

We sponsor a defined benefit pension plan ("UGI Utilities Pension Plan") for employees of UGI, UGI Utilities, and certain of UGI's other wholly owned subsidiaries. In addition, we provide postretirement health care benefits to certain retirees and a limited number of active employees meeting certain age and service requirements, and postretirement life insurance benefits to nearly all active and retired employees.

UGI UTILITIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The following provides a reconciliation of benefit obligations, plan assets, and funded status of the plans as of September 30:

	Pension Benefits		Other Postretirement Benefits	
	2001	2000	2001	2000
CHANGE IN BENEFIT OBLIGATIONS:				
Benefit obligations - beginning of year	\$ 150,952	\$ 149,503	\$ 16,939	\$ 13,989
Service cost	3,085	3,230	75	74
Interest cost	12,076	11,805	1,390	1,185
Actuarial (gain) loss	7,901	(4,390)	1,404	3,101
Benefits paid	(8,860)	(9,196)	(1,629)	(1,410)
Benefit obligations - end of year	\$ 165,154	\$ 150,952	\$ 18,179	\$ 16,939
CHANGE IN PLAN ASSETS:				
Fair value of plan assets - beginning of year	\$ 223,524	\$ 202,149	\$ 6,411	\$ 4,956
Actual return on plan assets	(30,928)	30,571	190	330
Employer contributions	--	--	2,022	1,901
Benefits paid	(8,860)	(9,196)	(1,629)	(776)
Fair value of plan assets - end of year	\$ 183,736	\$ 223,524	\$ 6,994	\$ 6,411
Funded status of the plans	\$ 18,582	\$ 72,572	\$ (11,185)	\$ (10,528)
Unrecognized net actuarial (gain) loss	4,166	(54,760)	632	(445)
Unrecognized prior service cost	3,337	4,003	--	--
Unrecognized net transition (asset) obligation	(4,634)	(6,264)	7,743	8,427
Prepaid (accrued) benefit cost - end of year	\$ 21,451	\$ 15,551	\$ (2,810)	\$ (2,546)
ASSUMPTIONS AS OF SEPTEMBER 30:				
Discount rate	7.7%	8.2%	7.7%	8.2%
Expected return on plan assets	9.5%	9.5%	6.0%	6.0%
Rate of increase in salary levels	4.5%	4.5%	4.5%	4.5%

Included in the end of year pension benefit obligations above are \$10,544 at September 30, 2001 and \$9,101 at September 30, 2000 relating to employees of UGI and certain of its other subsidiaries. Included in the end of year postretirement obligations above are \$471 at September 30, 2001 and \$441 at September 30, 2000 relating to employees of UGI.

UGI UTILITIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Net periodic pension and other postretirement benefit costs relating to UGI Utilities employees include the following components:

	Pension Benefits			Other Postretirement Benefits		
	2001	2000	1999	2001	2000	1999
Service cost	\$ 2,785	\$ 2,898	\$ 3,459	\$ 82	\$ 70	\$ 78
Interest cost	11,319	11,090	10,548	1,326	1,168	991
Expected return on assets	(17,766)	(16,010)	(15,375)	(366)	(252)	(256)
Amortization of:						
Transition (asset) obligation	(1,530)	(1,534)	(1,539)	679	680	679
Prior service cost	625	626	629	--	--	--
Actuarial gain	(1,104)	--	--	--	--	(48)
Net benefit cost (income)	(5,671)	(2,930)	(2,278)	1,721	1,666	1,444
Change in regulatory assets and liabilities	--	--	--	1,378	1,433	1,655
Net expense (income)	\$ (5,671)	\$ (2,930)	\$ (2,278)	\$ 3,099	\$ 3,099	\$ 3,099

Pension plan assets are held in trust and consist principally of equity and fixed income mutual funds and investment grade corporate and U.S. government obligations. UGI Common Stock comprised less than 5% of trust assets at September 30, 2001 and 2000.

Pursuant to orders issued by the PUC, UGI Utilities has established a Voluntary Employee Benefit Trust ("VEBA") to pay retiree health care and life insurance benefits and to fund the UGI Utilities' postretirement benefit liability. UGI Utilities is required to fund its postretirement benefit obligations by depositing into the VEBA the annual amount of postretirement benefits costs determined under SFAS 106, "Employers Accounting for Postretirement Benefits Other Than Pensions." The difference between such amounts and amounts included in UGI Utilities' rates is deferred for future recovery from, or refund to, ratepayers. VEBA investments consist principally of money market funds.

The assumed health care cost trend rates are 9% for fiscal 2002, decreasing to 5.5% in fiscal 2005. A one percentage point change in the assumed health care cost trend rate would change the 2001 postretirement benefit cost and obligation as follows:

	1% Increase	1% Decrease
Effect on total service and interest costs	\$ 69	\$ (62)
Effect on postretirement benefit obligation	898	(804)

We also sponsor unfunded retirement benefit plans for certain key employees. At September 30, 2001 and 2000, the projected benefit obligations of these plans were not material. We recorded expense for these plans of \$235 in 2001, \$131 in 2000, and \$637 in 1999.

UGI UTILITIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DEFINED CONTRIBUTION PLANS

We sponsor a 401(k) savings plan for eligible employees ("Utilities Savings Plan"). Generally, participants in the Utilities Savings Plan may contribute a portion of their compensation on a before-tax and after-tax basis. We may, at our discretion, match a portion of participants' contributions. The cost of benefits under the savings plans totaled \$936 in 2001, \$948 in 2000, and \$885 in 1999.

6. INVENTORIES

Inventories comprise the following at September 30:

	2001	2000
Utility fuel and gases	\$ 45,628	\$ 33,581
Appliances for sale	599	665
Materials, supplies and other	1,847	2,688
Total inventories	\$ 48,074	\$ 36,934

7. SERIES PREFERRED STOCK

The Series Preferred Stock, including both series subject to and series not subject to mandatory redemption, has 2,000,000 shares authorized for issuance. The holders of shares of Series Preferred Stock have the right to elect a majority of the Board of Directors (without cumulative voting) if dividend payments on any series are in arrears in an amount equal to four quarterly dividends. This election right continues until the arrearage has been cured. We have paid cash dividends at the specified annual rates on all outstanding Series Preferred Stock.

At September 30, 2001 and 2000, we had outstanding 200,000 shares of \$7.75 Series cumulative preferred stock. We are required to establish a sinking fund to redeem on October 1 in each year, commencing October 1, 2004, 10,000 shares of our \$7.75 Series at a price of \$100 per share. The \$7.75 Series is redeemable, in whole or in part, at our option on or after October 1, 2004, at a price of \$100 per share. All outstanding shares of \$7.75 Series are subject to mandatory redemption on October 1, 2009, at a price of \$100 per share.

8. COMMITMENTS AND CONTINGENCIES

We lease various buildings and transportation, computer and office equipment under operating leases. Certain of our leases contain renewal and purchase options and also contain escalation clauses. Our aggregate rental expense for such leases was \$4,624 in 2001, \$4,594 in 2000, and \$5,103 in 1999.

UGI UTILITIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Minimum future payments under operating leases that have initial or remaining noncancelable terms in excess of one year for the fiscal years ending September 30 are as follows: 2002 - \$3,608; 2003 - \$3,019; 2004 - \$2,588; 2005 - \$1,216; 2006 - \$535; after 2006 - \$359.

Generally, Gas Utility has gas supply agreements with producers and marketers with terms of less than one year. Gas Utility also has agreements for firm pipeline transportation and storage capacity which Gas Utility may terminate at various dates through 2015. Gas Utility's costs associated with transportation and storage capacity agreements are included in its annual PGC filing with the PUC and are recoverable through the PGC rates. In addition, Gas Utility has short-term gas supply agreements which permit it to purchase certain of its gas supply needs on a firm or interruptible basis at spot market prices.

Electric Utility's distribution operations purchase their capacity requirements and electric energy needs under contracts with power producers, including UGIDC, a partner in Energy Ventures, and on the spot market. Contracts with producers for capacity and energy needs expire at various dates through December 2002. In high usage months, Electric Utility meets its additional electric power needs through monthly market-based contracts and through spot purchases at market prices as delivered.

From the late 1800s through the mid-1900s, UGI Utilities and its former subsidiaries owned and operated a number of manufactured gas plants ("MGPs") prior to the general availability of natural gas. Some constituents of coal tars and other residues of the manufactured gas process are today considered hazardous substances under the Superfund Law and may be present on the sites of former MGPs. Between 1882 and 1953, UGI Utilities owned the stock of subsidiary gas companies in Pennsylvania and elsewhere and also operated the business of some gas companies under agreement. Pursuant to the requirements of the Public Utility Holding Company Act of 1935, UGI Utilities divested all of its utility operations other than those which now constitute Gas Utility and Electric Utility.

UGI Utilities does not expect its costs for investigation and remediation of hazardous substances at Pennsylvania MGP sites to be material to its results of operations because Gas Utility is currently permitted to include in rates, through future base rate proceedings, prudently incurred remediation costs associated with such sites. UGI Utilities has been notified of several sites outside Pennsylvania on which (1) MGPs were formerly operated by it or owned or operated by its former subsidiaries and (2) either environmental agencies or private parties are investigating the extent of environmental contamination or performing environmental remediation. UGI Utilities is currently litigating two claims against it relating to out-of-state sites.

Management believes that under applicable law UGI Utilities should not be liable in those instances in which a former subsidiary operated an MGP. There could be, however, significant future costs of an uncertain amount associated with environmental damage caused by MGPs outside Pennsylvania that UGI Utilities directly operated, or that were owned or operated by former subsidiaries of UGI Utilities, if a court were to conclude that the subsidiary's separate corporate form should be disregarded.

UGI UTILITIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

UGI Utilities has filed suit against more than fifty insurance companies alleging that the defendants breached contracts of insurance by failing to indemnify UGI Utilities for certain environmental costs. The suit seeks to recover more than \$11,000 in such costs. During 2001 and 2000, UGI Utilities entered into settlement agreements with several of the insurers and recorded pre-tax income of \$943 and \$4,500, respectively, which amounts are included in operating and administrative expenses in the 2001 and 2000 Consolidated Statements of Income.

In addition to these environmental matters, there are other pending claims and legal actions arising in the normal course of our businesses. We cannot predict with certainty the final results of environmental and other matters. However, it is reasonably possible that some of them could be resolved unfavorably to us. We believe, after consultation with counsel, that damages or settlements, if any, recovered by the plaintiffs in such claims or actions will not have a material adverse effect on our financial position but could be material to our operating results or cash flows in future periods depending on the nature and timing of future developments with respect to these matters and the amounts of future operating results and cash flows.

9. FINANCIAL INSTRUMENTS

The carrying amounts of financial instruments included in current assets and current liabilities (excluding current maturities of long-term debt) approximate their fair values because of their short-term nature. The estimated fair value of our long-term debt is approximately \$218,000 at September 30, 2001 and \$168,000 at September 30, 2000. We estimate the fair value of long-term debt by using current market prices and by discounting future cash flows using rates available for similar type debt. The estimated fair value of our Series Preferred Stock is approximately \$21,400 at September 30, 2001 and \$21,000 at September 30, 2000. We estimated the fair value of our Series Preferred Stock based on the fair value of redeemable preferred stock with similar credit ratings and redemption features.

We have financial instruments such as trade accounts receivable which could expose us to concentrations of credit risk. The credit risk from trade accounts receivable is limited because we have a large customer base which extends across many different markets. At September 30, 2001 and 2000, we had no significant concentrations of credit risk.

10. SEGMENT INFORMATION

We have determined that we have two business segments: (1) Gas Utility and (2) Electric Utility. Gas Utility revenues are derived principally from the sale and distribution of natural gas to customers in eastern and southeastern Pennsylvania. Electric Utility derives its revenues from the sale and distribution of electricity in two northeastern Pennsylvania counties. Although the Electricity Customer Choice Act unbundled the pricing for Electric Utility's electric generation, transmission and distribution services, we currently manage and evaluate these business components on a combined basis.

UGI UTILITIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The accounting policies of our reportable segments are substantially the same as those described in the significant accounting policies section of Note 1. We evaluate the performance of our Gas Utility and Electric Utility segments principally based upon their earnings before income taxes.

No single customer represents more than ten percent of our consolidated revenues and there are no significant intersegment transactions. In addition, all of our reportable segments' revenues are derived from sources within the U.S., and all of our reportable segments' long-lived assets are located in the U.S. Financial information by business segment follows:

	Total	Elim- inations	Gas Utility	Electric Utility	Other
2001					
Revenues	\$ 584,762	\$ --	\$ 500,832	\$ 83,930	\$ --
EBITDA (1)	\$ 122,323	\$ --	\$ 108,017	\$ 14,306	\$ --
Depreciation and amortization	(23,767)	\$ --	(20,171)	(3,596)	--
Operating income	98,556	--	87,846	10,710	--
Interest expense	(18,988)	--	(16,258)	(2,730)	--
Income before income taxes	\$ 79,568	\$ --	\$ 71,588	\$ 7,980	\$ --
Total assets	\$ 784,409	\$ --	\$ 678,947	\$ 105,462	\$ --
Capital expenditures	\$ 36,783	\$ --	\$ 31,757	\$ 5,026	\$ --
2000					
Revenues	\$ 436,942	\$ --	\$ 359,041	\$ 77,901	\$ --
EBITDA (1)	\$ 124,847	\$ --	\$ 105,276	\$ 19,571	\$ --
Depreciation and amortization	(23,612)	\$ --	(19,098)	(4,514)	--
Operating income	101,235	--	86,178	15,057	--
Interest expense	(18,353)	--	(16,175)	(2,178)	--
Income before income taxes	\$ 82,882	\$ --	\$ 70,003	\$ 12,879	\$ --
Total assets	\$ 751,137	\$ --	\$ 653,766	\$ 97,371	\$ --
Capital expenditures	\$ 36,391	\$ --	\$ 31,665	\$ 4,726	\$ --
1999					
Revenues	\$ 420,647	\$ --	\$ 345,637	\$ 75,010	\$ --
EBITDA (1)	\$ 103,676	\$ --	\$ 86,963	\$ 16,780	\$ (67)
Depreciation and amortization	(23,005)	--	(18,995)	(4,010)	--
Operating income (loss)	80,671	--	67,968	12,770	(67)
Interest expense	(17,532)	--	(15,184)	(2,348)	--
Income (loss) before income taxes	\$ 63,139	\$ --	\$ 52,784	\$ 10,422	\$ (67)
Total assets	\$ 717,169	\$ (52)	\$ 620,009	\$ 95,261	\$ 1,951
Capital expenditures	\$ 36,384	\$ --	\$ 31,929	\$ 4,455	\$ --

- (1) Earnings before interest expense, income taxes, depreciation and amortization (EBITDA) should not be considered as an alternative to net income (as an indicator of operating performance) or as an alternative to cash flow (as a measure of liquidity or ability to service debt obligations) and is not a measure of performance or financial condition under accounting principles generally accepted in the United States.

UGI UTILITIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. QUARTERLY DATA (UNAUDITED)

The following quarterly information includes all adjustments (consisting only of normal recurring adjustments with the exception of those indicated below), which we consider necessary for a fair presentation of such information. Quarterly results fluctuate because of the seasonal nature of UGI Utilities' businesses.

	December 31, 2000		March 31, 2001		June 30, 2001		September 30, 2001	
	1999		2000(a)		2000		2000(b)	
Revenues	\$166,503	\$121,156	\$231,591	\$169,864	\$103,772	\$ 77,554	\$ 82,896	\$ 68,368
Operating income	33,463	33,822	46,500	48,974	12,745	12,305	5,848	6,134
Net income	17,095	17,818	25,156	27,118	4,990	4,872	896	668

(a) Includes income from a litigation settlement which increased operating income by \$2,400 and net income by \$1,400.

(b) Includes income from a litigation settlement which increased operating income by \$2,100 and net income by \$1,228.

12. RELATED PARTY TRANSACTIONS

UGI bills UGI Utilities for an allocated share of its general corporate expenses. This allocation is based upon a three-factor formula which includes revenues, costs and expenses, and net assets. These billed expenses are classified as operating and administrative expenses - related parties in the Consolidated Statements of Income.

UGI UTILITIES, INC. AND SUBSIDIARIES
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
(Thousands of dollars)

	Balance at beginning of year -----	Charged to costs and expenses -----	Other -----	Balance at end of year -----
YEAR ENDED SEPTEMBER 30, 2001				
Reserves deducted from assets in the consolidated balance sheet:				
Allowance for doubtful accounts	\$ 2,061 =====	\$ 8,269	\$ (7,179) (1)	\$ 3,151 =====
Other reserves (3)	\$ 1,954 =====	\$ 1,696	\$ (276) (2)	\$ 3,467 =====
			93 (4)	
YEAR ENDED SEPTEMBER 30, 2000				
Reserves deducted from assets in the consolidated balance sheet:				
Allowance for doubtful accounts	\$ 1,716 =====	\$ 4,386	\$ (4,041) (1)	\$ 2,061 =====
Other reserves (3)	\$ 1,345 =====	\$ 1,007	\$ (455) (2)	\$ 1,954 =====
			57 (4)	
YEAR ENDED SEPTEMBER 30, 1999				
Reserves deducted from assets in the consolidated balance sheet:				
Allowance for doubtful accounts	\$ 1,373 =====	\$ 4,269	\$ (3,926) (1)	\$ 1,716 =====
Other reserves (3)	\$ 3,724 =====	\$ 1,079	\$ (3,730) (2)	\$ 1,345 =====
			272 (4)	

(1) Uncollectible accounts written off, net of recoveries.

(2) Payments, net

(3) Includes reserves for self-insured property and casualty liability, insured property and casualty liability, environmental, litigation and other.

(4) Other adjustments

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
10.23	Power Sales Agreement between UGI Utilities, Inc. and UGI Development Company dated as of November 30, 2001
10.24	Partnership Agreement of Hunlock Creek Energy Ventures dated December 8, 2001 by and between UGI Hunlock Development Company and Allegheny Energy Supply Hunlock Creek LLC
12.1	Computation of Ratio of Earnings to Fixed Charges
12.2	Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
23	Consent of Arthur Andersen LLP

Power Sales Agreement
UGIDC Sales to UGI Utilities, Inc.
Market-Based Rates

This POWER SALES AGREEMENT ("Agreement"), is made and entered into as of November 30, 2001, by and between UGI Utilities, Inc., a Pennsylvania corporation having offices at 400 Stewart Road, P.O. Box 3200, Wilkes-Barre, PA 19706-1495, hereinafter referred to as "UGI" or "Buyer", and UGI Development Company, a Pennsylvania Company having its principal business at 390 Route 11, P.O. Box 224, Hunlock Creek, PA 19621-0224, hereinafter referred to as "UGIDC" or "Seller", (individually, the "Party" and collectively, the "Parties". The definitions set forth in the Definitional Annex apply to this Agreement).

WHEREAS, the Parties entered into a Power Sales Agreement dated July 1, 2001, which based market prices for capacity credits on a market indicator that subsequently ceased to operate; and

WHEREAS, the Parties now wish to provide for alternative pricing mechanisms for capacity credits and to supercede the Agreement of July 1, 2001.

NOW, THEREFORE, in consideration of the premises, terms and conditions contained herein, and intending to be legally bound hereby, the Parties agree as follows:

ARTICLE 1
SALE OF CAPACITY CREDITS AND ENERGY

- 1.1 Purchase and Sale. Beginning on the Effective Date, UGIDC hereby agrees to sell to UGI, and UGI agrees to purchase from UGIDC, an amount of Net Electric Energy and Capacity equal to the sum total of UGIDC's entitlement to Net Electric Energy and Capacity available from the Facilities (and UGIDC's 1.11% ownership of the Conemaugh generator.)
- 1.2 Release From Other Obligations. Other than the purchase and sales set forth in this Article 1 of this Agreement, UGI is not obligated to purchase from UGIDC nor is UGIDC required to sell to UGI any other quantity of Power at any time.

ARTICLE 2
PRICES

- 2.1 Capacity Credits. For each Unforced Capacity Credit purchased from UGIDC's entitlement, UGI shall pay UGIDC market rates based on the average monthly clearing price in the PJM capacity market or an equivalent indicator of monthly capacity prices in the event that the PJM market ceases to reflect general market conditions.
- 2.2 Energy. UGI shall pay UGIDC the product of the PJM Day Ahead (D/A) scheduled energy times the market rate for 7 day/24 hour energy forecasted for a twelve month period for base loaded units and hourly energy output from the CT at the associated PJM hourly LMP.

ARTICLE 3
DELIVERY POINTS AND RELIABILITY GUIDELINES

- 3.1 Delivery Points. UGIDC shall deliver the Power to the UGI points of interconnection with UGIDC which are the station transformers for each generator. UGI shall be responsible for network transmission under the PJM Open Access Transmission Tariff and related agreements.
- 3.2 Reliability Guidelines. Each Party agrees to adhere to accepted Good Utility Operating Practice and specifically adhere to the applicable operating police is, criteria and/or guidelines of the North America Electric Reliability Council ("NERC") and any regional or subregional requirements.
- 3.3 Scheduling. The delivery of Power under this Agreement shall be Scheduled by UGI in accordance with the guidelines established by the PJM Office of Interconnection.
- 3.4 Title Transfer. Title to, possession of, and risk of loss of Power Scheduled and received hereunder shall transfer from UGIDC to UGI at the Delivery Points. UGIDC warrants that at the time of delivery UGIDC shall have good title to the Power sold and delivered hereunder and the right to sell such Power to UGI.

ARTICLE 4
TERM OF AGREEMENT

- 4.1 Commencement. This Agreement shall commence on December 1, 2001 ("The Effective Date").
- 4.2 Termination. This Agreement shall terminate on the earlier of the date when UGIDC is no longer entitled to Net Electric Energy and Capacity from the facilities, the mutual agreement of the Parties to terminate, or December 31, 2011. UGIDC shall have no obligation to UGI to continue to provide any service hereunder following that date. Following expiration of this Agreement UGI shall not be obligated to continue purchases from UGIDC under this Agreement or to continue to compensate UGIDC in any manner other than for amounts owed for sales and services rendered under this Agreement.

ARTICLE 5
BILLING AND PAYMENT

- 5.1 Statements. UGI shall render to UGIDC for each calendar month during the term of this Agreement a statement or statements setting forth the total quantity of Power purchased

under this Agreement during the preceding month and the amounts due to UGIDC from UGI under this Agreement.

- 5.2 **Billing and Payments.** UGI shall submit Statements monthly with payment within ten (10) days following the last day of the month in which sales under this Agreement were made. Payments shall be made by crediting UGIDC revenue accounts. Payments shall be deemed to have been made on the date that UGIDC's revenue account is credited. Except as provided in Section 5.3, if UGI fails to submit a statement and pay all of the amount of any statement when that amount is due, UGI shall pay UGIDC a late charge on the unpaid balance that shall accrue on each calendar day from the date at the Interest Rate. Disputed bills shall be handled as stated below.
- 5.3 **Billing Disputes.** In the event that UGIDC disputes any portion of any bill or payment, UGIDC shall submit a detailed written explanation of the basis for the dispute to UGI. The Parties shall use their best efforts to attempt to resolve such disputes on a timely basis. Upon determination of the correct billing amount the adjusted bill shall be paid promptly after such determination with interest at the Interest Rate accrued in accordance with Section 5.2 and computed from the date payment is received to the date adjustment is made. If the Parties are unable to resolve the dispute, either Party may exercise its available administrative or legal remedies, including those set forth in Section 5.6 below.
- 5.4 **Audit.** Each Party or any third Party representative of a Party has the right at its sole expense and during normal working hours, to examine the records of the other Party to the extent reasonably necessary to verify the accuracy of any statement, charge or computation made pursuant to the provisions of this Agreement. If any such examination reveals any inaccuracy in any statement, the necessary adjustments in such statement and the payments thereof shall be made prior to the lapse of two years from the rendition of such statement, and provided further that the rights set forth in the first sentence of Section 5.4 will serve until two years after termination of this Agreement.
- 5.5 **Records.** Each Party shall keep such records as may be necessary to Afford the other a clear history of all deliveries of capacity credits and energy under this Agreement. Records shall be maintained for a period necessary to comply with Section 5.4 and shall be made available as necessary to verify the accuracy of statements submitted under this Agreement.
- 5.6 **Dispute Resolution.** (a) In the event of a dispute between the Parties arising under this Agreement, the Parties will work together in good faith to resolve the dispute. If the Parties are unable to resolve such dispute between themselves within five days after written notification by one Party to the other of the existence of such dispute, they shall immediately refer such matter to their internal upper management for resolution. If the management of the Parties is unable to resolve the dispute within ten (10) days after the matter is brought to their level for review, either Party may bring a claim or suit in accordance with the provisions of Section 12.4. Each Party shall pay its own attorney's fees and expense, except that if the prevailing Party is required to initiate proceedings to

enforce the award or confirm judgment, the prevailing Party shall be entitled to recover its costs and attorneys' fees associated with such action.

(b) Notwithstanding the dispute procedure provided in Section 5.6, the Parties have no obligation to use such dispute resolution process where the dispute involves confidentiality or the infringement of intellectual property rights. In the event of a breach of confidentiality or a claim of infringement under this Agreement, the Party seeking redress shall have the right to bring a claim or suit in accordance with Section 12.6 immediately.

ARTICLE 6
LIQUIDATED DAMAGES

- 6.1 Scheduling. Scheduling of Power under this Agreement shall be subject to Section 3.3. Unless otherwise agreed to, UGIDC and UGI shall be responsible for any transmission and ancillary services relating to the transmission of Power, in the case of UGIDC, to the Delivery Points, and in the case of UGI, at and from the Delivery Points.
- 6.2 In the event UGIDC fails to deliver the Power, where such failure was not excused by Force Majeure or by UGI's failure to perform, UGIDC shall pay UGI (on the date payment would otherwise be due under this Agreement) an amount for each MWhr of such deficiency equal to the positive difference, if any between: (i) the price at which UGI is able to purchase or otherwise receive such deficiency quantity of Power acting in a commercially responsible manner (adjusted to reflect differences in transmission costs, if any) and (ii) the Contract Price; provided, however, in no event shall such amounts include any penalties, ratcheted demand or similar charges.
- 6.3 In the event UGI fails to Schedule and to receive the Power, where such failure was not excused by Force Majeure or by UGIDC's failure to perform, UGI shall pay UGIDC (on the date payment would otherwise have been due under this Agreement) an amount for each MWhr of such deficiency equal to the positive difference, if any, between: (i) the Contract Price and (ii) the price at which UGIDC is able to sell or otherwise dispose of such deficiency quantity of power acting in a commercially reasonable manner (adjusted to reflect differences in transmission cost, if any); provided, however, in no event shall such amounts include penalties, ratcheted demand or similar charges.
- 6.4 Both Parties hereby stipulate that the payment obligations set forth above are reasonable in light of the anticipated harm and the difficulty of estimation or calculation of actual damages and each Party hereby waives the right to contest such payments as an unreasonable penalty. In the event either Party fails to pay such amounts in accordance with this Article when due, the aggrieved Party shall have the right to: (i) suspend performance until such amounts plus interest at the Interest Rate have been paid, and/or (ii) exercise any remedy available at law or in equity to enforce payments of such amount plus interest at the Interest Rate. The remedy set forth herein shall be the sole and

exclusive remedy of the aggrieved Party for the failure of the other Party to sell or purchase Power hereunder and all other damages and remedies are hereby waived.

- 6.5 As an alternative to the foregoing damages provisions, if the Parties mutually agree in writing, the non performing Party may Schedule deliveries and receipts, as the case may be, pursuant to such terms as the Parties agree in order to discharge some or all of the obligation to pay damages. In the absence of such agreement, the damages provisions of this Article apply.

ARTICLE 7
INDEMNIFICATION

- 7.1 UGIDC's Indemnification of UGI. UGIDC hereby agrees to indemnify, defend and hold harmless UGI, its agents, servants and Affiliates and the respective officers, directors, employees and representatives (collectively, "UGI's Indemnities") of each, from and against any and all losses, claims, damages or liabilities (including reasonable attorneys' fees actually incurred including, without limitation, penalties or fines imposed by government authorities) arising out of the fraud, negligence, or willful misconduct of UGIDC relating to Power delivered under this Agreement until such Power has been delivered to UGI at the Delivery Points including, without limitation, the loss of/or claims for loss or damage to property, except to the extent caused by the fraud, negligence or the willful misconduct of UGI's Indemnities and provided that UGIDC shall be promptly notified in writing of any such claim or suit brought against any such UGI Indemnity. The foregoing notwithstanding, UGI's obligations under this Agreement towards any UGI Indemnity are conditioned upon such UGI Indemnity providing such cooperation as UGI may reasonably request in connection with its defense or settlement of the claim or suit against such UGI Indemnity.
- 7.2 UGI's Indemnification of UGIDC. UGI hereby agrees to indemnify, defend and hold harmless UGIDC, its agents, servants and Affiliates and the respective officers, directors and employees and representatives (collectively, "UGI's Indemnities") of each, from and against any and all losses, claims, damages or liabilities to third parties (including reasonable attorneys' fees actually incurred including, without limitation, penalties or fines imposed by government authorities) arising out of the fraud, negligence, or willful misconduct of UGI relating to Power delivered under this Agreement after such Power has been delivered to UGI at and from the Delivery Points including, without limitation, the loss of/or claims for loss or damage to property, except to the extent caused by the fraud, negligence or the willful misconduct of UGIDC's Indemnities and provided that UGI shall be promptly notified in writing of any such claim or suit brought against any such UGIDC Indemnity. The foregoing notwithstanding, UGI's obligations under this Agreement towards any UGIDC Indemnity are conditioned upon such UGIDC Indemnity providing such cooperation as UGI may reasonably request in connection with its defense or settlement of the claim or suit against such UGIDC Indemnity.

ARTICLE 8
ASSIGNMENT AND SUCCESSION

- 8.1 Assignment and Succession. Neither Party shall assign the Agreement or its rights hereunder without the prior written consent of the other Party, which consent shall not be unreasonably withheld or delayed. Upon any assignment made in compliance with this Section, this Agreement shall inure to and be binding upon the successors and permitted assigns of the assigning Party. Notwithstanding the foregoing, either Party may, without the need for consent from the other Party (and as long as such Party remains fully liable hereunder), (a) transfer, pledge, or assign this Agreement as security for any financing with financial institutions; or (b) transfer or assign this Agreement to an Affiliate of such Party. Nothing in this Section shall preclude any party from transferring or assigning this Agreement to any person or entity succeeding to all or substantially all of the assets of such Party; provided, however, that any such assignee shall agree to be bound by the terms and conditions hereof pursuant to an agreement satisfactory to the non-assigning Party and that all the persons obligated to fulfill the assigning Party's obligations under the Agreement after the assignment shall have substantially equivalent financial capability to that of all other persons obligated to fulfill the assigning Party's obligations under the Agreement before the assignment. References to any Party named herein shall include such Party's successors and permitted assigns.

ARTICLE 9
LIMITATION OF LIABILITY AND FORCE MAJEURE

- 9.1 Force Majeure. In the event either Party is rendered unable, by an event of Force Majeure, to carry out wholly or in part its obligations under this Agreement and such Party gives notice and full particulars of such event of Force Majeure to the other Party as soon as practicable after the occurrence of the event of Force Majeure pursuant to this Agreement, other than obligation to make payments then due or becoming due hereunder, shall be suspended from the inception and throughout the period of continuance of any such inability so caused, but for no longer period, and such event of Force Majeure shall, so far as and as soon as practicable, be remedied by application of Good Utility Operating Practice; provided however, that no provision of this Agreement shall be interpreted to require UGIDC to deliver, or UGI to receive, Power at points other than the Delivery Point(s) or to require UGI to accept or UGIDC to make delivery of any remaining amount of Power under this Agreement following resolution of the Force Majeure
- 9.2 Limitation of Liability. FOR BREACH OF ANY PROVISION FOR WHICH AN EXPRESS REMEDY OR, EASURE OF DAMAGES IS PROVIDED IN THIS

Power Sales Agreement
UGIDC Sales to UGI Utilities, Inc.
Market-Based Rates

AGREEMENT, THE LIABILITY OF THE DEFAULTING PARTY SHALL BE LIMITED AS SET FORTH IN SUCH PROVISION, AND ALL OTHER DAMAGES OR REMEDIES HEREBY ARE WAIVED. IF NO REMEDY OR MEASURE OF DAMAGES IS EXPRESSLY PROVIDED, THE LIABILITY OF THE DEFAULTING PARTY SHALL BE LIMITED TO DIRECT DAMAGES ONLY AND ALL OTHER DAMAGES AND REMEDIES ARE WAIVED. IN NO EVENT SHALL EITHER PARTY BE LIABLE TO THE OTHER PARTY FOR CONSEQUENTIAL, INCIDENTAL, PUNITIVE, EXEMPLARY OR INDIRECT DAMAGES IN TORT, FOR CONTRACT OR OTHERWISE.

ARTICLE 10
TAXES

- 10.1 Allocation of and Indemnify for Taxes. The Contract Price paid hereunder includes full reimbursement for taxes and UGIDC is liable for and shall pay or cause to be paid, or reimburse UGI if UGI shall have paid, all Taxes applicable to the Power sold hereunder prior to the Delivery Point(s) ("UGIDC's Taxes"). In the event UGI is required to remit any of UGIDC's Taxes, the amount thereof shall be deducted from any sums becoming due to UGIDC hereunder. UGIDC shall indemnify, defend and hold UGI harmless from any liability for all UGIDC's Taxes. The Contract Price does not include reimbursement for and UGI is liable for and shall pay, cause to be paid or reimburse UGIDC if UGIDC shall have paid, all Taxes applicable for the Power sold hereunder at and after the Delivery Point(s) ("UGI's Taxes"). UGI shall indemnify, defend and hold UGIDC harmless from and liability for all UGI's Taxes.
- 10.2 Automatic Tax Adjustment. Only if agreed to by the Parties, and adjustment for tax changes shall apply, as appropriate, to the Contract Prices as billed under this Agreement. In such case, the Contract Prices will be adjusted, as required, by including an automatic pass-through of increases in federal, state, or local taxes, including new environmental taxes, or tax rates applicable to the Power, based on actual tax expense incurred by UGIDC.
- 10.3 Cooperation. Both Parties shall use reasonable efforts to administer this Agreement and implement the provisions in accordance with their intent to minimize Taxes.

ARTICLE 11
DEFAULT, SECURITY AND RESPONSIBILITY

- 11.1 Default, Security and Responsibility Events. Except as otherwise provided in Article 7, in the event either Party ("Defaulting Party") (i) makes and assignment or any general arrangement for the benefit of creditors; (ii) defaults in payment or performance of any obligation to the other Party under this Agreement provided that such default in payment or performance shall be deemed a default under this Article of not cured within five (5)

Business Days following written notice by the non-defaulting Party of such default in payment or performance; (iii) files a petition or otherwise commences, authorizes, or acquiesces in commencement of a proceeding or cause under bankruptcy or similar law for the protection of creditors or have such petition filed or proceedings commenced against it; (iv) otherwise becomes bankrupt or insolvent (however evidenced); or (v) fails to give adequate security for or assurance of its ability to perform its further obligation under this Agreement within seventy-two (72) hours of a reasonable request by the other Party, then the non-defaulting Party upon written notice has the right to withhold or suspend deliveries or receipts or terminate this Agreement pursuant to Section 11.2. Subsections (i) - (v) above shall each be considered an "Event of Default."

11.2 Early Termination

(a) If an Event of Default occurs with respect to a Party at any time during the term of this Agreement, the other Party (the "Notifying Party") may (i) upon written notice to the other Party, which notice shall be given no later than sixty (60) days after the discovery of the occurrence of the Event of Default, terminate this Agreement as of a date determined by the Notifying Party ("Early Termination Date"); (ii) withhold any payment due under this Agreement; and/or (iii) suspend performance under this Agreement; provided, however, upon the occurrence of any Event of Default listed in clause (i), (iii), or (iv) of Section 11.1, this Agreement shall automatically terminate, without notice, and without any other action by either Party as if an Early Termination Date had been declared immediately prior to such event. If an Early Termination Date has been designated or deemed to occur, the Notifying Party shall in good faith calculate its damages resulting from the termination of this Agreement (the "Termination Payment") as set forth below.

(b) When the Notifying Party is UGIDC, the Termination Payment will be the positive difference, if any, between (i) the payments (discounted to the Early Termination Date at a rate per annum equal to the average yield to maturity of United States treasury obligations having comparable maturity dates) that UGIDC would have received under this Agreement at the agreed to quantity (ies) and price(s) had the Agreement not been terminate; and (ii) the payments (discounted in the same manner as set forth above), for the remaining term, as either quoted by a bona fide third party offer or which are reasonably expected to be available in the market under replacement contract for this Agreement.

(c) When the Notifying Party is UGI, the termination Payment will be the positive difference, if any, between (i) the payments (discounted to the Early Termination Date at a rate per annum equal to the average yield to maturity of United States treasury obligations having comparable maturity dates) that UGI would make under replacement contract (with the same quantities and substantially similar terms and conditions) for the remaining term of this Agreement, as either quoted by a bona fide third party offer or which are reasonably expected to be available in the market; and (ii) the payments (discounted in the same manner as set forth above) that UGI would pay under the

Agreement for its remaining term at the agreed to quantity(ies) and price(s) had the Agreement not been terminated.

(d) To ascertain the market prices of a replacement contract, the Notifying Party may consider, among other valuations, quotation from leading dealers in electric purchase and sale contracts for Power and other bona fide third party offers, all adjusted for the length of the remaining term and differences in transmission costs, if any.

(e) The Notifying Party shall give the Defaulting Party written notice of the amount of the Termination Payment, along with a statement detailing the calculation of such amount. The defaulting Party shall pay the Termination Payment to the Notifying Party immediately upon receipt of such notice. At the time for payment of any amount due under this Section, each Party shall pay to the other Party all additional amounts payable by it pursuant to this Agreement, but all such amount shall be netted and aggregated with any Termination Payment payable hereunder. Any Party failing to make payment when due hereunder shall pay interest in the overdue balance from the due date at the Interest Rate.

ARTICLE 12
MISCELLANEOUS

- 12.1 Regulatory. It is understood by the Parties that this Agreement and performance hereunder is subject to all present and future valid and applicable laws, orders, statutes, and regulations of courts or regulatory bodies (state or federal) having jurisdiction over UGI, UGIDC, or this Agreement.
- 12.2 Authorizations. The Parties hereto represent that they have (or will have upon the Effective Date of this Agreement) all appropriate authorizations necessary or proper to consummate and carry out their obligations under this Agreement.
- 12.3 Notices. Any notice, request, demand, statement, or payment provided for in this Agreement shall be confirmed in writing, unless otherwise noted, and shall be made as specified below; provided, however, that notices of interruption and communications to Transmitting Utility (ies) may be provided verbally effective immediately and, upon request, confirmed in writing. A notice sent by facsimile transmission shall be deemed received by the close of the Business Day on which such notice was transmitted or such earlier time as confirmed by the receiving Party and notice by overnight mail or courier shall be deemed to have been received two (2) Business Days after it was sent or such earlier time as is confirmed by the receiving Party unless it confirms a prior verbal communication in which case any such notice shall be deemed received on the day sent. Notices shall be addressed to the Parties as follows or to such other address as UGI or UGIDC shall from time to time designate by letter properly addressed:

Power Sales Agreement
UGIDC Sales to UGI Utilities, Inc.
Market-Based Rates

UGI Utilities, Inc.:
NOTICES & CORRESPONDENCE

UGI Utilities, Inc. - Electric Division
400 Stewart Road
P.O. Box 3200
Wilkes-Barre, PA 19706-1495
Attn: Manager - Power Supply
FAX: (570) 830-1190

UGI Development Company
NOTICES & CORRESPONDENCE

UGI Development Company
390 Route 11
PO Box 224
Hunlock Creek, PA 18621-0224
Attn: Manager of Power

INVOICES

UGI Utilities, Inc. - Electric Division
400 Stewart Road
P.O. Box 3200
Wilkes-Barre, PA 19706-1495
Attn: Controller - Electric Division
FAX: (570) 830-1190

PAYMENTS

UGI Development Company
390 Route 11
PO Box 224
Hunlock Creek, PA 18621-0224
Attn: Accounting

- 12.4 Entirety. This Agreement and any Exhibits hereto constitute the entire agreement between the Parties and supersedes any and all prior or contemporaneous agreements (including, without limitation, the Power Sales Agreement dated July 1, 2001) and understandings between the Parties related to the subject matter hereof and may not be modified, amended, or terminated except in writing signed by each of the Parties hereto. In addition, there are no other prior or contemporaneous agreements or representations affecting the same subject matter other than those herein expressed. Except for those matters which, in accordance with this Agreement, may be resolved by the Parties and documented electronically, it is further agreed that no amendment, modification or change herein shall be enforceable, except as specifically provided for in this Agreement, unless produced in writing and executed by both Parties.
- 12.5 Governing Law and Venue. If any proceeding or action on or respecting this Agreement is brought by one of the Parties against the other Party including any counterclaims and cross claims asserted in any such proceeding or action, this Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania, without regard to Conflict of Law principles. Venue shall be either at the FERC or the courts of the Commonwealth of Pennsylvania. Any such proceeding shall be brought in the Courts of the Commonwealth of Pennsylvania, except to the extent that the FERC has exclusive jurisdiction over the subject matter of the proceeding.
- 12.6 Confidentiality. Neither Party shall disclose the terms of this Agreement to any third party absent the express written permission of the other Party except where (1) necessary

Power Sales Agreement
UGIDC Sales to UGI Utilities, Inc.
Market-Based Rates

to comply with any applicable law, order, regulation or exchange rule; provided, however, that each Party shall notify the other party promptly upon receipt of any request to it in any proceeding that could result in an order requiring such disclosure and the Party subject to such request shall use reasonable efforts to prevent or limit the disclosure; or (2) necessary to effectuate transmission of electricity subject to this Agreement. However, nothing herein shall prevent either Party from disclosing simple price and volume terms to a third party solely for the purpose of it being used in conjunction with other similar information for establishing electric price indices by a qualified independent entity provided that such information cannot be used to identify the Parties to this Agreement. The Parties shall be entitled to all remedies available at law or in equity to enforce, or seek relief in connection with, these confidentiality obligations; provided, however, that all monetary damages shall be limited to actual direct damages and a breach of this section shall not give rise to the right to suspend or terminate this Agreement.

- 12.7 Non-Waiver. No waiver by either Party hereto of any one or more defaults by the other in the performance of any of the provisions of this Agreement shall be construed as a waiver of any other defaults whether of a like or different nature.
- 12.8 Severability. Except as otherwise stated herein, any provision, article or section of this Agreement that is declared or rendered unlawful by a court of law or regulatory agency with jurisdiction over the Parties, or deemed unlawful because of statutory change, will not otherwise affect the lawfulness, enforceability and applicability of the remaining provisions, articles or sections of this Agreement, nor shall it affect the obligations that arise under this Agreement.
- 12.9 Headings. The heading used for the Articles herein are for convenience and reference purposes only and shall in no way affect the meaning or interpretation of the provisions of this Agreement.

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement in duplicate originals to be effective as of the day and year first written above.

UGI Utilities, Inc.

UGI Development Company

By:

By:

Name:

Name:

Title:

Title:

DEFINITIONAL ANNEX

All references to Articles, Sections, Exhibits and Annexes are to those set forth in or appended to this Agreement. Reference to any document means such document as amended from time to time and reference to any party includes any permitted successor or assignee thereof. The following definitions and any terms defined internally in this Agreement shall apply to this Agreement and all notices and communications made pursuant to this Agreement.

In addition to terms defined elsewhere in this Agreement, the following definitions shall apply hereunder:

"Affiliate" means with respect to any person, any other person (other than an individual) that, directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with, such person. For purposes of the foregoing definition, "control" means the direct or indirect ownership of more than five percent (5%) of the outstanding capital stock or other equity interests having ordinary voting power.

"Capacity Credits" shall have the same meaning as set forth in Section 2.1 of Schedule 11 to the Operating Agreement of the PJM Interconnection, L.L.C.

"Capacity Resource" shall have the same meaning as under the Reliability Assurance Agreement.

"Contract Price" means the agreed price for the purchase and sale of Power under this Agreement.

"Control Area" means an electric system or combination of electric systems to which a common automatic generation control scheme is applied in accordance with Good Utility operating Practices to:

- (1) match, at all times, the power output of the generators within the electric system(s) and Power purchased from entities outside the electric system(s), with the load within the electric system(s);
- (2) maintain scheduled interchange with other Control Areas;
- (3) maintain the frequency of the electric system(s) within reasonable limits; and
- (4) provide sufficient generating capacity to maintain spinning and operating reserves.

"Facilities" means a 44 MW General Electric LM - 6000 combustion turbine electric generation facility ("Hunlock"), a 48 MW coal fired steam electric generation facility ("Hunlock 3") and a coal fired steam electric generation facility located in Indiana, Pennsylvania ("Conemaugh").

"FERC" means the Federal Energy Regulatory Commission or any successor agency.

Power Sales Agreement
UGIDC Sales to UGI Utilities, Inc.
Market-Based Rates

"Force Majeure" means any cause which the Party claiming Force Majeure (the "Claiming Party"), was unable, in the exercise of due diligence and Good Utility Operating Practice, to avoid, did not intend, and which is beyond the control, and without fault or negligence, of the Claiming Party or the Claiming Party's Power Resources, and which renders the Claiming Party or Claiming Party's Power Resources unable to carry out wholly or in part its obligation under this Agreement. Force Majeure includes, but is not restricted to: flood; earthquake; geohydrolic subsidence; tornado; storm; fire; civil disturbance or disobedience; labor dispute; labor or material shortage; sabotage; action or restraint by court order or public or governmental authority (so long as the Claiming Party has not applied for or assisted in the application for, and has opposed where and to the extent reasonable, such government action); and reductions or interruptions in services which, in a Claiming Party's reasonable judgment, or in the reasonable judgment of Claiming Party's Power Resources, are necessary to protect generating or transmission facilities or the reliability of transmission facilities; including the integrity, safety, reliability or operation of any interconnected electric grid system; and government action that results in the price at which Power may be made available under this Agreement being fixed or established by any government authority at a level that results in a price that may be charged under this Agreement that (i) in the case of UGIDC, is lower than the Contract Price and (ii) in the case of UGI, is higher than the Contract Price; provided, however, that such government action does not include the imposition of any Taxes. Nothing contained herein shall be construed to require a Claiming Party to settle any strike or labor dispute.

"Good Utility Operating Practice" means the practices, methods and acts engaged in or approved by a significant portion of the electric power industry during the relevant time period, or the practices, methods and acts which, in the exercise of reasonable judgment in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result consistent with reliability, safety, expedition, the requirements of governmental agencies having jurisdiction and, if appropriate or relevant under the Transaction in question, at the lowest reasonable cost; such term is not intended to be limited to the optimum practice, method or act to the exclusion of all others, but rather to constitute a spectrum of acceptable practices, methods or acts.

"Interest Rate" means the prime rate of interest published by Mellon Bank of Philadelphia or any successor thereto plus two hundred basis points as in effect from time to time; provided, however, that the Interest Rate shall not exceed the maximum rate permitted by applicable law.

"Power" means electric capacity credits or energy or any combination thereof. Energy delivered as a component of power shall be of the type commonly known as three-phase sixty-cycle alternating current. Use of either a reservation charge and associated energy charge or an as-delivered energy charge is for economic and operational convenience, and does not change the nature of the Power sold under this Agreement.

"Power Resources" means the sources of Power with which UGIDC has made arrangements in order to provide Power under this Agreement.

Power Sales Agreement
UGIDC Sales to UGI Utilities, Inc.
Market-Based Rates

"PJM" means the Pennsylvania-New Jersey-Maryland Interconnection, L.L.C..

"Quantity" means the amount of Power to be contracted for under this Agreement.

"Regulatory Approvals" means, for any Transaction, all applicable state and federal regulatory authorizations, consents, or approvals required under this Agreement.

"Reliability Assurance Agreement" means the Reliability Assurance Agreement Among Load Serving Entities in the PJM Control Area as amended and revised from time-to-time.

"Schedule" or "Scheduling" means communicating with and confirming with all Transmitting Utilities as well as between UGI and UGIDC that a particular amount of Power is to be delivered or received and providing all such information and satisfying all such requirements as may be necessary to cause such Parties to recognize and confirm the delivery or receipt of the Power. All scheduling of services with Transmitting Utility(ies) and Control Area(s) shall be accomplished in compliance with the scheduling rules of those Transmitting Utility(ies) and Control Area(s) . Between UGIDC and UGI, scheduling shall be accomplished no later than sixty (60) minutes before the start of the intended power flow or as per other rules as UGI and UGIDC may jointly agree from time to time.

"Taxes" means all ad valorem, property, occupation, utility, gross receipts, sales use, excise, and other taxes or governmental charges, licenses, permits, and assessments, other than taxes based on net income or net worth.

"Transmitting Utility" means the utility or utilities and their respective Control Areas transmitting Power from Power Resources to the Delivery Point(s) as part of this Agreement.

"UGIDC Zone" shall mean UGI Development Company transmission zone as described in and established by the PJM Open Access Agreement.

"1935 Interconnection Agreement" shall mean the interconnection agreement as supplemented and amended from time to time which covered the interconnection and the coordinated operations of the electric systems of UGIDC and UGI within the PJM.

PARTNERSHIP AGREEMENT

OF

HUNLOCK CREEK ENERGY VENTURES

(a general partnership between UGI Hunlock Development Company
and Allegheny Energy Supply Hunlock Creek, LLC)

Dated December 8, 2000

PARTNERSHIP AGREEMENT
OF
HUNLOCK CREEK ENERGY VENTURES

THIS PARTNERSHIP AGREEMENT OF HUNLOCK CREEK ENERGY VENTURES (this "Agreement") is made and dated this 8th day of December, 2000 by and between UGI HUNLOCK DEVELOPMENT COMPANY, a Pennsylvania corporation ("UGI GP"), and ALLEGHENY ENERGY SUPPLY HUNLOCK CREEK, LLC, a Delaware limited liability company ("Allegheny GP"). UGI GP and Allegheny GP and such additional or substitute persons or entities who become general partners of the Partnership (as defined in ARTICLE 1 below) from time to time in accordance with the provisions hereof are hereinafter sometimes collectively referred to as the "Partners" and individually as a "Partner."

RECITALS

WHEREAS, the Partners desire to form an entity to own and operate a 48 MW coal fired steam electric generation facility known as the Hunlock Creek Electric Generating Station (as defined in ARTICLE 1 below, the "Plant") located in Hunlock Township, Pennsylvania, and a 44 MW combustion turbine electric generation facility located at the Plant (as defined in ARTICLE 1 below, the "CT") and propose to form a general partnership for the purpose of organizing, owning or leasing, operating, acquiring, financing and disposing of assets related to the Plant and the CT.

WHEREAS, the parties wish to enter into this Agreement to set forth their agreements with respect to the formation and operation of the Partnership as a general partnership and certain other matters as set forth herein.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, and in consideration of the mutual covenants herein contained, the parties hereto, intending to be legally bound hereby, agree as follows:

ARTICLE 1 - CERTAIN DEFINITIONS

Unless the context otherwise specifies or requires, the terms defined in this ARTICLE 1 shall have, for the purposes of this Agreement, the meanings herein specified. Unless otherwise specified, all references herein to Articles, Sections or Exhibits are to Articles, Sections or Exhibits of this Agreement.

"Accountant" -- As defined in Section 11.4.

"Act" -- The Pennsylvania Uniform Partnership Act (15 P.S. Section 8301 et seq.).

"Actual Cost of Construction" -- The actual out-of-pocket cost of effecting the construction of the CT up to its Commercial Operation Date, which cost may include hourly labor and labor overhead costs of employees of Allegheny Energy Supply or its Affiliates, including construction overhead costs, but shall not include any allocation of corporate overhead of Allegheny Energy Supply or its Affiliates. Such cost shall be determined in accordance with GAAP and Allegheny Energy Supply shall make its books and records in respect of such determination available to UGID.

"Additional Contributions" or "Additional Capital Contributions" -- With respect to any Partner, all cash and other contributions contributed or deemed contributed to the Partnership pursuant to Sections 5.2 and 5.3.

"Adjusted Capital Account" -- With respect to any Partner, such Partner's Capital Account as of the end of the relevant Fiscal Year or other period: (i) increased by any amounts which such Partner is obligated to restore pursuant to any provision of this Agreement or is deemed to be obligated to restore pursuant to the next-to-last sentences of Regulations Sections 1.704-2(g)(1) and 1.704-2(i)(5) and (ii) decreased by the items described in Regulations Sections 1.704-1(b)(2)(ii)(d)(4), (5) and (6). The foregoing definition of Adjusted Capital Account is intended to comply with the provisions of Regulations Section 1.704-1(b)(2)(ii)(d) and shall be interpreted consistently therewith.

"Administrative Partner" -- As defined in Section 6.3.

"Affiliate" - As defined in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934.

"Affiliate Service Territory" -- As defined in Section 9.7.

"Agreement" -- This Partnership Agreement, as amended from time to time.

"Allegheny Contributed Assets" -- All of the assets constituting, or used in and necessary for generation purposes in the operation of, the CT.

"Allegheny Capital Contribution" -- The Allegheny Initial Capital Contribution plus any additional Capital Contribution by Allegheny GP pursuant to Section 5.3(a).

"Allegheny Energy Supply" -- Allegheny Energy Supply Company, LLC, a Delaware limited liability company.

"Allegheny GP" -- Allegheny Energy Supply Hunlock Creek, LLC, as General Partner, or a successor to its General Partner interest.

"Allegheny Initial Capital Contribution" -- As defined in Section 5.1(b).

"Budget" -- As defined in Section 12, shall consist of a "Capital Budget" that will include anticipated capital expenditures that the Partnership determines to undertake, and an "Operating Budget" that will include all other anticipated expenditures of the Partnership not included in the Capital Budget.

"Business Day" -- Any day other than a Saturday, Sunday or a day on which commercial banks are authorized or required to be closed in the Commonwealth of Pennsylvania.

"Business Opportunities" -- As defined in Section 9.7.

"Capital Account" -- The Capital Account maintained for each Partner pursuant to Section 5.3.

"Capital Contributions" -- With respect to any Partner, the amount of cash and the initial Gross Asset Value of any other property contributed or deemed contributed to the capital of the Partnership by or on behalf of such Partner, but not including guaranties, indemnities or letters of credit made, obtained or contributed by or on behalf of such Partner on account of any Partnership obligation, except to the extent payments or draws are made thereunder.

"Cash Available for Distribution" -- For each Fiscal Year or other period, (a) all cash received by the Partnership from any source (including, without limitation, borrowings by the Partnership, Capital Contributions and proceeds of the sale, exchange or other disposition of all or portions of the Partnership Assets), less (b) cash expended, reserved or required for debts and expenses, interest and principal payments on any indebtedness, capital expenditures, taxes, fees or other requirements of the Partnership, in each case as reasonably determined by the Executive Committee.

"Code" -- The Internal Revenue Code of 1986, as amended from time to time (or any corresponding provisions of succeeding law). A reference to a section of the Code shall be deemed to include any amendatory or successor provision thereto.

"Deficiency Payment" -- A payment due by either UGID or Allegheny Energy Supply on the date hereof in accordance with the Formation Agreement in respect of half of the difference between the aggregate value of (i) the UGID Contributed Assets, plus (ii) half of the difference between Twenty-Seven Million Dollars (\$27,000,000) and the Actual Cost of Construction of the CT, plus (iii) the Inventory Value, on the one hand, and the Actual Cost of Construction of the CT, on the other hand.

"Depreciation" -- For each Fiscal Year or other period, an amount equal to the depreciation, amortization or other cost recovery deduction allowable for Federal income tax purposes with respect to an asset for such Fiscal Year or other period; provided, however, that if the Gross Asset Value of an asset differs from its adjusted basis for Federal income tax purposes

at the beginning of such Fiscal Year or other period, Depreciation shall be an amount which bears the same ratio to such Gross Asset Value (determined at a date as aforesaid) as the Federal income tax depreciation, amortization, or other cost recovery deduction for such Fiscal Year or other period pertaining to such asset bears to such beginning adjusted tax basis; provided, however, that if the Federal income tax depreciation, amortization, or other cost recovery deduction for such asset in such Fiscal Year is zero, Depreciation shall be determined with reference to such beginning Gross Asset Value using any reasonable method selected by the Representatives.

"Development Options" -- As defined in Section 9.6.

"Executive Committee" -- As defined in Section 6.1.

"Fiscal Year" -- The taxable year of the Partnership for Federal income tax purposes, which initially shall be the year ending on September 30, 2001, and, thereafter, shall be determined in accordance with applicable Regulations.

"Formation Agreement" -- That certain Partnership Formation Agreement by and between UGID and Allegheny Energy Supply dated as of September 8, 2000.

"GAAP" -- Those generally accepted accounting principles in effect in The United States of America from time to time.

"General Partner" or "General Partners" -- As defined above in the description of the parties, and any person or entity which is admitted to the Partnership as an additional or substitute general partner of the Partnership in accordance with the terms of this Agreement.

"Gross Asset Value" -- Means with respect to any asset, the asset's adjusted basis for Federal income tax purposes, except as follows:

(i) The initial Gross Asset Value of the UGID Contributed Assets shall be the sum of (A) the sum of Fifteen Million Dollars (\$15,000,000) plus half of the difference between Twenty Seven Million Dollars (\$27,000,000) and the Actual Cost of Construction of the CT plus (B) the Inventory Value.

(ii) The initial Gross Asset Value of the Allegheny Contributed Assets shall be the Actual Cost of Construction of the CT.

(iii) The Gross Asset Values of all Partnership Assets shall be adjusted to equal their respective gross fair market values, as reasonably determined by the Representatives, as of the following times: (a) the acquisition of an additional interest in the Partnership by any new or existing Partner in exchange for more than a de minimis Capital Contribution; (b) the distribution by the Partnership to a

Partner of more than a de minimis amount of property as consideration for an interest in the Partnership; and (c) the liquidation of the Partnership within the meaning of Regulations Section 1.704-1(b)(2)(ii)(g); provided, however, that adjustments pursuant to clauses (a) and (b) above shall be made only if the Representatives reasonably determine that such adjustments are necessary or appropriate to reflect the relative economic interests of the Partners in the Partnership and shall not be made solely by reason of any cash contributions to the Partnership by the Partners;

(iv) The Gross Asset Value of any Partnership Asset distributed to any Partner shall be the gross fair market value of such asset on the date of distribution; and

(v) The Gross Asset Values of Partnership Assets shall be increased (or decreased) to reflect any adjustments to the adjusted basis of such assets pursuant to Code Section 734(b) or Code Section 743(b), but only to the extent that such adjustments are taken into account in determining Capital Accounts pursuant to Regulations Section 1.704-1(b)(2)(iv)(m). If the Gross Asset Value of an asset has been determined or adjusted pursuant to this provision, such Gross Asset Value shall thereafter be adjusted to reflect all adjustments to the tax basis of such asset except that, in lieu of depreciation, cost recovery or amortization deductions, the Gross Asset Values of Partnership Assets shall be reduced to reflect Depreciation taken into account with respect to such asset for purposes of computing Profits and Losses.

"Hunlock Expansion Project" -- As defined in Section 9.6(a).

"Initial Budget" -- As defined in Section 12, as the same may be amended or modified with the approval of the Executive Committee.

"Initial Capital Contributions" -- As defined in Section 5.1.

"Initial Operating Plan" -- As defined in Section 12, as the same may be amended or modified with the approval of the Executive Committee.

"Inventories" -- means coal, fuel oil or alternative fuel inventories, limestone, materials, spare parts, consumable supplies and chemical and gas inventories relating to the operation of the Plant and located at the Plant.

"Inventory Value" -- The value of the Inventories, valued at prices equal to the lower of (i) cost determined on a first-in, first-out basis and (ii) market value, in either case f.o.b. UGID's storage, as of the date hereof.

"Losses" -- As defined in the definition of Profits.

"Major Decisions" -- As defined in Section 6.2(b).

"Nonrecourse Deductions" -- As defined in Regulations Section 1.704-2(b)(1). The amount of Nonrecourse Deductions for a Fiscal Year equals the net increase, if any, in the amount of Partnership Minimum Gain during such Fiscal Year reduced by any distributions during such Fiscal Year of proceeds of a Nonrecourse Liability that are allocable to an increase in Partnership Minimum Gain, determined according to the provisions of Regulations Sections 1.704-2(c) and 1.704-2(h).

"Nonrecourse Liability" -- As defined in Regulations Section 1.704-2(b)(3).

"Notice" -- As defined in Section 17.2.

"Notice Date" -- As defined in Section 9.6(d).

"Offered Interest" -- As defined in Section 9.1(a).

"Operating Agreement" means the Hunlock Project Operating Agreement, dated and effective as of the Effective Date, by and among the Partnership, UGID and Allegheny Energy Supply.

"Operating Plan" -- As defined in Section 12.

"Partner Minimum Gain" -- An amount, with respect to each Partner Nonrecourse Debt, equal to the Partnership Minimum Gain that would result if such Partner Nonrecourse Debt were treated as a Nonrecourse Liability, determined in accordance with Regulations Section 1.704-2(i)(3).

"Partner Nonrecourse Debt" -- As defined in Regulations Section 1.704-2(b)(4).

"Partner Nonrecourse Deductions" -- As defined in Regulations Section 1.704-2(i)(2). The amount of Partner Nonrecourse Deductions with respect to a Partner Nonrecourse Debt for a Fiscal Year equals the net increase, if any, in the amount of Partner Minimum Gain during such Fiscal Year attributable to such Partner Nonrecourse Debt, reduced by any distributions during that Fiscal Year to the Partner that bears the economic risk of loss for such Partner Nonrecourse Debt to the extent that such distributions are from the proceeds of such Partner Nonrecourse Debt and are allocable to an increase in Partner Minimum Gain attributable to such Partner Nonrecourse Debt, determined according to the provisions of Regulations Sections 1.704-2(h) and 1.704-2(i).

"Partners" -- As defined in the introductory paragraph of this Agreement.

"Partnership" -- Hunlock Creek Energy Ventures, a Pennsylvania general partnership, as such partnership may be constituted from time to time.

"Partnership Affairs" -- The business affairs of the Partnership, excluding the operations by any Related Entity of any facility owned by or leased to the Partnership, or to any entity in which the Partnership invests, or the provision of service by any Related Entity under contract to the Partnership or to any entity in which the Partnership invests.

"Partnership Assets" -- The assets and property, whether tangible or intangible and whether real, personal, or mixed, at any time owned by or held for the benefit of the Partnership, and all right, title, and interest, if any, held and owned by the Partnership in other entities and shall include, without duplication, the Partnership's proportionate interests in assets and properties owned by any entity in which the Partnership has an ownership interest, and the proportionate interests in assets and properties owned by any such entity, and so forth.

"Partnership Interest" -- As to any Partner, such Partner's (i) right to a distributive share of the Profits and Losses and Cash Available for Distribution, (ii) right to a distributive share of Partnership Assets and (iii) right to vote on matters placed before the Partners pursuant to this Agreement or as otherwise determined by the Executive Committee in accordance herewith.

"Partnership Minimum Gain" -- The aggregate gain, if any, that would be realized by the Partnership for purposes of computing profits and losses with respect to each Partnership Asset if each Partnership Asset subject to a Nonrecourse Liability were disposed of for the amount outstanding on the Nonrecourse Liability by the Partnership in a taxable transaction. Partnership Minimum Gain with respect to each Partnership Asset shall be further determined in accordance with Regulations Section 1.704-2(d) and any subsequent rule or Regulation governing the determination of minimum gain. A Partner's share of Partnership Minimum Gain at the end of any Fiscal Year shall equal the aggregate Nonrecourse Deductions allocated to such Partner (or his predecessors in interest) up to that time, less such Partner's (and predecessors') aggregate share of decreases in Partnership Minimum Gain determined in accordance with Regulations Section 1.704-2(g).

"Percentage Interest" -- shall have the meaning provided in Section 5.5.

"Plant" -- means the 48 MW coal fired steam electric generation facility known as the Hunlock Creek Electric Generating Station, including, without limitation, the Site and the related assets more fully identified on Schedule 2.2 to the Formation Agreement.

"Pre Contribution Loss" - As defined in Section 9.6(d).

"Profits" and "Losses" -- For each Fiscal Year or other period, an amount equal to the Partnership's taxable income or loss for such Fiscal Year or period, determined in accordance with Code Section 703(a) (for this purpose, all items of income, gain, loss, or deduction required to be stated separately pursuant to Code Section 703(a)(1) shall be included in taxable income or loss), with the following adjustments:

(i) any income of the Partnership that is exempt from Federal income tax or excluded from Federal gross income and not otherwise taken into account in computing Profits or Losses shall be added to such taxable income or loss;

(ii) any expenditures of the Partnership described in Code Section 705(a)(2)(B) (or treated as Code Section 705(a)(2)(B) expenditures pursuant to Regulations Section 1.704-1(b)(2)(iv)(I)) not otherwise taken into account in computing Profits or Losses pursuant to this Section, shall be subtracted from such taxable income or loss;

(iii) in the event the Gross Asset Value of any Partnership Asset is adjusted in accordance with paragraphs (ii), (iii) or (iv) (other than the last sentence thereof) of the definition of Gross Asset Value, the amount of such adjustment shall be taken into account as gain or loss from the disposition of such Partnership Asset for purposes of computing Profits or Losses;

(iv) gain or loss resulting from any disposition of any Partnership Asset with respect to which gain or loss is recognized for Federal income tax purposes shall be computed by reference to the Gross Asset Value of the property disposed of, notwithstanding that the adjusted tax basis of such Partnership Asset differs from its Gross Asset Value;

(v) in lieu of the depreciation, amortization, and other cost recovery deductions taken into account in computing such taxable income or loss, there shall be taken into account Depreciation for such Fiscal Year or other period, computed in accordance with the definition of Depreciation;

(vi) notwithstanding any other provision of this definition, any items which are specially allocated pursuant to Section 7.2 shall not be taken into account in computing Profits or Losses; and

(vii) an allocation of Profit or Loss to a Partner shall be treated as an allocation to such Partner of the same share of each item of income, gain, loss and deduction that has been taken into account in computing Profit and Loss.

"Regulations" -- The Income Tax Regulations promulgated under the Code as such regulations may be amended from time to time (including Temporary Regulations). A

reference to any Regulation shall be deemed to include any amendatory or successor provision thereto.

"Related Entity" -- With respect to any Partner or other entity, any corporation, partnership, limited liability company or other entity or person now or in the future directly or indirectly controlled by, controlling or under common control with such Partner or entity, any partner or member of such Partner or entity and any general partner or managing member of such a partner, or any director, officer, shareholder, partner or member thereof. In the event that UGI Corporation, a Pennsylvania corporation ("UGI Parent"), or Allegheny Energy, Inc., a Delaware corporation ("Allegheny Parent") undergoes a corporate reorganization (which term shall encompass a restructuring, merger or split up), then "Related Entity" for such purposes shall mean those persons and/or entities which, upon completion of such reorganization and thereafter, are directly or indirectly controlled by, controlling or under common control with a Partner, or any general partner or managing member of such a Partner, or any director, officer, shareholder, partner or member thereof. Notwithstanding the foregoing, no public shareholder of any such entity shall be deemed to be a Related Entity solely by virtue of such status.

"Remaining Partners" -- As defined in Section 9.2.

"Representatives" -- As defined in Section 6.2(b).

"Responsible Partner" -- As defined in Section 9.4(a)(i).

"Sale Notice" -- As defined in Section 9.2.

"Selling Partner" -- As defined in Section 9.2.

"Tax Matters Partner" -- As defined in Code Section 6231(a)(7) and described in Section 11.6(a).

"Transfer" -- As defined in Section 9.1.

"UGI Capital Contribution" -- The UGI Initial Capital Contribution plus any additional Capital Contribution made by UGI GP pursuant to Section 5.2.

"UGID" - UGI Development Company, a Pennsylvania corporation.

"UGID Contributed Assets" -- all of the assets consisting, or used in and necessary for generation purposes in the operation, of the Plant.

"UGI GP" - UGI Hunlock Development Company, as General Partner, or a successor to its General Partner interest.

"UGI Initial Capital Contribution" -- As defined in Section 5.1(a).

"UGI Put Right" - As defined in Section 9.6(b).

"UGI Retained Liability" - As defined in Section 9.6(d).

ARTICLE 2 - PRINCIPAL OFFICE, PURPOSE

SECTION 2.1 PRINCIPAL OFFICE.

Pursuant to the applicable provisions of the Act, the parties hereby establish the Partnership as a Pennsylvania general partnership upon the terms and conditions set forth herein. The Partnership shall have its principal office at 460 North Gulph Road, King of Prussia, Pennsylvania 19406, or such other place as the Executive Committee shall determine.

SECTION 2.2 PURPOSE; POWERS.

(a) Purpose. Subject to and in accordance with this Agreement, the purpose of the Partnership shall be the ownership and operation of the Plant and the CT, including, without limitation, the sale of the output of the Plant and the CT at wholesale only, and the conduct of such other activities that are not inconsistent with this Agreement as may in the view of the Executive Committee be necessary, advisable, convenient, incidental or appropriate in connection with the foregoing.

(b) Powers. The Partnership shall have all powers necessary or advisable, convenient, incidental or appropriate for the accomplishment of the Partnership purposes set forth above, including, without limitation, all powers which may be exercised by the Partners (or the Executive Committee, as herein provided) on behalf of the Partnership pursuant to this Agreement.

SECTION 2.3 STATUTORY COMPLIANCE.

The Partnership shall exist under and be governed by the Act. The Partners shall execute, and the Partnership shall file and/or publish on behalf and at the expense of the Partnership, all appropriate certificates and other documents required by law to be filed and/or published in connection with the formation of the Partnership and the authorization for the Partnership to do business in such other jurisdictions as the nature of its business requires.

SECTION 2.4 MODIFICATIONS TO STRUCTURE.

The parties agree to negotiate in good faith modifications to the structure of the Partnership and/or the Partnership's investments in, and ownership of, the Partnership Assets proposed from time to time by the Administrative Partner to avoid the imposition of a corporate

tax on any income of the Partnership or to implement other tax efficient policies. No modification shall become effective except in compliance with the provisions of Section 17.4.

ARTICLE 3 - TERM

The term of the Partnership shall continue until October 1, 2050, on which date the Partnership shall dissolve, unless extended by agreement among the Partners or sooner dissolved upon the occurrence of any of the events specified in ARTICLE 15.

ARTICLE 4 - GENERAL PARTNERS

SECTION 4.1. GENERAL PARTNERS.

The General Partners shall be UGI GP and Allegheny GP, their permitted successors and assigns who are admitted as General Partners pursuant to this Agreement and such additional or substitute persons or entities as become General Partners from time to time in accordance with the provisions of this Agreement. In the event that applicable law of the Commonwealth of Pennsylvania requires a matter to be decided directly by the General Partners notwithstanding the provisions hereof pertaining to the Executive Committee, then a majority in Percentage Interest of the General Partners shall be required for any matter required to be submitted to the vote of the General Partners.

ARTICLE 5 - CAPITAL CONTRIBUTIONS

SECTION 5.1 INITIAL CONTRIBUTIONS OF THE PARTNERS.

(a) As of the date hereof, pursuant to Sections 2.2 and 2.8 of the Formation Agreement, UGID shall contribute the UGID Contributed Assets to the Partnership and UGID shall make a Capital Contribution to the Partnership, in immediately available funds, in the amount of \$500,000 (collectively, the "UGI Initial Capital Contribution"). The value of the UGI Initial Capital Contribution on the date hereof shall be equal to the sum of: (i) Fifteen Million Dollars (\$15,000,000) plus half of the difference between Twenty-Seven Million Dollars (\$27,000,000) and the Actual Cost of Construction of the CT, plus (ii) the Inventory Value, plus (iii) \$500,000, minus (iv) in the event that UGID is the payee of the Deficiency Payment, the amount of the Deficiency Payment.

(b) As of the date hereof, pursuant to Sections 2.3 and 2.8 of the Formation Agreement, Allegheny Energy Supply shall contribute the Allegheny Energy Supply Contributed Assets to the Partnership and Allegheny Energy Supply shall make a Capital Contribution to the Partnership, in immediately available funds, in the amount of \$500,000 (collectively, the "Allegheny Initial Capital Contribution"). The value of the Allegheny Initial Capital Contribution on the date hereof shall be equal to the sum of: (i) the Actual Cost of Construction of the CT, plus (ii) \$500,000, minus (iii) in the event that Allegheny Energy Supply

is the payee of the Deficiency Payment, the amount of the Deficiency Payment.

(c) As of the date hereof, the value of the UGI Initial Capital Contribution and the value of the Allegheny Initial Capital Contribution shall be equal.

SECTION 5.2 ADDITIONAL CAPITAL CONTRIBUTIONS BY PARTNERS.

(a) BUDGET FUNDING. The Partners shall make Additional Capital Contributions in such amounts and at such times as may be necessary to fund the Budget as approved by the Executive Committee pursuant to Section 6.2(b).

(b) FUNDING OF DEVELOPMENT OPTIONS. The Partners shall make Additional Capital Contributions in such amounts and at such times as may be necessary to fund Development Options for the Partnership as approved by the Executive Committee pursuant to Section 6.2(b) and Section 9.6.

(c) MISCELLANEOUS PROVISIONS. The Additional Capital Contributions that are required to be made as provided in Section 5.2(a) and Section 5.2(b) shall be made by the Partners in accordance with their respective aggregate Percentage Interests; provided, however, that if any Partner fails to make any such Additional Capital Contributions, the other Partner or Partners may do so and the Partner failing to do so shall be subject to dilution of its aggregate Percentage Interests. Notwithstanding the foregoing or anything herein to the contrary, no Partner that fails to make any Additional Capital Contribution when otherwise required shall be in default under this Agreement; provided, however, that a Partner that fails to make an Additional Capital Contribution shall not be entitled, at a later time, to make an Additional Capital Contribution in respect of the amount that such Partner had previously failed to contribute, unless permitted to do so by the Executive Committee with each Representative voting in accordance with the aggregate Percentage Interest of its respective Partner. The Administrative Partner shall use reasonable efforts to provide each Partner with not less than twelve (12) days notice of any required Additional Capital Contributions. No Partner shall, or shall direct its Representatives to, unreasonably withhold its consent to the expenditure of cash to pay expenses, or to meet capital calls with respect to the Partnership's investments, or in connection with the establishment of appropriate reserves.

SECTION 5.3 CAPITAL ACCOUNTS.

(a) The Partnership shall establish and maintain a separate Capital Account for each Partner in accordance with the following provisions:

(i) to each Partner's Capital Account there shall be credited the amount of such Partner's Capital Contributions to the Partnership, such Partner's distributive share of Profits under Section 7.1, any other items in the nature of income or gain which are specially allocated to such Partner pursuant to Section 7.2, and the amount of any Partnership liabilities that are assumed by such Partner

or that are secured by any Partnership property distributed to such Partner, determined in accordance with the Regulations issued under Code Section 752.

(ii) from each Partner's Capital Account there shall be debited the amount of cash distributed to such Partner by the Partnership; the Gross Asset Value of any Partnership Asset distributed to such Partner pursuant to any provision of this Agreement; such Partner's distributive share of Losses under Section 7.1; any items in the nature of expenses or losses which are specially allocated to such Partner pursuant to Section 7.2; and the amount of any liabilities of such Partner that are assumed by the Partnership or which are secured by any property contributed to the Partnership by such Partner, determined in accordance with the Regulations issued under Code Section 752.

The foregoing provisions and the other provisions of this Agreement relating to the maintenance of Capital Accounts are intended to comply with Regulations Section 1.704-1(b), and shall be interpreted and applied in a manner consistent with such Regulations. Any questions with respect to a Partner's Capital Account shall be resolved by the Executive Committee in its reasonable discretion, applying principles consistent with this Agreement.

(b) Any transferee of a Partnership Interest or a portion thereof shall succeed to the Capital Account relating to the Partnership Interest transferred or the corresponding portion thereof.

SECTION 5.4 RETURN OF CAPITAL; NO INTEREST ON AMOUNTS IN CAPITAL ACCOUNT.

Except upon dissolution of the Partnership or as may be expressly set forth in this Agreement, no Partner shall have the right to demand or receive the return of its Capital Contributions or any part of its Capital Account, and, except as expressly set forth in this Agreement, no Partner shall be entitled to receive any interest on its outstanding Capital Account balance.

SECTION 5.5 PERCENTAGE INTERESTS.

The Percentage Interests of each of the Partners shall be a percentage equal to such Partner's Capital Account divided by the sum of the Capital Accounts of all Partners multiplied by 100.

SECTION 5.6 NEGATIVE CAPITAL ACCOUNTS.

Upon the liquidation of the Partnership pursuant to Section 15.2, no Partner shall be liable to the Partnership or any other Partner for any deficit or negative balance which may exist in such Partner's Capital Account.

ARTICLE 6 - PARTNERS

SECTION 6.1 POWERS AND AUTHORITY OF THE PARTNERS.

(a) Subject to the restrictions otherwise set forth in this Agreement (including, without limitation, the restrictions set forth in Sections 6.2, 6.3 and 6.4) and in any Budget and any Operating Plan, the affairs of the Partnership shall be managed and supervised solely by the Partners, by means of and through a committee of Representatives appointed pursuant to Section 6.2(b) (the "Executive Committee"). Subject to the terms and provisions of this Agreement (including, without limitation, the restrictions set forth in Sections 6.2, 6.3 and 6.4), each of the Partners shall have all of the powers of a general partner, including all powers necessary, advisable, convenient, incidental or appropriate to carry out the purposes of the Partnership.

SECTION 6.2 EXECUTIVE COMMITTEE.

(a) The Partners shall be solely responsible for and are authorized to conduct and control the affairs of the Partnership. They shall act through the Executive Committee. The Administrative Partner shall conduct and/or supervise the day-to-day activities of the Partnership subject to such limitations and directions as shall be adopted by the Executive Committee.

(b) The Executive Committee shall consist of representatives (each a "Representative") of the Partners appointed by the Partners based upon the aggregate Percentage Interest held by each Partner. Any Partner that holds an aggregate Percentage Interest of 30% or greater shall be entitled to appoint two individuals to the Executive Committee as Representatives of such Partner. If the aggregate Percentage Interest held by any Partner is less than 30%, then such Partner shall be entitled to appoint one individual to the Executive Committee as the Representative of such Partner so long as such Partner holds an aggregate Percentage Interest of 20% or greater. Any Partner that holds an aggregate Percentage Interest of less than 20% shall not be entitled to appoint any Representatives to the Executive Committee and shall, consequently, have no representation on the Executive Committee. An individual appointed by a Partner as a Representative shall be a partner, officer, director, majority equity holder, or employee of the Partner appointing such Representative. Representatives shall be authorized to act on behalf of the Partners and to approve any matters which are required to be approved hereunder. Any Representative of a Partner may be removed and another Representative substituted therefor by such Partner from time to time as designated in a Notice to such effect to the other Partner so long as the Partner giving such Notice has the ability to appoint at least one Representative to the Executive Committee. The Executive Committee shall meet at least quarterly and shall be required to meet upon ten (10) Business Days prior Notice given to all Representatives from any Representative. Meetings shall be held at the Partnership's offices, or at such other place as the Representatives shall agree. So long as the aggregate Percentage Interest held by a Partner shall not be less than 40%: (i) a majority of the Representatives shall constitute a quorum; and (ii) a unanimous vote of such quorum, which shall

include the affirmative vote of at least one Representative of each Partner, shall, constitute the legally binding and lawful act of the Partnership as to any matter voted upon. In the event that the aggregate Percentage Interest held by any Partner shall be less than 40%: (i) the presence of Representatives constituting a majority of the Percentage Interest of the aggregate Percentage Interest of all Partners shall constitute a quorum; and (ii) the affirmative vote of Representatives constituting a majority of the Percentage Interest of the aggregate Percentage Interest of all Partners shall constitute the legally binding and lawful act of the Partnership as to any matter voted upon. A Representative shall be considered present for purposes of any required vote if participating in, or represented at such meeting either in person, or by proxy or authorized representative, including, but not limited to, a telephonic communication by which all Representatives attending such meeting may hear and be heard. A written record of minutes of all meetings of the Executive Committee and all resolutions of or decisions made by the Executive Committee shall be made and shall be kept in the records of the Partnership. Minutes and/or resolutions approved by the Executive Committee shall be binding and conclusive evidence of the decisions reflected therein and any authorizations granted thereby. No Representative shall be entitled to receive any salary or other remuneration or expense reimbursement from the Partnership for his services as a Representative. The Representatives as such shall not be deemed to be general partners of the Partnership and shall not be generally or personally liable for the debts or obligations of the Partnership.

Notwithstanding the foregoing, so long as a Partner holds an aggregate Percentage Interest of 30% or greater, action with respect to all Substantive Decisions shall require the affirmative vote of at least one Representative of each such Partner. For this purpose, "Substantive Decisions" shall mean the following:

- (i) appointment, removal and compensation of officers, if any, of the Partnership; and

- (ii) appointment or removal of the Administrative Partner.

Notwithstanding the foregoing, so long as a Partner holds an aggregate Percentage Interest of 20% or greater, action with respect to all Major Decisions shall require the affirmative vote of at least one Representative of each such Partner. For this purpose, "Major Decisions" shall mean the following:

- (i) other than as set forth in Section 9.6, the sale of equity interests in the Partnership, the sale of all or substantially all of the Partnership Assets, the sale of the Plant, the sale of the CT, or the sale of any or all of the foregoing;

- (ii) the liquidation, merger or recapitalization of the Partnership and financing and refinancing decisions related to either of them;

(iii) approval of any Budget (and any related Additional Capital Contribution) and approval of the incurrence by the Partnership of any indebtedness for borrowed money;

(iv) any capital expenditure of the Partnership (whether or not included within any Budget);

(v) approval of any Development Option (and any related Additional Capital Contribution);

(vi) distributions from the Partnership, other than distributions required under Section 5.1, Section 9.6 or ARTICLE 8;

(vii) amendments to this Agreement or the Operating Agreement;

(viii) commencement or settlement of any material litigation by the Partnership; and

(ix) the establishment of reserves in excess of those recommended by accounting or banking standards.

Any reference to action required or permitted to be taken by the Executive Committee pursuant to this Agreement shall mean actions taken in accordance with this Section 6.2(b).

(c) The Executive Committee may establish other committees or organize other work groups as it may deem to be in the best interests of the Partnership and determine the size, personnel and delegated powers or responsibilities thereof.

(d) Notwithstanding any provision of this Agreement to the contrary, any third party dealing with the Partnership shall be entitled to rely on a certification and/or representation of either Partner stating that the Partner has the authority pursuant to this Agreement to take any specified action or to execute and deliver any specified agreement, instrument or other document, but the foregoing shall not relieve such Partner from any liability that it may have to the Partnership or the Partners for acting without authority under this Agreement.

SECTION 6.3 ADMINISTRATIVE PARTNER.

The Executive Committee may designate a Partner (the "Administrative Partner") to act as the administrative partner of the Partnership and implement the decisions of the Executive Committee. UGI GP shall be the initial Administrative Partner. Subject to the policies and directives of the Executive Committee, the Administrative Partner shall be responsible for supervising the operation and management of the Partnership and the Partnership Assets. Subject to the limitations set forth in this Agreement or in any Budget or Operating Plan, the Administrative Partner shall have the power and authority to enter into contracts on behalf of

the Partnership, to execute and deliver all necessary instruments and documents and to make expenditures under and in accordance with such documents and instruments or otherwise as are required to implement any Budget and Operating Plan.

SECTION 6.4 COMPENSATION TO THE PARTNERS AND RELATED ENTITIES.

(a) No fees or other compensation or reimbursement for costs incurred shall be payable to any Partner for performance of services to or on behalf of the Partnership, except as provided in this Section 6.4 or Section 6.5.

(b) The Partnership shall pay, or shall reimburse the Partners for payment of, all of the Partnership's ordinary and necessary expenses including out-of-pocket expenses, as determined proper by the Executive Committee or in accordance with the procedures and guidelines set forth in any Budget or Operating Plan. Costs paid or incurred by any Partner in its capacity as Partner, including but not limited to payments for legal or accounting services rendered to such partner in its particular capacity shall be for the account of such partner and shall not be reimbursed.

(c) Neither the Administrative Partner nor any member of the Executive Committee shall receive a fee in connection with its service as either the Administrative Partners or a member of the Executive Committee. The foregoing shall not restrict or limit the right of a Partner or any Affiliate thereof to receive fees under the Operating Agreement.

SECTION 6.5 EXCULPATION AND INDEMNIFICATION.

(a) No Partner, any Related Entity of such Partner, or any representative of such Partner or such Related Entity (including the Representatives and the Administrative Partner), acting on behalf of the Partnership in connection with any business or activity of the Partnership, shall be liable to the Partnership or to any Partner for any loss arising out of or in connection with the management, operation or conduct of the Partnership Affairs, except by reason of bad faith, willful misconduct, fraud or gross negligence in respect of the matter on which the claim is based. The Partnership, to the fullest extent permitted by applicable law, shall indemnify and hold harmless each person or entity indemnified as provided above in this Section 6.5(a) in its capacity as such, from and against any and all claims, costs, losses, damage, expenses (including, without limitation, the expense of defending, investigating or preparing to defend any claim) or liabilities (including, but not limited to, reasonable attorneys' fees) suffered or sustained by such indemnified person by reason of any acts performed or omitted to be performed by such indemnified person on behalf of the Partnership or in furtherance of the interest of the Partnership, except, with respect to any indemnified party by reason of bad faith, willful misconduct, fraud or gross negligence in respect of the matter on which the claim is based.

(b) No claim, action or proceeding, or any appeal therefrom which is subject to the provisions of Section 6.5(a) shall be settled by the Partnership without the consent of the person or entity affected thereby, unless the settlement of such claim, action or proceeding requires solely the payment of money. Notwithstanding the foregoing, if the Partnership is also a defendant in any such claim, action, proceeding or appeal, the Partnership may enter into any settlement for itself without the consent of any other defendant. The Partnership shall not be liable for any claim settled without its consent, which consent may not be unreasonably withheld.

(c) To the extent that, at law or in equity, a person or entity indemnified pursuant to Section 6.5(a) has duties (including fiduciary duties) and liabilities relating thereto to the Partnership or to the Partners, such indemnified person acting under this Agreement or otherwise shall not be liable to the Partnership or to any Partner for its good faith reliance on the provisions of this Agreement. The provisions of this Agreement, to the extent that they expand or restrict the duties and liabilities of an indemnified person otherwise existing at law or in equity, are agreed by the Partners to replace such other duties and liabilities of such indemnified person.

ARTICLE 7 - ALLOCATIONS OF PROFITS AND LOSSES

SECTION 7.1 PROFITS AND LOSSES.

(a) After giving effect to the mandatory allocations set forth in Section 7.2, Profits for any Fiscal Year shall be allocated to the Partners in the following order of priority: (i) first, to the Partners, to the extent of and in proportion to the amounts, if any, by which cumulative prior allocations of Profit to each Partner under this clause are less than cumulative prior allocations of Loss to each such Partner pursuant to the last sentence of Section 7.1(b); (ii) second, to the Partners, to the extent of and in proportion to the amounts, if any, by which cumulative prior allocations of Profit to each Partner under this clause are less than cumulative prior allocations of Loss to each such Partner pursuant to the first sentence of Section 7.2, and (iii) thereafter, to the Partners, pro rata in accordance with their Percentage Interests.

(b) After giving effect to the mandatory allocations set forth in Section 7.2, Losses for any Fiscal Year shall be allocated to the Partners pro rata in accordance with their Percentage Interests. To the extent that any Partner has or would have, as a result of an allocation of Loss (or item thereof), an Adjusted Capital Account deficit such Loss (or item thereof) shall be allocated to the other Partners, pro rata in accordance with their relative Percentage Interests, but in a manner that will not produce an Adjusted Capital Account deficit as to such Partners or, if such allocation would result in all Partners having an Adjusted Capital Account deficit, such loss shall be allocated to the Partners, pro rata in accordance with their relative Percentage Interests.

SECTION 7.2 MANDATORY ALLOCATION RULES.

Notwithstanding any other provisions of this Agreement to the contrary, the

following mandatory allocations shall be made in the following order:

(a) (i) If there is a net decrease in Partnership Minimum Gain during any Fiscal Year, then, subject to the exceptions set forth in Regulations Sections 1.704-2(f)(2), (3), (4) and (5), each Partner shall be specially allocated items of Partnership income and gain for such Fiscal Year (and, if necessary, subsequent Fiscal Years) in an amount equal to such Partner's share of the net decrease in Partnership Minimum Gain, as determined in accordance with Regulations Section 1.704-2(g). Allocations pursuant to the previous sentence shall be made in proportion to the respective amounts required to be allocated to each Partner pursuant thereto. The items to be so allocated shall be determined in accordance with Regulations Section 1.704-2(f). This Section 7.2(a)(i) is intended to comply with the minimum gain charge back requirement in such Section of the Regulations and shall be interpreted consistently therewith.

(ii) If there is a net decrease in Partner Minimum Gain attributable to a Partner Nonrecourse Debt during any Fiscal Year, then, subject to the exceptions set forth in Regulations Section 1.704-2(i)(4), each Partner who has a share of the Partner Minimum Gain attributable to such Partner Nonrecourse Debt, determined in accordance with Regulations Section 1.704-2(i)(5), shall be specially allocated items of Partnership income and gain for such Fiscal Year (and, if necessary, subsequent Fiscal Years) in an amount equal to such Partner's share of the net decrease in Partner Minimum Gain attributable to such Partner Nonrecourse Debt, determined in accordance with Regulations Section 1.704-2(i)(4). Allocations pursuant to the previous sentence shall be made in proportion to the respective amounts required to be allocated to each Partner pursuant thereto. The items to be so allocated shall be determined in accordance with Regulations Section 1.704-2(i)(4). This Section 7.2(a)(ii) is intended to comply with the minimum gain charge back requirement in such Section of the Regulations and shall be interpreted consistently therewith.

(b) In the event any Partner receives any adjustments, allocations, or distributions described in Regulations Sections 1.704-1(b)(2)(ii)(d)(4), (5) or (6) that cause or increase an Adjusted Capital Account deficit of such Partner, items of Partnership income and gain shall be specially allocated to such Partner in an amount and manner sufficient to eliminate, to the extent required by the Regulations, the Adjusted Capital Account deficit of such Partner as quickly as possible. This Section 7.2(b) is intended to comply with the qualified income offset requirement in Regulations Section 1.704-1(b)(2)(ii)(d) and shall be interpreted consistently therewith.

(c) Any Partner Nonrecourse Deductions for any Fiscal Year or other period shall be allocated to the Partner who bears the economic risk of loss with respect to the Partner Nonrecourse Debt to which such Partner Nonrecourse Deductions are attributable in accordance with Regulations Section 1.704-2(i)(2).

(d) To the extent an adjustment to the adjusted tax basis of any Partnership Asset pursuant to Code Section 734(b) or Code Section 743(b) is required, pursuant to Regulation Section 1.704-1(b)(2)(iv)(m), to be taken into account in determining Capital Accounts, the amount of such adjustment to the Capital Accounts shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis) and such gain or loss shall be allocated to the Partners in a manner consistent with the manner in which their Capital Accounts are required to be adjusted pursuant to such Section of the Regulations.

(e) All items of deduction or loss, if any, attributable to the contributions of the Partners shall be allocated to such Partners pro rata in accordance with their relative Percentage Interests.

(f) Any Profits or Losses (or, if necessary, items of income, gain, loss or deduction) recognized on or after the dissolution of the Partnership or otherwise on or after the disposition of substantially all of the Partnership assets shall be allocated among the Partners to the extent of and in proportion to the amounts required to cause the Capital Account balance of each Partner to be in proportion to its Percentage Interest.

(g) The allocations set forth in Sections 7.2(a), 7.2(b) and 7.2(c) above (the "Regulatory Allocations") are intended to comply with certain requirements of Regulations Section 1.704-1(b). The Regulatory Allocations shall be taken into account for purposes of equitably adjusting subsequent allocations of Profits and Losses and items of income, gain, loss, and deduction among the Partners so that, to the extent possible, the net amount of such allocation of Profits and Losses and other items to each Partner shall be equal to the net amount that would have been allocated to each such Partner if the Regulatory Allocations had not occurred.

SECTION 7.3 OTHER ALLOCATION RULES.

(a) For purposes of determining the Profits, Losses, or any other items allocable to any period, Profits, Losses and any such other items shall be determined on a daily, monthly, or other basis, as determined by the Partners using any permissible method under Code Section 706 and the Regulations thereunder.

(b) Except as otherwise provided in this Agreement, all items of Partner income, gain, loss, deduction, and any other allocations not otherwise provided for shall be divided among the Partners in the same proportions as they share Profits and Losses, as the case may be, for the Fiscal Year.

(c) The Partners are aware of the income tax consequences of the allocations made by this ARTICLE 7 and hereby agree to be bound by the provisions thereof in reporting their shares of Partnership income and loss for income tax purposes.

(d) To the extent permitted under Regulations Section 1.704-2(h)(3), the Partnership shall treat a distribution of proceeds of a Nonrecourse Liability as a distribution that is not allocable to an increase in Partnership Minimum Gain.

SECTION 7.4 TAX ALLOCATIONS.

(a) Except as otherwise provided in this Section 7.4, each item of income, gain, loss and deduction as computed for federal income tax purposes, shall be allocated among the Partners in the same manner as its correlative item of "book" income, gain, loss or deduction is allocated pursuant to Sections 7.1 and 7.2 above.

(b) In accordance with Code Section 704(c) and the Regulations thereunder, income, gain, loss, and deduction with respect to any property contributed to the capital of the Partnership shall, solely for tax purposes, be allocated among the Partners so as to take into account any variation between the adjusted basis of such property to the Partnership for federal income tax purposes and its initial Gross Asset Value in accordance with Regulations Section 1.704-3(b).

(c) In the event the Gross Asset Value of any Partnership Asset is adjusted pursuant to any provision of this Agreement in accordance with the definition of Gross Asset Value, subsequent allocations of income, gain, loss and deduction with respect to such Partnership Asset shall take into account any variation between the adjusted basis of such Partnership Asset for federal income tax purposes and its Gross Asset Value in the same manner as under Code Section 704(c) and the Regulations thereunder.

(d) Any elections or other decisions relating to such allocations shall be made by the Tax Matters Partner with the advice of the Accountants and tax counsel for the Partnership in any manner that reasonably reflects the purpose and intention of this Agreement. Allocations pursuant to this Section 7.4 are solely for purposes of federal, state, and local taxes and shall not affect, or in any way be taken into account in computing, any Partner's Capital Account or share of Profits, Losses, other items, or pursuant to any provision of this Agreement.

ARTICLE 8 - DISTRIBUTIONS

SECTION 8.1 DISTRIBUTIONS.

i All amounts of Cash Available for Distribution shall be distributed (i) in a liquidation, as set forth in Section 15.2, and (ii) in all other cases, to the Partners in proportion to the Percentage Interests of each as of the date of distribution.

SECTION 8.2 TIMING OF DISTRIBUTIONS.

Subject to Sections 8.3 and 15.2, Cash Available for Distribution shall be distributed by the Partnership as promptly as practicable following the end of a Fiscal Year and at such other times as may be determined by the Executive Committee.

SECTION 8.3 DISPUTES REGARDING CASH AVAILABLE FOR DISTRIBUTION.

In the event that the Executive Committee is deadlocked and unable to agree upon the amount of Cash Available for Distribution with respect to a particular Fiscal Year within 90 days following the completion of such Fiscal Year, the chief executive officers of the parent companies of each of such Partners (which shall be the chief executive officers of Allegheny Parent and UGI Enterprises, Inc. until such time as another General Partner is admitted to the Partnership) shall meet as promptly as practicable to discuss the issue and shall negotiate in good faith to resolve the issue. Promptly following any resolution, such chief executive officers shall instruct their Representatives to vote in favor of the agreed upon amount of Cash Available for Distribution.

ARTICLE 9 - TRANSFER OF PARTNERSHIP INTERESTS; DEVELOPMENT OPTIONS

SECTION 9.1 PROHIBITED TRANSFERS; TRANSFERS TO AFFILIATES.

No Partner may, without the prior consent of all other Partners, sell, pledge, hypothecate, convey or otherwise transfer (collectively a "Transfer") all or any part of its Partnership Interest (or equity interests in a Partner) (the "Offered Interest") to any other Partner or third party without first complying with the provisions of Section 9.2 and Section 9.3; provided, however, that a Partner may Transfer any Offered Interest without the prior consent of any other Partner and without the need to comply with Section 9.2 or Section 9.3 to any Affiliate of such Partner so long as (i) the transferee complies with the provisions of Section 10.1 and (ii) the Transfer would have no materially adverse effect on the Partnership, any Partner or the operation of the Plant or the CT, including, without limitation, any effect on the regulatory status of the Plant or the CT or any increased permitting or licensing burden on the Partnership or any Partner. A permitted Transfer under this Section 9.1 shall not relieve the transferor of any of its obligations prior to the Transfer. Each Partner shall cooperate with all other Partners with respect to transactions contemplated under this Section 9.1 that have either been approved as provided in this Section 9.1 or otherwise do not require approval, and shall do, execute and deliver all instruments, documents, consents, amendments and acts necessary to consummate such transactions contemplated under this Section 9.1.

SECTION 9.2 RIGHT OF REFUSAL.

Subject to Section 9.1, in the event that a Partner (the "Selling Partner") shall at any time subsequent to the date hereof receive a bona fide offer from a third party that is not an Affiliate in respect of the sale of all or any portion of its Partnership Interest (or interests in the entity holding such Partnership Interest), the Selling Partner shall give the other Partners (the "Remaining Partners") notice (the "Sale Notice") of the terms and conditions of each such bona fide offer upon which the Selling Partner is willing to sell such Partnership Interest. Each Remaining Partner shall have the right, exercisable by delivering written notice to the Selling Partner within ten (10) days after the date of the Sale Notice, to purchase the portion of the Selling Partner's Partnership Interest (or interests in the entity holding such Partnership Interest) sought to be sold upon the terms and conditions contained in the Sale Notice. If the amount of Partnership Interests (or interests in the entity holding such Partnership Interest) sought to be purchased by the Remaining Partners exceeds the amount sought to be sold by the Selling Partner, each Remaining Partner electing to exercise its right pursuant to this Section 9.2 shall be deemed to have exercised its right to purchase only such portion of the Partnership Interests sought to be sold as such Remaining Partner's Percentage Interest bears to the aggregate Percentage Interests of all Remaining Partners exercising. If the amount of Partnership Interests (or interests in the entity holding such Partnership Interest) sought to be purchased by the Remaining Partners is less than the amount sought to be sold by the Selling Partner, the Selling Partner shall be free to sell any remaining portion of such Partnership Interest to a third party that is not an Affiliate on the same terms and conditions as set forth in the Sale Notice. The Selling Partner and each Remaining Partner electing to exercise its right pursuant to this Section 9.2 shall thereupon enter into a Partnership Interest purchase agreement acceptable to the Selling Partner which shall contain the same terms and conditions set forth in the Sale Notice. In the event that any Remaining Partner fails to exercise its right as aforesaid within ten (10) days of the date of receipt of the Sale Notice, such Remaining Partner shall be deemed to have waived its rights under this Section 9.2 with respect to the Selling Partner's Partnership Interests (or interests in the entity holding such Partnership Interest, as the case may be) sought to be sold, and the Selling Partner shall have the absolute right to sell the Partnership Interests (or interests in the entity holding such Partnership Interest, as the case may be) as set forth in the Sale Notice to any other person or entity and such Remaining Partner shall have no further rights with respect to the Partnership Interests as set forth in the Sale Notice; provided, however, that in the event that such third party sale is not consummated within six (6) months after the date of the Sale Notice, or if there is any material change proposed to be made in the terms or conditions of such sale, then the Selling Partner shall be required to provide a new Sale Notice to the Remaining Partners, and such Remaining Partners shall have the right to purchase that portion of the Selling Partner's Partnership Interest as is being offered for sale, all as set forth in this Section 9.2. Any Remaining Partner which fails to exercise its rights as aforesaid within ten (10) days of the receipt of any such Sale Notice shall be deemed to have waived its rights under this Section 9.2, but only with respect to the individual transaction described in such Sale Notice.

SECTION 9.3 RIGHT OF CO-SALE.

(a) Subject to Section 9.1, in the event that the Selling Partner wishes to sell all or any portion of its Partnership Interest (or interests in the entity holding such Partnership Interest) to a third party, the Selling Partner shall give the Remaining Partners a Sale Notice of its desire to do so, which Sale Notice shall state the price, measured in dollars for the Partnership Interests of the Selling Partner sought to be sold and the terms of the Offer, including the date, if available, when such proposed sale is to be consummated. Each Remaining Partner shall have the right (the "Co-Sale Right") to sell a pro rata share of the Partnership Interests owned by such Remaining Partner as follows: at least thirty (30) days prior to any sale of Partnership Interests by the Selling Partner, the Selling Partner shall notify each Remaining Partner in writing (the "Notice of Offer") of its determination to sell Partnership Interests to one or more third parties (the "Purchasers"). The Notice of Offer shall name the person or entity acquiring such shares and set forth the terms and conditions of such sale, including the price, payment terms and proposed date of consummation of the transaction.

(b) Each Remaining Partner shall have twenty (20) days from the date of receipt of the Notice of Offer (the "Co-Sale Right Period") to notify the Selling Partner of its election to sell Partnership Interests to the Purchaser upon the same terms and conditions which the Selling Partner has agreed to sell its Partnership Interests. If any Remaining Partner elects to exercise its Co-Sale Right, with respect to any sale of Partnership Interests by a Partner, subject to the additional right granted in (c) of this Section 9.3, the aggregate amount of Partnership Interests which the Remaining Partner shall have the right to sell shall be not greater than the amount of Partnership Interests set forth in the Notice of Offer, multiplied by a fraction, the numerator of which is the amount of Partnership Interests of such Remaining Partner and the denominator of which is the sum of the amount of Partnership Interests of each Remaining Partner participating in the sale, plus the Partnership Interests of the Selling Partner.

(c) Each of the Remaining Partners shall have the right of over-allotment such that if any of the Remaining Partners fails to exercise its rights under paragraph (b) to sell its pro rata portion Partnership Interests to be sold, or any portion thereof, the other Remaining Partners may (by exercising their over-allotment right within the Co-Sale Right Period) sell a pro rata portion of such amount to the Purchaser. The calculation of the pro rata rights of each Remaining Partner shall be as of the date of the Notice of Offer and shall be based on the ratio of the amount of such Remaining Partner's Partnership Interest to the total amount of outstanding Partnership Interests of each of the Remaining Partners participating in the Sale.

(d) Any Remaining Partner which fails to notify the Selling Partner during the Co-Sale Right Period of its election to sell its pro rata share, or any lesser amount, to the Purchaser, shall be deemed to have declined to sell any of its Partnership Interests only with respect to the transaction described in the Notice of Offer.

(e) Subject to compliance by the Selling Partner with the provisions of Section 9.3, the Selling Partner may sell its Partnership Interests to the Purchaser on the terms specified in the Notice of Offer, provided that if such sale is not consummated within six (6)

months of the date of the Notice of Offer, the Selling Partner shall issue a new Notice of Offer to the Remaining Partners pursuant to this Section 9.3 and again comply with the provisions hereof with regard to such transaction.

SECTION 9.4 CONDITIONS APPLICABLE TO TRANSFERS.

(a) COMPLIANCE WITH LAWS, ETC.

(i) Notwithstanding anything to the contrary contained in this Agreement, any Transfer of any Partner's Partnership Interest shall be made in full compliance with (A) all applicable statutes, laws, ordinances, rules and regulations of all federal, state and local governmental bodies, agencies and subdivisions having jurisdiction over the Partnership and the Partnership Assets, (B) the provisions of this Agreement, and (C) any agreements or loans of the Partnership, so that the operation of the Partnership and the Partnership Assets can continue without interruption and without violation of any applicable law, or if any approval or consent is required in connection with any such Transfer, the Responsible Partner (hereinafter defined) shall promptly make such filing or application or obtain such approval or consent at its sole expense, and shall reimburse the Partnership for any costs or expenses (including attorneys fees) incurred by the Partnership in connection with any filing, application, approval or consent.

The "Responsible Partner" shall be the transferring Partner; provided, however, that should such transferor fail or refuse to perform hereunder, the Administrative Partner, acting on behalf of the remaining Partners, at the cost and expense of such transferor, shall act as "Responsible Partner" hereunder.

(ii) Notwithstanding any provision hereof to the contrary, no Transfer shall be made pursuant to this ARTICLE 9 to any Foreign Person unless and until the transferee agrees in writing in advance of the Transfer that (A) the Partnership may comply with any and all income and other withholding obligations that may be imposed on the Partnership without regard to other provisions of this Agreement that may otherwise govern the transferee's rights to its share of Partnership income and loss and to receive distributions from the Partnership; and (B) the transferee shall indemnify and hold the Partnership and the non-transferring Partners harmless from and against any and all expense or liability that is or may be imposed on the Partnership or the non-transferring Partners attributable to or arising out of such Transfer because of such status of the transferee. Any agreement of a transferee Partner required by this Section 9.4(a) shall be in such form and shall contain such additional provisions as the Partners in the exercise of reasonable discretion shall request as a condition precedent to such Transfer.

(b) INSTRUMENTS OF TRANSFER.

Notwithstanding anything to the contrary contained in this Agreement, no change in ownership of the Partnership Interest of any Partner shall be binding upon the other Partners or the Partnership unless and until (i) true copies of the instruments of transfer executed and delivered pursuant to or in connection with such Transfer shall have been delivered to the Administrative Partner, (ii) the transferee shall have delivered to the Administrative Partner an executed and acknowledged assumption agreement, in form and substance reasonably satisfactory to counsel to the Partnership, pursuant to which the transferee assumes from and after the date of the Transfer all the obligations of the transferor thereunder thereafter accruing, makes all representations, warranties and covenants as were made pursuant to ARTICLE 13 by the transferor, and agrees to be bound by all the provisions of this Agreement, (iii) the transferee shall have executed, acknowledged and delivered any instruments required under the Act or the laws of any State in which the Partnership is authorized to do business to effect such Transfer and its admission to the Partnership, and (iv) unless waived by the Partners, the Partnership shall have received an opinion of counsel as provided in Section 9.4(c) if the Transfer is to any person or entity that is not at the time a Partner. Upon the execution and delivery of such assumption agreement, the transferor shall have no further obligation hereunder thereafter accruing except that the transferor shall remain primarily liable for all accrued obligations (as of the date of Transfer) of the transferor under this Agreement notwithstanding any Transfer pursuant to this ARTICLE 9.

(c) OPINION OF COUNSEL.

If a Transfer is proposed to any person or entity that is not at the time a Partner, then, prior to any such Transfer, the transferring Partner shall give a notice to the Partnership setting forth the material terms and conditions of such Transfer, the name of the proposed transferee and the name of its and/or the transferee's counsel (which counsel shall be reasonably satisfactory to counsel for the Partnership), and there shall be delivered to the Partnership an opinion of counsel to the transferring Partner or transferee, reasonably satisfactory in form and substance to counsel for the Partnership, with reasonable qualifications (including, but not limited to, basing such opinion on affidavits of the transferor and/or the transferee) to the effect that the proposed Transfer shall not (i) result in the violation of the Securities Act of 1933 or any other applicable federal or state laws or the order of any court having jurisdiction over the Partnership or require registration of the Partnership Interest to be transferred under the Securities Act of 1933 as then in force or the taking of any similar action under any similar Federal or state law then in force; (ii) result, directly or indirectly, in a termination of the Partnership under Code Section 708 or, if such termination occurs, such termination would not have a material and adverse effect on the Partners; (iii) cause the Partnership to become "publicly traded" for purposes of Code Section 7704; or (iv) cause the classification of the Partnership as a partnership for purposes of the Code to be lost or adversely affected.

The transferring Partner and the transferee shall pay to the Partnership all costs incurred by the Partnership as a result of such Transfer, and shall indemnify the Partnership (in a manner which is reasonably satisfactory to the Partnership) for any such costs which are or may be incurred by it thereafter as a result of such Transfer.

(d) TRANSFEREES BY OPERATION OF LAW OR THIS AGREEMENT.

If any party or entity acquires all or any part of a Partnership Interest in violation of this ARTICLE 9 by operation of law or judicial proceeding, the holder(s) of the affected interest shall have no right to take action under this Agreement, and the Partner whose interest was so affected shall be subject to the restrictions provided in Section 9.5. A transfer of the equity securities of UGI Parent, UGID or Allegheny Parent (which is the sole member of the Allegheny GP) shall not be deemed a Transfer hereunder.

(e) EFFECTIVE DATE OF TRANSFERS.

For financial and tax reporting purposes, every voluntary sale, assignment or other transfer (as distinguished from the original issuance) of any Partnership Interest or portion thereof shall be deemed to have occurred as of the close of business on the day on which such event shall have in fact occurred, and shall have no prior effect, and every involuntary sale, assignment or transfer (whether by bequest, operation of law or any other method) of any Partnership Interest shall be deemed to have occurred as of the close of business on the day on which the Partnership shall have received evidence of such transfer and shall have no prior effect.

SECTION 9.5 TRANSFERS VOID.

Any attempted withdrawal, sale, assignment, pledge, transfer, encumbrance, mortgage or other disposition, or substitution of a Partner, made in violation of this Agreement shall be automatically void ab initio. If any Partner makes or attempts to make a withdrawal, sale, assignment, pledge, transfer, encumbrance, mortgage or other disposition or substitution in violation of this Agreement, then unless such Partner is at the time the sole General Partner, all of such Partner's rights hereunder to vote for or participate in Partnership decisions shall be suspended until such violation is cured.

SECTION 9.6 DEVELOPMENT OPTIONS; PUT AND CALL RIGHTS.

(a) DEVELOPMENT OPTIONS.

(i) As set forth in this Agreement, "Development Options" shall mean opportunities to expand the generation capacity of the Partnership at the site of the Plant and the CT, at the Temple, Pennsylvania site of UGID's Affiliate UGI Utilities, Inc., at the site in Mt. Carmel, Pennsylvania of Foster-Wheeler's approximately 85 MW waste coal fired cogeneration unit, or at any other site

where the Partners jointly agree in writing to enter into a new development project, or opportunities to create any new entity or entities for the purpose of creating additional generation capacity at any of the foregoing sites. Any Partner having knowledge of a Development Option shall bring the same to the attention of the Executive Committee for review. Subject to the provisions of Section 9.7, any Partner having knowledge of a potential Development Option may, but shall not be required to, bring the same to the attention of the Executive Committee for review. If the Executive Committee determines not to undertake any such Development Option, the Partners shall mutually agree whether, and on what terms, any such Development Option shall be undertaken jointly by the Partners outside the Partnership.

(ii) Notwithstanding the foregoing, the potential development of new base load generation capacity at the Plant (the "Hunlock Expansion Project") shall not be a Development Option. In the event that the Partners determine to undertake the Hunlock Expansion Project, (A) the Partners shall mutually agree on the terms on which the Hunlock Expansion Project shall be undertaken and (B) the Partnership shall continue to operate the CT under a mutually satisfactory lease between the Partnership and the equity owners of the Hunlock Expansion Project. UGI GP shall have the right, but not the obligation, to contribute up to 50% of the capital required to undertake the Hunlock Expansion Project, which capital contribution may be made, at the option of UGI GP, in cash, tangible or intangible assets, services, Partnership Interests or any combination of the foregoing.

(iii) The Executive Committee shall establish the scope of and schedule for feasibility studies in connection with the Partners' potential interest in the following proposed projects: (A) the Hunlock Expansion Project; (B) combustion turbine installation at UGI Utilities' LNG facility at Temple, Pennsylvania; (C) wholesale gas and electric marketing; (D) contribution to a new venture of UGID's interest in the Conemaugh steam electric station; and (E) the joint acquisition of Mount Carmel or other non-utility generating stations.

(b) UGID PUT RIGHTS. For a period of five (5) years from the date hereof, UGI GP shall have the right, but not the obligation, to require Allegheny Energy Supply to purchase the Plant (including all inventory of the Partnership associated with the Plant) or the CT, or both of them, from the Partnership (collectively, the "UGI Put Right"). The purchase price for the Plant and such inventory shall be the sum of Fifteen Million Dollars (\$15,000,000) plus the value of all inventory of the Partnership associated with the Plant at the time of such purchase, which amount shall be paid by Allegheny Energy Supply to the Partnership by wire transfer of immediately available funds at a closing of such purchase to be held as soon as practicable following written notice from UGI GP to Allegheny Energy Supply of its determination to require such purchase. The purchase price for the CT shall be the amount of the

book value of the CT on the books of the Partnership as of the date of closing of such purchase, which amount shall be paid by Allegheny Energy Supply to the Partnership by wire transfer of immediately available funds at a closing of such purchase to be held as soon as practicable following written notice from UGI GP to Allegheny Energy Supply of its determination to require such purchase. In connection with any such closing, UGI GP and Allegheny Energy Supply shall jointly prepare, execute and deliver such instruments of transfer that are reasonably required to effectuate the purchase and sale of the Plant or the CT, or both of them. All funds received by the Partnership in connection with the sale of the Plant or the CT, or both of them, shall be paid, as soon as practicable following the closing of any such sale, to the Partners in a special distribution in proportion to the Percentage Interests of each as of the date of distribution. In the event that UGI GP exercises the UGI Put Right with respect to the Plant and the CT and, upon such exercise, the Partnership's assets consist solely of intangible items, the Partners thereafter shall cause the orderly dissolution of the Partnership.

(c) ALLEGHENY CALL RIGHT. In the event that the Hunlock Expansion Project is undertaken solely by Allegheny Energy Supply (or an Affiliate thereof) without the participation of UGI GP or its Affiliates, Allegheny Energy Supply (or an Affiliate thereof) shall have the right, but not the obligation, to purchase the Plant (including all inventory of the Partnership associated with the Plant) from the Partnership. The purchase price for the Plant and such inventory shall be the sum of Fifteen Million Dollars (\$15,000,000) plus the value of all inventory of the Partnership associated with the Plant at the time of such purchase, which amount shall be paid by Allegheny Energy Supply (or such Affiliate) to the Partnership by wire transfer of immediately available funds at a closing of such purchase to be held as soon as practicable following written notice from Allegheny Energy Supply (or such Affiliate) to UGI GP of its determination to undertake such purchase. In connection with any such closing, UGI GP and Allegheny Energy Supply shall jointly prepare, execute and deliver such instruments as are reasonably required to effectuate the continued ownership and operation of the CT by the Partnership, including but not limited to a ground lease for the CT site. All funds received by the Partnership in connection with the sale of the Plant shall be paid, as soon as practicable following the closing of any such sale, to the Partners in a special distribution in proportion to the Percentage Interests of each as of the date of distribution.

(d) UGI RETAINED LIABILITY. Notwithstanding the provisions of Section 9.6(b) (or any other provision) contained in this Agreement to the contrary, upon the provision of notice by UGI GP to Allegheny GP that UGI GP is exercising the UGI Put Right (as provided in Section 9.6(b)), UGI GP shall retain and not be relieved of liability for fifty percent (50%) of any Pre Contribution Loss actually known to the Partnership as of the date of such notice (the "Notice Date") in an aggregate amount not to exceed the aggregate amount of the proceeds of the exercise of

the UGI Put Right paid to UGI GP (the "UGI Retained Liability"), and Allegheny GP shall bear the liability for the remainder of such actually known Pre Contribution Loss. Notwithstanding the foregoing, UGI GP shall bear no liability for any Pre Contribution Loss that becomes known to the Partnership subsequent to the Notice Date. The amount of the fixed portion, if any, of the UGI Retained Liability as determined as of the closing of the exercise of the UGI Put Right shall be deducted from the amount payable to UGI GP in connection with such closing. The remainder of the UGI Retained Liability shall become due and payable as Pre Contribution Loss in respect thereof becomes fixed. The exclusive remedies of Allegheny GP and its Affiliates for recovery of any Pre Contribution Loss, whenever arising, shall be enforcement of (a) UGI GP's covenant in this Section 9.6(d) in respect of the UGI Retained Liability (b) that certain Guaranty, dated as of the date hereof, executed and delivered by UGID guaranteeing the payment of the contingent portion, if any, of the UGI Retained Liability as determined as of the closing of the exercise of the UGI Put Right. As used herein, "Pre Contribution Loss" means, collectively, any loss or damage arising out of a third party claim against the Partnership, its assets and/or the Partners relating to or resulting from (i) any environmental matter affecting the Plant and/or Site that existed prior to the date of formation of the Partnership, (ii) any material breach of any representation or warranty of UGID provided in the Formation Agreement (determined as though such representations and warranties survived, until the Notice Date but not thereafter, the formation of the Partnership) and (iii) the failure of the Plant and/or the Site to comply as of any date prior to the formation of the Partnership in all material respects with all laws, regulations, rules, ordinances, orders, permits and notices of any governmental entity or agency thereof applicable to the Plant and/or Site.

SECTION 9.7 COMPETITIVE ACTIVITIES.

(a) Subject to the exceptions set forth in the introductory clause of the sentence immediately following, notwithstanding any provision to the contrary contained herein, and notwithstanding any common law or statutory provision, rule, maxim or interpretation to the contrary, the Partners and the Partnership hereby acknowledge and agree that Affiliates and Related Parties of the Partners currently engage in and may in the future engage in business activities, and may invest in business ventures, that may in each case compete with or otherwise be adverse to the business activities and directives of the Partnership, or may constitute potential business opportunities for the Partnership (collectively "Business Opportunities"). Other than in respect of Development Options and the Hunlock Expansion Project:

- (i) Affiliates and Related Parties of each Partner shall have the right to engage in any Business Opportunity that presents itself, and any such activities shall in no way or manner constitute or be deemed a breach of any fiduciary duty of any Partner to the Partnership or the other Partners;
- (ii) No Partner (nor any Affiliate or Related Party of such Partner) shall have any fiduciary obligation to the Partnership or any other Partner with respect to making Business Opportunities available to the Partnership or any other Partner; and
- (iii) Affiliates and Related Parties of each Partner may, notwithstanding the existence of this Agreement, engage in whatever activities they choose (including, without limitation, Business Opportunities), whether the same is

competitive with the Partnership or otherwise, without having or incurring (A) any liability to any Partner or the Partnership (or any Affiliates or Related Parties of the Partnership or any Partners) and (B) any obligation to offer any interest in such activities to the Partnership or the other Partners (or any Affiliates or Related Parties of the Partnership or any Partners).

(b) The provisions of this Section 9.7 shall survive the expiration or sooner termination of this Agreement and are a material inducement to the Partners in connection with entering into this Agreement.

ARTICLE 10 - SPECIAL PURPOSE ENTITIES

SECTION 10.1 SPECIAL PURPOSE NATURE OF PARTNERS.

Notwithstanding any provision to the contrary contained in this Agreement, including but not limited to the provisions of Section 9.1, Section 9.2 and Section 9.3, all Partners shall at all times maintain and adhere to provisions in such Partners' charters or governance documents that provides, in form and substance reasonably satisfactory to the Partnership, that such Partners will not engage in any activities, shall not incur any indebtedness (or guaranty indebtedness of others), shall not commingle funds or accounts and shall not consolidate for any purpose with any other entity, except as otherwise expressly authorized by the Partnership. The Partners and any successor or assign of any Partner, shall submit such governance provisions to the Partnership for review and approval prior to affecting any Transfer of any Partnership Interest. The Partners intend that each Partner be a so-called "special purpose entity" engaged only in the activity of being a Partner in the Partnership, and the provisions of this Section 10.1 shall be interpreted in a manner consistent with such intention.

ARTICLE 11 - BOOKS AND RECORDS

SECTION 11.1 BOOKS AND RECORDS.

The Administrative Partner shall maintain, or cause to be maintained, at the expense of the Partnership (but consistent with the provisions of Section 6.4), in a manner customary and consistent with good accounting principles, practices and procedures, a comprehensive system of office records, books and accounts (which records, books and accounts shall be and remain the property of the Partnership) in which shall be entered fully and accurately each and every transaction with respect to the Partnership Assets. Bills, receipts and vouchers shall be maintained on file by the Administrative Partner. The Administrative Partner shall maintain said books and accounts in a safe manner and separate from any records not related directly to the Partnership or the Partnership Assets. The Administrative Partner shall cause audits to be performed and audited statements and income tax returns to be prepared as required by Section 11.3. Such books and records of account shall be prepared and maintained by the Administrative Partner at the principal place of business of the Partnership or such other place or

places as may be determined by the Executive Committee from time to time. Each Partner or its duly authorized representative (including, without limitation, its accountants, attorneys or other designees) shall have the right to inspect, examine and copy such books and records of account at the Partnership's office during reasonable business hours. A reasonable charge for copying books and records may be charged by the Partnership.

SECTION 11.2 ACCOUNTING AND FISCAL YEAR.

The books of the Partnership shall be maintained in accordance with GAAP and any other applicable requirements and the Partnership shall report its operations for tax purposes on the accrual method. The Fiscal Year may be changed from time to time at the election of the Partners in accordance with the Code and applicable Regulations.

SECTION 11.3 FINANCIAL STATEMENTS AND REPORTS.

(a) The Administrative Partner shall prepare, at Partnership expense (but consistent with the provisions of Section 6.4), the financial statements (which financial statements shall be prepared in accordance with GAAP consistently applied) and other information that the Executive Committee determines appropriate. In addition, within forty-five (45) days after the end of each Fiscal Year, the Administrative Partner will prepare, at Partnership expense, and deliver to each Partner a report setting forth in sufficient detail all such information and data with respect to business transactions effected by or involving the Partnership during the Fiscal Year as will enable the Partnership and each Partner timely to prepare its federal, state and local income tax returns in accordance with all applicable laws, rules and regulations. The Administrative Partner also will prepare federal, state and local tax returns required of the Partnership, submit those returns to the Executive Committee for its approval no later than thirty (30) calendar days prior to the date required for the filing thereof (including any extensions granted) and will file the tax returns after they have been approved by the Executive Committee. In the event the Executive Committee shall not desire or be able to approve any such tax return prior to the date required for the filing thereof (including any extensions granted), the Administrative Partner will timely obtain an extension of such date.

(b) All decisions as to accounting principles shall be made by the Executive Committee, subject to the provisions of this Agreement.

SECTION 11.4 ACCOUNTANT.

The Partnership shall retain an independent U.S. public accounting firm of national stature, as selected by the Executive Committee, as the accountants and auditors for the Partnership (the "Accountant"). The Accountant shall audit the financial statements of the Partnership annually or as the Executive Committee shall direct. The fees and expenses of the Accountant shall be an expense of the Partnership.

SECTION 11.5 RESERVES.

The Executive Committee may, in its discretion and subject to such conditions as it shall determine, establish reserves (including, without limitation, cash reserves) for the purposes and requirements it may deem appropriate.

SECTION 11.6 TAX MATTERS.

(a) The Executive Committee shall designate a Partner to attend to or cause to be attended to all of the tax affairs of the Partnership, who, as such, will serve as the "Tax Matters Partner" of the Partnership. Notwithstanding the foregoing, each Partner shall otherwise be considered to have retained such rights (and obligations, if any) as are provided for under the Code with respect to any examination, proposed adjustment or proceeding relating to Partnership items. UGI GP shall be the initial Tax Matters Partner. The Administrative Partner will give prompt notice to all Partners of any audit or other proceeding involving income tax liability of the Partnership of which the Administrative Partner is notified or becomes aware. The Administrative Partner shall endeavor at all times to cause the Partnership to be classified as a partnership for federal income tax purposes.

(b) The Partnership will reimburse the Tax Matters Partner for all expenses reasonably incurred by it in connection with the fulfillment of its duties set forth in subparagraph (a) hereof including, without limitation, the preparation of tax information, returns, and any administrative or judicial proceeding with respect to the tax liabilities of the Partners.

SECTION 11.7 TAX ELECTIONS AND TREATMENT.

All elections required or permitted to be made by the Partnership under the Code shall be made or not made by the Tax Matters Partner, with the advice of the Accountant and tax counsel for the Partnership, in any manner that reasonably reflects the purpose and intention of this Agreement.

ARTICLE 12 - BUDGETS AND OPERATING PLANS; POWER SUPPLY AGREEMENTS; FIXED COSTS

(a) Unless the parties otherwise agree, the Executive Committee, within sixty (60) days of the date hereof, shall cause to be prepared and shall approve a budget (the "Initial Budget") and an operating plan (the "Initial Operating Plan") covering the period from the date hereof through the end of the first Fiscal Year of the Partnership. Not later than the sixtieth (60th) day prior to the end of each Fiscal Year, the Administrative Partner under direction of the Executive Committee shall prepare and submit to the Executive Committee for its approval a Budget and an Operating Plan (as each from time to time in effect, the "Budget" and the "Operating Plan" which term shall include, as the context requires, the Initial Budget and the Initial Operating Plan) for the Partnership for the immediately succeeding Fiscal Year, which, collectively, shall set forth all anticipated income, operating expenses and capital and other costs

and expenses of the Partnership (including legal fees and expenses). The Initial Budget and the Initial Operating Plan and any future Budget and Operating Plan shall each be in the form specified from time to time by the Executive Committee.

(b) The Executive Committee shall review the then current Budget and Operating Plan at or around the sixth month following the starting date for the Budget and the Operating Plan and shall make such amendments thereto as it shall determine to be in the best interests of the Partnership.

(c) On the Effective Date, the Executive Committee shall cause the Partnership to enter into power supply agreements with each Partner or a designated Affiliate of such Partner, and each of the Partners hereby covenants and warrants to the other Partner that it or an Affiliate thereof shall enter into such a power supply agreement with the Partnership, providing for, among other things, (i) the right of each of the Partners (or such Affiliate) to purchase fifty percent (50%) (subject to adjustment in accordance with the Partners' Partnership Interests) of the output of the Plant and the CT at a price equal to the variable cost of generation of such output.

(d) Each of the Partners shall bear fifty percent (50%) (subject to adjustment in accordance with the Partners' Partnership Interests) of the fixed costs of operating and maintaining the Plant and the CT.

ARTICLE 13 - REPRESENTATIONS, WARRANTIES AND COVENANTS OF THE PARTNERS

SECTION 13.1 PARTNER REPRESENTATIONS.

Each Partner represents and warrants to and covenants with the other Partners as follows:

(a) It is duly organized, validly existing and in good standing under the laws of its jurisdiction of formation with all requisite power and authority to enter into this Agreement, to perform its obligations hereunder and to conduct the business of the Partnership.

(b) This Agreement constitutes the legal, valid and binding obligation of the Partner enforceable in accordance with its terms.

(c) Except as set forth on Schedule 13.1 hereto, no consents or approvals are required from any governmental authority or other person or entity for the Partner to enter into this Agreement and the Partnership. All corporate or partnership action on the part of the Partner necessary for the authorization, execution and delivery of this Agreement and the consummation of the transactions contemplated hereby, have been duly taken.

(d) The execution and delivery of this Agreement by the Partner and the consummation of the transactions contemplated hereby by the Partner do not conflict with or contravene the provisions of its organizational documents or any agreement or instrument by which it or its properties are bound or any law, rule, regulation, order or decree to which it or its properties are subject.

(e) It has not conducted any business other than business incidental to the formation of the Partnership.

SECTION 13.2 PARTNER CONSENTS.

Except as otherwise herein expressly provided, references herein to approval or consent of the Partnership, the Partners or the Executive Committee shall mean written approval or consent, or approval or consent given at a meeting of the Executive Committee which is recorded in the written minutes of such meeting.

ARTICLE 14 - BANK ACCOUNTS

Subject to the policy guidelines and approvals of the Executive Committee, (i) the cash Capital Contributions of the Partners and other funds and receipts of the Partnership shall be deposited in a segregated bank account or accounts which shall be specially opened and maintained by the Partnership; and (ii) all withdrawals from any such accounts may be made upon the signature of either Partner. The Administrative Partner shall advise the Partners of the number and location of all such bank accounts. No funds of the Partnership shall be commingled with any other funds or placed in any other accounts of the Partners except as are maintained for the Partnership Assets.

ARTICLE 15 - DISSOLUTION

SECTION 15.1 EVENTS OF DISSOLUTION.

The Partnership shall be dissolved upon the occurrence of any of the following events:

(a) the expiration of the term of the Partnership as provided in ARTICLE 3;

(b) a sale or other disposition of all or substantially all of the Partnership Assets, unless such dissolution would have an adverse effect on one or both of the Partners or within ten (10) Business Days thereafter the Partners determine to continue the Partnership;

(c) (i) the filing by the Partnership of a voluntary petition for relief under Title 11 of the United States Code or any successor or amendatory provisions thereto, or (ii) ninety (90) days after the filing of an involuntary petition against the Partnership for relief under Title

11 of the United States Code or any successor or amendatory provisions thereto, or (iii) ninety (90) days after the appointment of a trustee or receiver of the Partnership or the assignment of the Partnership or any material part of the Partnership Assets for the benefit of creditors by, of, or with respect to the Partnership, unless any such event referred to in subsection (c)(ii) or (c)(iii) is remedied within ninety (90) days of its occurrence or, within ninety (90) days after the occurrence of an event referred to in subsection (c)(i) or prior to the expiration of the ninety (90) day period referred to in subsection (c)(ii) or (c)(iii), the Partners nevertheless determine to continue the Partnership;

(d) subject to Section 6.2(b), an election by the Executive Committee to dissolve the Partnership; or

(e) an event set forth in Section 8353 of the Act.

SECTION 15.2 LIQUIDATION OF PARTNERSHIP.

(a) In the event of the dissolution of the Partnership, there shall be an orderly liquidation of the Partnership Assets.

(b) Upon any dissolution of the Partnership, the Accountant shall prepare a statement setting forth the assets and liabilities of the Partnership as of the date of dissolution, and such statement shall be furnished to all Partners.

(c) In the event of liquidation of the Partnership Assets, they shall be liquidated as promptly as possible, and the Executive Committee shall supervise such liquidation, which shall be conducted in an orderly and businesslike manner so as not to involve undue sacrifice, as the Partners shall determine in their discretion. The proceeds thereof shall be applied and distributed in the following order of priority:

(i) to the payment of debts and liabilities of the Partnership and the expenses of liquidation, including, without limitation, to the setting up of any reserves which the Partners reasonably may deem necessary for any contingent, conditional, unmatured or unforeseen liabilities or obligations of the Partnership arising out of or in connection with the Partnership. Said reserves may be paid over to an escrowee satisfactory to the Partners, to be held by it for the purpose of disbursing such reserves in payment of any of the aforementioned contingencies and, at the expiration of such period as the Partners shall deem advisable, to distribute the balance of such reserves to the Partners in proportion to the positive balances of their respective Capital Accounts determined in the same manner and at the same time as the distribution provided for by (ii) of this subsection; and

(ii) thereafter, to the Partners and their successors in proportion to the positive balances of their respective Capital Accounts (after giving effect to all contributions, distributions and allocations for all periods).

(d) No dissolution of the Partnership shall release or relieve any of the Partners of their obligations accruing or arising prior to the date of dissolution under this Agreement.

ARTICLE 16 - POWER OF ATTORNEY; RESTRICTIONS

Each Partner hereby irrevocably constitutes and appoints each of the Partners as its true and lawful attorney-in-fact during the term of the Partnership, in its name, place and stead to make, execute, endorse, deliver, acknowledge and file with respect to, for and on behalf of the Partnership, the documents or instruments set forth below.

(a) such applications for authority, fictitious or assumed named certificates and, where applicable, certificates of formation, cancellation or certificates of dissolution as may be deemed advisable or be required by the laws of the Commonwealth of Pennsylvania or any other jurisdiction where the same are required to be filed, as well as such amendments of the certificates referred to in this subsection (a) as may be required by law or otherwise pursuant to the provisions of this Agreement;

(b) such amendments to this Agreement as may be approved by the Executive Committee or which are made pursuant to the terms hereof (including but not limited to amendments reflecting the admission or substitution of other Partners or the recapitalization of the Partnership); provided, that the Partnership Interests of the UGI GP and/or Allegheny GP, as applicable, shall be reduced on admission or substitution of other partners in proportion to their respective Percentage Interests immediately prior to such event;

(c) such conveyances and other instruments deemed necessary or advisable by the Executive Committee to effect the dissolution of the Partnership or to effect an extension of the term of the Partnership;

(d) any and all checks or other drafts made payable to the Partnership;

(e) such certificates or instruments required to admit to the Partnership or evidence the withdrawal from the Partnership of any Partner in accordance with the provisions of this Agreement;

(f) such documents and instruments as may be necessary or advisable with respect to a merger or consolidation;

(g) such documents and instruments as may be necessary or advisable with respect to a transfer to the Partnership or another Partner or any third party of all or a portion of a Partner's Partnership Interest in accordance with the provisions of this Agreement;

(h) such documents and instruments as may be required or appropriate to cause the Partnership to be classified as a partnership for federal income taxation purposes; and

(i) such other documents, instruments and certificates as the Partners may deem necessary or desirable to carry out the provisions of this Agreement in accordance with its terms, as now or hereafter in effect.

The grant of this power of attorney is irrevocable and is coupled with an interest and shall survive the death, legal incompetency, bankruptcy, disability, incapacity or withdrawal of any Partner.

ARTICLE 17 - MISCELLANEOUS

SECTION 17.1 RECIPIENT OF DISTRIBUTIONS.

All distributions of cash or property to be made to the Partners pursuant to the provisions of this Agreement shall be made directly to the parties entitled thereto at the address set forth in Section 17.2.

SECTION 17.2 NOTICES, ETC.

Any offer, acceptance, election, approval, consent, request, waiver, notice or other document (collectively, "Notice") required or permitted to be given pursuant to any provisions of this Agreement, shall be deemed duly given only when in writing, signed by or on behalf of the person giving the same, and either (i) personally delivered (with receipt acknowledged), or (ii) sent by registered or certified mail, return receipt requested, postage prepaid, addressed to the person or persons to whom such Notice is to be given, in each case at the address set forth for such party below, or at such other address as shall have been set forth in a Notice sent pursuant to the provisions of this ARTICLE 17:

If to Allegheny GP, to:

800 Cabin Hill Drive
Greensburg, PA 15601
Attention: Deputy General Counsel

If to UGI GP, to:

UGID
460 North Gulph Road
King of Prussia, Pennsylvania 19406
Attention: General Counsel

Notwithstanding any provision herein to the contrary, any routine reports required by this Agreement to be submitted to the Partners at specified times may be sent by first-class mail or fax. All Notices shall be deemed given (i) when received or receipt is refused, or (ii)

upon failure of delivery because notice of such Partner's change of address has not been given in accordance with the terms of this Section 17.2. Any Partner may change its address for the receipt of Notices at any time by giving Notice thereof to all other Partners; but no such Notice of change of address shall be effective until received by the Partners, and any Partner which is prevented from giving any Notice pursuant hereto to any Partner on account of such Partner changing its address and/or telephone number without having given Notice thereof to all the other Partners shall nevertheless be deemed to have given such Notice in accordance with this Section 17.2 to such Partner, provided such Notice is sent to the most recent address of such Partner of which Notice has been given pursuant hereto.

SECTION 17.3 BINDING EFFECT.

The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective personal representatives, heirs, successors and permitted assigns.

SECTION 17.4 MODIFICATION, WAIVER OR TERMINATION.

(a) Except as provided in Section 9.4 and otherwise as expressly provided herein, no modification, waiver or termination of this Agreement, or any part hereof, shall be effective unless made in writing and signed by the party or parties sought to be bound thereby, or its or their duly appointed attorneys-in-fact, as the case may be, and no failure to pursue or elect any remedy or waiver with respect to any default under or breach of any provision of this Agreement shall be deemed to be a waiver of any other subsequent similar or different default, breach or provision, or of any election of remedies available in connection therewith. Receipt by any party of any money or other consideration due under this Agreement shall not constitute a waiver of any provision of this Agreement.

(b) Notwithstanding anything to the contrary contained in this Agreement, the Executive Committee may approve an amendment to this Agreement, and such amendment shall be binding on all Partners provided that no such amendment shall adversely affect the rights of or dilute the Percentage Interests of any Partners which have not approved such amendment.

SECTION 17.5 COUNTERPARTS.

This Agreement may be executed in any number of counterparts, all of which shall for all purposes constitute one Agreement binding on all of the parties hereto, notwithstanding that all of the other parties did not execute the same counterpart. The signatures of the parties may be on separate signature pages all of which, when attached hereto, shall constitute the execution of one Agreement binding on all the parties hereto, notwithstanding that all of the other parties did not execute the same signature page.

SECTION 17.6 APPLICABLE LAWS AND CONSENT TO JURISDICTION; WAIVER OF JURY TRIAL.

(a) This Agreement shall be governed by and construed and enforced in accordance with the internal laws of the Commonwealth of Pennsylvania without reference to any conflict of law or choice of law principles that might apply the law of another jurisdiction. Any dispute or controversy arising out of or in connection with this Agreement or any alleged breach hereof shall be settled by arbitration in Harrisburg, Pennsylvania pursuant to the rules of the American Arbitration Association. If the Partners cannot jointly select a single arbitrator to determine the matter, one arbitrator shall be chosen by each Partner, and the two arbitrators so chosen will select a third. The decision of the single arbitrator jointly selected by the Partners, or, if three arbitrators are selected, the decision of any two or them, will be final and binding upon the Partners and the judgment of a court of competent jurisdiction may be entered thereon. Fees of the arbitrators and costs of arbitration shall be borne by the Partners in such manner as shall be determined by the arbitrator or arbitrators.

SECTION 17.7 LIMITATION ON RIGHTS OF OTHERS.

No person or entity other than a Partner is, nor is it intended that any such other person or entity be treated as, a direct, indirect, intended or incidental third party beneficiary of this Agreement for any purpose whatsoever, nor shall any other person or entity have any legal or equitable right, remedy or claim under or in respect of this Agreement.

SECTION 17.8 INTEGRATION.

This Agreement constitutes the entire agreement among the parties pertaining to the subject matter hereof and supersedes all prior and contemporaneous agreements and understandings of the parties pertaining to that subject matter to the extent that they conflict with the express terms of this Agreement. No covenant, representation or condition not expressed in this Agreement shall affect or be effective to interpret, change or restrict the express provisions of this Agreement.

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement of Partnership of Hunlock Creek Energy Ventures as of the day and year first above written.

ALLEGHENY GP: ALLEGHENY ENERGY SUPPLY HUNLOCK CREEK, LLC

By: Allegheny Energy, Inc., its sole member

By: _____
Name:
Title:

UGI GP: UGI HUNLOCK DEVELOPMENT COMPANY

By: _____
Name:
Title:

UGI UTILITIES INC. AND SUBSIDIARIES
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES - EXHIBIT 12.1
(THOUSANDS OF DOLLARS)

	Year Ended September 30,				
	2001	2000	1999	1998	1997
EARNINGS:					
Earnings before income taxes	\$ 79,568	\$ 82,882	\$ 63,139	\$ 57,007	\$ 63,275
Interest expense	18,724	18,135	17,317	17,383	16,696
Amortization of debt discount and expense	264	218	215	200	176
Interest component of rental expense	1,541	1,318	1,539	1,624	1,887
	-----	-----	-----	-----	-----
	\$100,097	\$102,553	\$ 82,210	\$ 76,214	\$ 82,034
	=====	=====	=====	=====	=====
FIXED CHARGES:					
Interest expense	\$ 18,724	\$ 18,135	\$ 17,317	\$ 17,383	\$ 16,696
Amortization of debt discount and expense	264	218	215	200	176
Allowance for funds used during construction (capitalized interest)	12	17	36	39	114
Interest component of rental expense	1,541	1,318	1,539	1,624	1,887
	-----	-----	-----	-----	-----
	\$ 20,541	\$ 19,688	\$ 19,107	\$ 19,246	\$ 18,873
	=====	=====	=====	=====	=====
Ratio of earnings to fixed charges	4.87	5.21	4.30	3.96	4.35
	=====	=====	=====	=====	=====

UGI UTILITIES INC. AND SUBSIDIARIES
COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES
AND PREFERRED STOCK DIVIDENDS - EXHIBIT 12.2
(THOUSANDS OF DOLLARS)

	Year Ended September 30,				
	2001	2000	1999	1998	1997
EARNINGS:					
Earnings before income taxes	\$ 79,568	\$ 82,882	\$ 63,139	\$ 57,007	\$ 63,275
Interest expense	18,724	18,135	17,317	17,383	16,696
Amortization of debt discount and expense	264	218	215	200	176
Interest component of rental expense	1,541	1,318	1,539	1,624	1,887
	-----	-----	-----	-----	-----
	\$100,097	\$102,553	\$ 82,210	\$ 76,214	\$ 82,034
	=====	=====	=====	=====	=====
COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS:					
Interest expense	\$ 18,724	\$ 18,135	\$ 17,317	\$ 17,383	\$ 16,696
Amortization of debt discount and expense	264	218	215	200	176
Allowance for funds used during construction (capitalized interest)	12	17	36	39	114
Interest component of rental expense	1,541	1,318	1,539	1,624	1,887
Preferred stock dividend requirements	1,550	1,550	1,550	2,160	2,764
Adjustment required to state preferred stock dividend requirements on a pretax basis	1,012	995	968	1,304	1,754
	-----	-----	-----	-----	-----
	\$ 23,103	\$ 22,233	\$ 21,625	\$ 22,710	\$ 23,391
	=====	=====	=====	=====	=====
Ratio of earnings to combined fixed charges and preferred stock dividends	4.33	4.61	3.80	3.36	3.51
	=====	=====	=====	=====	=====

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

TO UGI UTILITIES, INC.:

As independent public accountants, we hereby consent to the incorporation of our report included in this Form 10-K, into the Company's previously filed S-3 Registration Statement File Nos. 333-4288 and 333-72540.

ARTHUR ANDERSEN LLP

Philadelphia, Pennsylvania
December 21, 2001