UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2018

OR

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

For the transition period from __________ to __________

Commission file number 1-1398

UGI UTILITIES, INC.

(Exact name of registrant as specified in its charter)

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

One UGI Drive, Denver, PA 17517
(Address of principal executive offices) (Zip Code)

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

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

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

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

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

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

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

At January 31, 2019, there were 26,781,785 shares of UGI Utilities, Inc. Common Stock, par value $2.25 per share, outstanding, all of which were held, beneficially and of record, by UGI Corporation.

UGI UTILITIES, INC. AND SUBSIDIARIES

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GLOSSARY OF TERMS AND ABBREVIATIONS

Terms and abbreviations used in this Form 10-Q are defined below:

UGI Utilities, Inc. and Related Entities

Company - UGI Utilities or collectively UGI Utilities and its subsidiaries

CPG - UGI Central Penn Gas, Inc., a wholly owned subsidiary of UGI Utilities prior to the Utility Merger

Energy Services - UGI Energy Services, LLC, a wholly owned subsidiary of UGI

Electric Utility - UGI Utilities' regulated electric distribution utility

Gas Utility - UGI Utilities' regulated natural gas distribution businesses, comprising the natural gas utility businesses owned and operated by UGI Utilities and, prior to the Utility Merger, PNG and CPG

PNG - UGI Penn Natural Gas, Inc., a wholly owned subsidiary of UGI Utilities prior to the Utility Merger

UGI - UGI Corporation

UGI Central - The natural gas rate district of CPG subsequent to the Utility Merger

UGI Gas - UGI Utilities' natural gas utility, prior to the Utility Merger

UGI North - The natural gas rate district of PNG subsequent to the Utility Merger

UGI South - The natural gas rate district of UGI Gas subsequent to the Utility Merger

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

Other Terms and Abbreviations

2017 three-month period - Three-month period ended December 31, 2017

2018 Annual Report - UGI Utilities Annual Report on Form 10-K for the fiscal year ended September 30, 2018

2018 three-month period - Three-month period ended December 31, 2018

4.55% Senior Notes - A private placement of $150 million principal amount of senior notes issued by UGI Utilities

AOCI - Accumulated other comprehensive income (loss)

ASC - Accounting Standards Codification

ASC 605 - ASC 605, "Revenue Recognition"

ASC 606 - ASC 606, "Revenue from Contracts with Customers"

ASC 740 - ASC 740, "Income Taxes"

ASU - Accounting Standards Update

Bcf - Billions of cubic feet

BIE - Pennsylvania Public Utility Commission Bureau of Investigation and Enforcement

COA - Consent order and agreement

Core market - Comprises (1) firm residential, commercial and industrial customers for whom UGI Utilities has a statutory obligation to serve who purchase their natural gas or electricity from UGI Utilities; and (2) residential, commercial and industrial customers for whom UGI Utilities has a statutory obligation to serve who purchase their natural gas or electricity from others

DS - Default service

ERISA - Employee Retirement Income Security Act of 1974

Exchange Act - Securities Exchange Act of 1934, as amended

FASB - Financial Accounting Standards Board

FERC - Federal Energy Regulatory Commission

FTR - Financial transmission rights

GAAP - U.S. generally accepted accounting principles

Gwh - Millions of kilowatt hours

IRPA - Interest rate protection agreement

IT - Information technology

LIBOR - London Inter-bank Offered Rate

MDPSC - Maryland Public Service Commission

MGP - Manufactured gas plant

NOAA - National Oceanic and Atmospheric Administration

NPNS - Normal purchase and normal sale

NTSB - National Transportation Safety Board

NYMEX - New York Mercantile Exchange

PADEP - Pennsylvania Department of Environmental Protection

PAPUC - Pennsylvania Public Utility Commission

Pension Plan - Defined benefit pension plan for employees hired prior to January 1, 2009 of UGI, UGI Utilities, CPG, PNG and certain of UGI's other domestic wholly owned subsidiaries

PGC - Purchased gas costs

PJM - PJM Interconnection, LLC

Retail core-market - Comprises firm residential, commercial and industrial customers for whom UGI Utilities has a statutory obligation to serve that purchase their natural gas from Gas Utility

SCAA - Storage contract administrative agreements

SEC - U.S. Securities and Exchange Commission

TCJA - Tax Cuts and Jobs Act

UGI Utilities Credit Agreement - Revolving Credit Agreement issued by UGI Utilities

Utility Merger - The merger, effective October 1, 2018, of CPG and PNG with UGI Utilities

VEBA - Voluntary Employees' Beneficiary Association

UGI UTILITIES, INC. AND SUBSIDIARIES
PART I FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	December 31, 2018	September 30, 2018	December 31, 2017
ASSETS			
Current assets:			
Cash and cash equivalents	$ 21,515	$ 10,314	$ 7,289
Restricted cash	3,308	1,190	3,665
Accounts receivable (less allowances for doubtful accounts of $11,694, $9,760 and $6,398, respectively)	117,418	71,507	105,141
Accounts receivable — related parties	498	2,273	1,406
Accrued utility revenues	64,694	13,977	95,854
Inventories	50,798	52,413	49,717
Prepaid income taxes	43,060	53,857	1,977
Regulatory assets	3,267	7,475	605
Derivative instruments	1,070	3,004	678
Prepaid expenses	12,251	9,006	10,402
Other current assets	12,909	8,003	12,664
Total current assets	330,788	233,019	289,398
Property, plant and equipment, at cost (less accumulated depreciation of $1,091,212, $1,074,521 and $1,026,450, respectively)	2,597,546	2,541,768	2,327,664
Goodwill	182,145	182,145	182,145
Regulatory assets	295,496	293,527	362,237
Other assets	18,798	16,117	13,249
Total assets	$ 3,424,773	$ 3,266,576	$ 3,174,693
LIABILITIES AND STOCKHOLDER'S EQUITY			
Current liabilities:			
Current maturities of long-term debt	$ 8,786	$ 9,001	$ 144,374
Short-term borrowings	296,000	189,500	181,500
Accounts payable	93,157	87,861	69,697
Accounts payable — related parties	25,063	9,585	13,420
Regulatory liabilities	26,994	40,131	17,091
Derivative instruments	467	—	2,244
Other current liabilities	104,466	114,256	106,177
Total current liabilities	554,933	450,334	534,503
Long-term debt	826,844	828,995	711,242
Deferred income taxes	414,470	400,939	340,772
Pension and postretirement benefit obligations	81,072	81,590	140,224
Regulatory liabilities	346,474	350,044	340,391
Other noncurrent liabilities	67,176	61,386	65,540
Total liabilities	2,290,969	2,173,288	2,132,672
Commitments and contingencies (Note 9)			
Common stockholder's equity:			
Common Stock, $2.25 par value (authorized — 40,000,000 shares; issued and outstanding — 26,781,785 shares)	60,259	60,259	60,259
Additional paid-in capital	473,580	473,580	473,580
Retained earnings	626,191	579,778	534,161
Accumulated other comprehensive loss	(26,226)	(20,329)	(25,979)
Total common stockholder's equity	1,133,804	1,093,288	1,042,021
Total liabilities and stockholder's equity	$ 3,424,773	$ 3,266,576	$ 3,174,693

See accompanying notes to condensed consolidated financial statements.

UGI UTILITIES, INC. AND SUBSIDIARIES

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

	Three Months Ended December 31,	
	2018	2017
Revenues	$ 322,725	$ 323,105
Costs and expenses:		
Cost of sales — gas and purchased power (excluding depreciation shown below)	159,519	151,774
Operating and administrative expenses	58,940	51,409
Operating and administrative expenses — related parties	3,512	2,689
Depreciation	22,474	20,354
Other operating expense, net	1,206	9
	245,651	226,235
Operating income	77,074	96,870
Pension and other postretirement plans non-service income (expense)	412	(575)
Interest expense	(11,738)	(10,939)
Income before income taxes	65,748	85,356
Income tax expense	(15,860)	(17,053)
Net income	$ 49,888	$ 68,303

See accompanying notes to condensed consolidated financial statements.

UGI UTILITIES, INC. AND SUBSIDIARIES

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

	Three Months Ended December 31,	
	2018	2017
Net income	$ 49,888	$ 68,303
Other comprehensive income (loss):		
Net losses on derivative instruments (net of tax of $487 and $0, respectively)	(1,198)	—
Reclassifications of net losses on derivative instruments (net of tax of $(252) and $(279), respectively)	620	592
Reclassifications of benefit plans actuarial losses and net prior service benefits (net of tax of $(54) and $(104), respectively)	132	220
Other comprehensive (loss) income	(446)	812
Comprehensive income	$ 49,442	$ 69,115

See accompanying notes to condensed consolidated financial statements.

UGI UTILITIES, INC. AND SUBSIDIARIES

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

	Three Months Ended December 31, 2018	Three Months Ended December 31, 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 49,888	$ 68,303
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	22,474	20,354
Deferred income taxes, net	6,721	4,328
Provision for uncollectible accounts	5,029	3,459
Other, net	11,451	1,161
Net change in:		
Accounts receivable and accrued utility revenues	(99,882)	(136,036)
Inventories	1,615	3,592
Deferred fuel and power costs, net of changes in unsettled derivatives	(12,501)	11,572
Accounts payable	42,936	21,655
Other current assets	(8,150)	(6,661)
Other current liabilities	(4,142)	1,172
Net cash provided (used) by operating activities	15,439	(7,101)
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for property, plant and equipment	(98,717)	(88,686)
Net costs of property, plant and equipment disposals	(1,691)	(2,382)
Net cash used by investing activities	(100,408)	(91,068)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of dividends	(5,000)	(15,000)
Increase in short-term borrowings	106,500	11,500
Issuances of long-term debt, net of issuance costs	—	124,374
Repayments of long-term debt	(2,433)	(20,000)
Other	(779)	—
Net cash provided by financing activities	98,288	100,874
Cash, cash equivalents and restricted cash increase	$ 13,319	$ 2,705
CASH AND CASH EQUIVALENTS		
Cash, cash equivalents and restricted cash at end of period	$ 24,823	$ 10,954
Cash, cash equivalents and restricted cash at beginning of period	11,504	8,249
Cash, cash equivalents and restricted cash increase	$ 13,319	$ 2,705

See accompanying notes to condensed consolidated financial statements.

UGI UTILITIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY
(unaudited)
(Thousands of dollars)

	Three Months Ended December 31,	
	2018	2017
Common stock, $2.25 par value		
Balance, beginning of period	$ 60,259	$ 60,259
Balance, end of period	$ 60,259	$ 60,259
Retained earnings		
Balance, beginning of period	$ 579,778	$ 480,858
Cumulative effect of change in accounting principle - ASC 606	(3,926)	—
Reclassification of stranded income tax effects related to TCJA	5,451	—
Net income	49,888	68,303
Cash dividends — Common Stock	(5,000)	(15,000)
Balance, end of period	$ 626,191	$ 534,161
Additional paid-in capital		
Balance, beginning of period	$ 473,580	$ 473,580
Balance, end of period	$ 473,580	$ 473,580
Accumulated other comprehensive income (loss)		
Balance, beginning of period	$ (20,329)	$ (26,791)
Reclassification of stranded income tax effects related to TCJA	(5,451)	—
Net losses on derivative instruments	(1,198)	—
Reclassifications of net losses on derivative instruments	620	592
Reclassifications of benefit plans actuarial losses and net prior service credits	132	220
Balance, end of period	$ (26,226)	$ (25,979)
Total UGI Utilities, Inc. stockholder's equity	$ 1,133,804	$ 1,042,021

See accompanying notes to condensed consolidated financial statements.

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

Note 1 — Nature of Operations

UGI Utilities owns and operates Gas Utility, a natural gas distribution utility business in eastern and central Pennsylvania and in a portion of one Maryland county directly and, prior to the Utility Merger on October 1, 2018, through PNG and CPG. Gas Utility is subject to regulation by the PAPUC and the FERC and, with respect to a small service territory in one Maryland county, the MDPSC. UGI Utilities also owns and operates Electric Utility, an electric distribution utility located in northeastern Pennsylvania. Electric Utility is subject to regulation by the PAPUC and the FERC.

Note 2 — Summary of Significant Accounting Policies

Basis of Presentation. Our condensed consolidated financial statements include the accounts of UGI Utilities and its subsidiaries. We eliminate intercompany accounts when we consolidate.

The accompanying condensed consolidated financial statements are unaudited and have been prepared in accordance with the rules and regulations of the SEC. They include all adjustments that we consider necessary for a fair statement of the results for the interim periods presented. Such adjustments consisted only of normal recurring items unless otherwise disclosed. The September 30, 2018, Condensed Consolidated Balance Sheet was derived from audited financial statements but does not include all disclosures required by GAAP.

These financial statements should be read in conjunction with the Company's 2018 Annual Report. Due to the seasonal nature of our businesses, the results of operations for interim periods are not necessarily indicative of the results to be expected for a full year.

Revenue Recognition. Effective October 1, 2018, the Company adopted ASU No. 2014-09, "Revenue from Contracts with Customers," which, as amended, is included in ASC 606. This new accounting guidance supersedes previous revenue recognition requirements in ASC 605. ASC 606 requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. We adopted this new accounting guidance using the modified retrospective transition method to those contracts which were not completed as of October 1, 2018. Periods prior to October 1, 2018, have not been restated and continue to be reported in accordance with ASC 605. The Company recorded a $3,926 reduction to opening retained earnings as of October 1, 2018, to reflect the cumulative effect of ASC 606 on certain contracts not complete as of the date of adoption. Although the adoption of ASC 606 did not, and is not expected to, have a material impact on the amount or timing of our revenue recognition and on our consolidated net income, cash flows or financial position, beginning October 1, 2018, certain performance obligations primarily associated with the release of capacity contracts are reflected on a gross, rather than net, basis and revenues from certain other negotiated rate contracts are reflected on a straight-line basis over the length of the contract, rather than as invoiced. The amount of revenues reflected on a gross, rather than net, basis for the three months ended December 31, 2018, was approximately $15,000 with no impact on net income.

Certain revenues such as revenue from leases, financial instruments and other revenues are not within the scope of ASC 606 because they are not from contracts with customers. Such revenues, if any, are accounted for in accordance with other GAAP. Revenue-related taxes collected on behalf of customers and remitted to taxing authorities, principally sales and use taxes, are not included in revenues. Electric Utility's gross receipts taxes are presented on a gross basis. The Company has elected to use the practical expedient to expense the costs to obtain contracts when incurred as such amounts are generally not material.

See Note 4 for the additional disclosures regarding the Company's revenue from contracts with customers.

Restricted Cash. Restricted cash principally represents those cash balances in our commodity futures brokerage accounts that are restricted from withdrawal. Upon adoption of revised accounting guidance in October 2018 (see Note 3), restricted cash is included within the Company's Condensed Consolidated Statements of Cash Flows, with changes in the balance no longer reflected as a separate investing activity. The retrospective application of the new guidance on cash flows from investing activities for the three months ended December 31, 2017, resulted in the elimination of the item "Increase in restricted cash," which had previously been reported as a use of cash of $619.

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

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

	Cash, Cash Equivalents and Restricted Cash			
	December 31, 2018	December 31, 2017	September 30, 2018	September 30, 2017
Cash and cash equivalents	$ 21,515	$ 7,289	$ 10,314	$ 5,203
Restricted cash	3,308	3,665	1,190	3,046
Cash, cash equivalents and restricted cash	$ 24,823	$ 10,954	$ 11,504	$ 8,249

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

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

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

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

Reclassifications. Certain amounts for the three months ended December 31, 2017, have been reclassified as a result of the adoption of revised accounting guidance pertaining to certain net periodic pension and other postretirement benefit costs and restricted cash (see Note 3). In addition, certain other prior-period amounts have been reclassified to conform to the current-period presentation.

Note 3 — Accounting Changes

New Accounting Standards Adopted Effective October 1, 2018

Revenue Recognition. Effective October 1, 2018, the Company adopted new accounting guidance regarding revenue recognition. See Notes 2 and 4 for a detailed description of the impact of the new guidance and related disclosures.

Cloud Computing Implementation Costs. In August 2018, the FASB issued ASU No. 2018-15, "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract." The new guidance requires a customer in a cloud computing arrangement that is a service contract to capitalize certain implementation costs as if the arrangement was an internal-use software project. These deferred implementation costs are expensed over the fixed, noncancelable term of the service arrangement plus any reasonably certain renewal periods. The new guidance also requires the entity to present the expense related to the capitalized implementation costs in the same income statement line as the hosting service fees; to classify payments for capitalized implementation costs in the statement of cash flows in the same manner as payments for hosting service fees; and to present the capitalized implementation costs in the balance sheet in the same line item in which prepaid hosting service fees are presented. The new guidance can be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. We adopted this ASU effective October 1, 2018, and applied the guidance prospectively to all implementation costs associated with cloud computing arrangements that are service contracts incurred beginning October 1, 2018. The adoption of the new guidance did not have a material impact on our results of operations for the three months ended December 31, 2018.

Stranded Tax Effects in Accumulated Other Comprehensive Income. In February 2018, the FASB issued ASU No. 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." This ASU provides that the stranded tax effects in AOCI resulting from the remeasurement of deferred income taxes associated with items included in AOCI due to the enactment of the TCJA may be reclassified to retained earnings, at the election of the entity, in the period the ASU is adopted. We adopted this ASU effective October 1, 2018. In connection with the adoption of this guidance, we reclassified a benefit of $5,451 from AOCI to opening retained earnings as of October 1, 2018, to reflect the reduction in the federal income tax rate, and the federal benefit of state income taxes, on the components of AOCI.

Pension and Other Postretirement Benefit Costs. In March 2017, the FASB issued ASU No. 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." This ASU requires entities to disaggregate the service cost component from the other components of net periodic benefit costs and present it with compensation costs for related employees in the income statement. The other components are required to be presented elsewhere in the income statement and outside of income from operations. The amendments in this ASU permit only the service cost component to be eligible for capitalization, when applicable. For entities subject to rate regulation, including UGI Utilities, the ASU recognized that in the event a regulator continues to require capitalization of all net periodic benefit costs prospectively, the difference would result in the recognition of a regulatory asset or liability.

The guidance became effective for the Company beginning October 1, 2018, with retrospective adoption for the presentation of pension and postretirement expense on the income statement and a prospective adoption for capitalization. The Company's Condensed Consolidated Statement of Income for the three months ended December 31, 2017, has been recast to reflect the retrospective adoption for the presentation of the non-service cost component of net periodic pension and other postretirement benefit costs, net of estimated amounts capitalized, as "Pension and other postretirement plans non-service income (expense)" on the Condensed Consolidated Statements of Income. Previously, the non-service cost components were reflected in "Operating and administrative expenses."

For the three months ended December 31, 2018, the amount of income comprising the non-service cost components of our pension and postretirement benefit plans, net of amounts capitalized, presented in "Pension and other postretirement plans non-service income (expense)" on the Condensed Consolidated Statements of Income, totaled $412. For the three months ended December 31, 2017, the amount of (expense) comprising the non-service cost components of our pension and postretirement benefit plans, net of amounts capitalized, which has been reclassified from "Operating and administrative expenses" to "Pension and other postretirement plans non-service income (expense)" on the Condensed Consolidated Statements of Income, totaled $(575).

Statement of Cash Flows - Restricted Cash. In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows: Restricted Cash." The guidance in this ASU requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, as well as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents are included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts on the statement of cash flows. The amendments in the ASU are required to be adopted on a retrospective basis. We adopted this ASU effective October 1, 2018. Adoption of this new guidance resulted in a change in presentation of restricted cash on the Condensed Consolidated Statement of Cash Flows; otherwise, this guidance did not have a significant impact on our Condensed Consolidated Statement of Cash Flows and disclosures (see Note 2, "Restricted Cash").

Accounting Standards Not Yet Adopted

Pension and Other Postretirement Benefit Costs Disclosures. In August 2018, the FASB issued ASU No. 2018-14, "Changes to the Disclosure Requirements for Defined Benefit Plans." This ASU modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans by removing and adding certain disclosures for these plans. The amendments in this ASU are effective for interim and annual periods beginning October 1, 2020 (Fiscal 2021). The guidance shall be adopted retrospectively for all periods presented in the financial statements. Early adoption is permitted. The Company is in the process of assessing the impact on its financial statement disclosures from the adoption of the new guidance and determining the period in which the new guidance will be adopted.

Fair Value Measurements Disclosures. In August 2018, the FASB issued ASU No. 2018-13, “Changes to the Disclosure Requirements for Fair Value Measurement.” This ASU modifies the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. The amendments in this ASU are effective for annual periods beginning October 1, 2020 (Fiscal 2021). The guidance regarding removing and modifying disclosures will be adopted on a retrospective basis and the guidance regarding new disclosures will be adopted on a prospective basis. Early adoption is permitted. The Company is in the process of assessing the impact on its financial statement disclosures from the adoption of the new guidance and determining the period in which the new guidance will be adopted.

Derivatives and Hedging. In August 2017, the FASB issued ASU No. 2017-12, “Targeted Improvements to Accounting for Hedging Activities.” This ASU amends and simplifies existing guidance to allow companies to more accurately present the economic effects of risk management activities in the financial statements. The amendments in this ASU are effective for the Company for interim and annual periods beginning October 1, 2019 (Fiscal 2020). Early adoption is permitted. For cash flow and net investment hedges as of the adoption date, the guidance requires a modified retrospective approach. The amended presentation and disclosure guidance is required prospectively. The Company is in the process of assessing the impact on its financial statements from the adoption of the new guidance and determining the period in which the new guidance will be adopted.

Leases. In February 2016, the FASB issued ASU No. 2016-02, "Leases." This ASU, as subsequently updated, amends existing guidance to require entities that lease assets to recognize the assets and liabilities for the rights and obligations created by those leases on the balance sheet. The new guidance also requires additional disclosures about the amount, timing and uncertainty of cash flows from leases. The amendments in this ASU are effective for the Company for interim and annual periods beginning October 1, 2019 (Fiscal 2020). Early adoption is permitted. Lessees must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements unless an entity chooses the transition option in ASU 2018-11, “Leases: Targeted Improvements” which, among other things, provides entities with a transition option to recognize the cumulative-effect adjustment from the modified retrospective application to the opening balance of retained earnings in the period of adoption. We will adopt ASU No. 2016-02, as updated, effective October 1, 2019 and expect to adopt the transition option which would allow the Company to maintain historical presentation for periods before October 1, 2019. The Company has completed a preliminary assessment for evaluating the impact of the guidance and anticipates that its adoption will result in a significant amount of right-of-use assets and lease liabilities for leases in effect at the adoption date. The Company has begun implementation activities including accumulating contracts and lease data in formats compatible with a new lease management system that will assist with the initial adoption of the standard.

Note 4 — Revenue from Contracts with Customers

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

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

UGI Utilities supplies natural gas and electricity and provides distribution services of natural gas and electricity to residential, commercial, and industrial customers who are generally billed at standard regulated tariff rates approved by the PAPUC through the ratemaking process. Tariff rates include a component that provides for a reasonable opportunity to recover operating costs and expenses and to earn a return on net investment, and a component that provides for the recovery, subject to reasonableness reviews, of PGC and DS costs.

Customers may choose to purchase their natural gas and electricity from Gas Utility or Electric Utility, or, alternatively, may contract separately with alternate suppliers. Accordingly, our contracts with customers comprise two promised goods or services: (1) delivery service of natural gas and electricity through the Company's utility distribution systems and (2) the natural gas or electricity commodity itself for those customers who choose to purchase the natural gas or electricity directly from the Company. Revenue is not recorded for the sale of natural gas or electricity to customers who have contracted separately with alternate suppliers. For those customers who choose to purchase their natural gas or electricity from the Company, the performance obligation includes both the supply of the commodity and the delivery service.

The terms of our core market customer contracts are generally considered day-to-day as customers can discontinue service at any time without penalty. Performance obligations are generally satisfied over time as the natural gas or electricity is delivered to customers, at which point the customers simultaneously receive and consume the benefits provided by the delivery service and, when applicable, the commodity. Amounts are billed to customers based upon the reading of a customer's meter which occurs on a cycle basis throughout each reporting period. An unbilled amount is recorded at the end of each reporting period based upon estimated amounts of natural gas or electricity delivered to customers since the date of the last meter reading. These unbilled estimates consider various factors such as historical customer usage patterns, customer rates and weather.

UGI Utilities has certain fixed-term contracts with large commercial and industrial customers to provide natural gas delivery services at contracted rates and at volumes generally based on the customer's needs. The performance obligation to provide the contracted delivery service for these large commercial and industrial customers is satisfied over time and revenue is generally recognized on a straight-line basis.

UGI Utilities makes off-system sales whereby natural gas delivered to our system in excess of amounts needed to fulfill our distribution system needs is sold to other customers, primarily other distributors of natural gas, based on an agreed-upon price and volume between the Company and the counterparty. Gas Utility also sells excess capacity whereby interstate pipeline capacity in excess of amounts needed to meet our customer obligations is sold to other distributors of natural gas based upon an agreed-upon rate. Off-system sales and capacity releases are generally entered into one month at a time and comprise the sale of a specific volume of gas or pipeline capacity at a specific delivery point or points over a specific time. As such, performance obligations associated with off-system sales and capacity release customers are satisfied, and associated revenue is recorded, when the agreed upon volume of natural gas is delivered or capacity is provided, and title is transferred, in accordance with the contract terms.

Electric Utility provides transmission services to PJM by allowing PJM to access Electric Utility's electricity transmission facilities. In exchange for providing access, PJM pays Electric Utility consideration determined by a formula-based rate approved by FERC. The formula-based rate, which is updated annually, allows recovery of costs incurred to provide transmissions services and return on transmission-related net investment. We recognize revenue over time as we provide transmission service.

Other revenues represent revenues from other ancillary services provided to customers and are generally recorded as the service is provided to customers.

Contract Balances

The timing of revenue recognition may differ from the timing of invoicing to customers or cash receipts. Contract assets represent our right to consideration after the performance obligations have been satisfied when such right is conditioned on something other than the passage of time. Contract assets were not material at December 31, 2018. All of our receivables are unconditional rights to consideration and are included in "Accounts receivable" and "Accrued utility revenues" on the Condensed Consolidated Balance Sheets. Amounts billed are generally due within the following month.

Contract liabilities arise when payment from a customer is received before the performance obligations have been satisfied and represent the Company's obligations to transfer goods or services to a customer for which we have received consideration. The balance of contract liabilities was $6,189 and $5,897 at December 31, 2018 and October 1, 2018, respectively, and are included in "Other current liabilities" on the Condensed Consolidated Balance Sheets. Revenue recognized for the three months ended December 31, 2018 from the amount included in contract liabilities at October 1, 2018 was not material.

(Thousands of dollars, except where indicated otherwise)

Revenue Disaggregation

The following table presents our disaggregated revenues by reportable segment for the three months ended December 31, 2018:

		Reportable Segments	
	Total	Gas Utility	Electric
Revenues from contracts with customers:			
Core Market:			
Residential	$ 175,691	$ 158,557	$ 17,134
Commercial & industrial	67,574	61,375	6,199
Large delivery service	39,547	39,547	—
Off-system sales and capacity releases	38,131	38,131	—
Other (a)	1,171	(1,079)	2,250
Total revenue from contracts with customers	322,114	296,531	25,583
Other revenues (b)	611	611	—
Total revenues	$ 322,725	$ 297,142	$ 25,583

(a) Gas Utility includes unallocated negative surcharge revenue of $(4,128) as a result of a PAPUC Order issued May 17, 2018, related to TCJA (see Note 7).
(b) Represents certain revenues not from contracts with customers that are not within the scope of ASC 606 and accounted for in accordance with other GAAP.

Remaining Performance Obligations

The Company has elected to use practical expedients as allowed in ASC 606 to exclude disclosures related to the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied for core market customers and off-system sales and capacity releases as of the end of the reporting period because these contracts have an initial expected term of one year or less. Certain contracts with large delivery service customers contain minimum future performance obligations through 2053. At December 31, 2018, the Company expects to record approximately $197,000 of revenues related to the minimum future performance obligations over the remaining terms of the related contracts.

Note 5 — Inventories

Inventories comprise the following:

	December 31, 2018	September 30, 2018	December 31, 2017
Gas Utility natural gas	$ 34,918	$ 37,287	$ 34,587
Materials, supplies and other	15,880	15,126	15,130
Total inventories	$ 50,798	$ 52,413	$ 49,717

At December 31, 2018, UGI Utilities was a party to five principal SCAAs with terms of up to three years. Four of the SCAAs were with Energy Services (see Note 14) and one of the SCAAs was with a non-affiliate. Pursuant to the SCAAs, UGI Utilities has, among other things, released certain storage and transportation contracts for the terms of the SCAAs. UGI Utilities also transferred certain associated storage inventories upon commencement of the SCAAs, will receive a transfer of storage inventories at the end of the SCAAs, and makes payments associated with refilling storage inventories during the terms of the SCAAs. The historical cost of natural gas storage inventories released under the SCAAs, which represents a portion of Gas Utility's total natural gas storage inventories, and any exchange receivable (representing amounts of natural gas inventories used by the other parties to the agreement but not yet replenished for which UGI Utilities has the rights), are included in the caption "Gas Utility natural gas" in the table above.

The carrying values of gas storage inventories released under the SCAAs at December 31, 2018, September 30, 2018 and December 31, 2017, comprising 7.8 bcf, 9.0 bcf and 7.8 bcf of natural gas, were $20,529, $23,136 and $22,191, respectively. At

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December 31, 2018, September 30, 2018 and December 31, 2017, UGI Utilities held a total of $11,840, $13,840 and $13,840, respectively, of security deposits received from its SCAA counterparties. These amounts are included in “Other current liabilities” on the Condensed Consolidated Balance Sheets.

For additional information related to the SCAAs with Energy Services, see Note 14.

Note 6 — Income Tax Reform

On December 22, 2017, the TCJA was enacted into law. The significant changes resulting from the law that impacted UGI Utilities include a reduction in the U.S. federal income tax rate from 35% to 21%, effective January 1, 2018 (resulting in a blended rate of 24.5% for Fiscal 2018) and the elimination of bonus depreciation on regulated utility property beginning in Fiscal 2019.

In accordance with GAAP as determined by ASC 740, we are required to record the effects of tax law changes in the period enacted. As further discussed below, our results for the three months ended December 31, 2017, contained provisional estimates of the impact of the TCJA. These amounts were considered provisional because they used estimates for which tax returns had not yet been filed and because estimated amounts could have been impacted by future regulatory and accounting guidance if and when issued. We adjusted provisional amounts as further information became available and as we refined our calculations. As permitted by SEC Staff Bulletin No. 118, these adjustments occurred during the reasonable “measurement period” defined as twelve months from the date of enactment. During the three months ended December 31, 2018, adjustments to provisional amounts recorded in prior periods were not material.

As a result of the TCJA, during the three months ended December 31, 2017, we reduced our net deferred income tax liabilities by $223,660 due to the remeasurement of existing federal deferred income tax assets and liabilities from 35% to 21%. Because a significant amount of the reduction related to our regulated utility plant assets, most of the reduction to our deferred income taxes was not recognized immediately in income tax expense. During the three months ended December 31, 2017, the amount of the reduction in deferred income taxes that reduced income tax expense totaled $8,122.

In order for utility assets to continue to be eligible for accelerated tax depreciation, current law requires that excess deferred federal income taxes resulting from the remeasurement of deferred income taxes on regulated utility plant be amortized no more rapidly than over the remaining lives of the assets that gave rise to the excess deferred income taxes. At December 31, 2017, we had recorded a regulatory liability of $216,098 associated with the excess deferred federal income taxes related to our regulated utility plant assets. The regulatory liability was increased, and a federal deferred income tax asset was recorded, in the amount of $87,803 to reflect the tax benefit generated by the amortization of the excess deferred federal income taxes.

For the three months ended December 31, 2018 and 2017, we included the estimated impacts of the TCJA in determining our estimated annual effective income tax rates. We were subject to a blended U.S. federal tax rate of 24.5% for Fiscal 2018 because our fiscal year contained the effective date of the rate change from 35% to 21%. We are subject to a 21% U.S. federal tax rate in Fiscal 2019. As a result, the U.S. federal income tax rate included in our annual effective tax rates used for the three months ended December 31, 2018 and 2017 were based on rates of 21% and 24.5%, respectively. Our estimated annual effective tax rate was not impacted by any regulatory action taken by the PAPUC.

(Thousands of dollars, except where indicated otherwise)

Note 7 — Regulatory Assets and Liabilities and Regulatory Matters

For a description of the Company's regulatory assets and liabilities other than those described below, see Note 4 in the Company's 2018 Annual Report. Other than removal costs, UGI Utilities does not recover a rate of return on its regulatory assets. The following regulatory assets and liabilities associated with UGI Utilities are included in our accompanying Condensed Consolidated Balance Sheets:

	December 31, 2018	September 30, 2018	December 31, 2017
Regulatory assets:			
Income taxes recoverable	$ 115,204	$ 110,129	$ 126,509
Underfunded pension and postretirement plans	85,334	87,106	138,287
Environmental costs	58,461	58,836	60,760
Removal costs, net	31,332	32,025	31,426
Other	8,432	12,906	5,860
Total regulatory assets	$ 298,763	$ 301,002	$ 362,842
Regulatory liabilities:			
Postretirement benefits	$ 17,315	$ 17,781	$ 17,315
Deferred fuel and power refunds	22,203	36,723	12,658
State tax benefits — distribution system repairs	23,453	22,611	19,101
PAPUC temporary rates order	24,766	24,430	—
Excess federal deferred income taxes	280,940	285,221	303,901
Other	4,791	3,409	4,507
Total regulatory liabilities	$ 373,468	$ 390,175	$ 357,482

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

Gas Utility uses derivative instruments to reduce volatility in the cost of gas it purchases for retail core-market customers. Realized and unrealized gains or losses on natural gas derivative instruments are included in deferred fuel costs or refunds. Net unrealized gains (losses) on such contracts at December 31, 2018, September 30, 2018, and December 31, 2017, were $837, $2,856 and $(1,720), respectively.

PAPUC Temporary Rates Order. On May 17, 2018, the PAPUC ordered each regulated utility currently not in a general base rate case proceeding, including UGI Gas, PNG and CPG, to reduce their rates through the establishment of a negative surcharge applied to bills rendered on or after July 1, 2018. The temporary negative surcharge will be reconciled at the end of each fiscal year to actual tax savings realized. Any difference in the amount of bill credit received by customers and the amount of benefits received by the Company during the period the negative surcharge is in effect is reconciled in the calculation of a new negative surcharge effective January 1 of the subsequent calendar year. The negative surcharge will remain in place until the effective date of new rates established in the utility's next general base rate proceeding. For merged Gas Utility, such negative surcharge reduced base rate revenues by 5.78%, 3.90% and 8.19%, respectively, for the UGI South, UGI North and UGI Central rate districts for the three months ended December 31, 2018 and is subject to reconciliation during the period the negative surcharges remain in effect.

In its May 17, 2018 Order, the PAPUC also required Pennsylvania utilities to establish a regulatory liability for tax benefits that accrued during the period beginning January 1, 2018 through June 30, 2018, resulting from the reduced federal tax rate. The rate treatment of this regulatory liability, plus accrued interest, for each Gas Utility rate district will be addressed in a future proceeding and the Company cannot predict the ultimate treatment of this liability. In UGI Gas's base rate proceeding filed January 28, 2019 (see "*Base Rate Filings*" below), UGI Gas has proposed a 4.5% negative surcharge applicable to all customer distribution service bills to return $26,249 of tax benefits experienced by UGI Utilities over the period January 1, 2018 to June 30, 2018, inclusive of interest, thereby satisfying a requirement to make a proposal for distributing those benefits within three years of the May 17, 2018, Order. The negative surcharge will become effective for a twelve-month period beginning on the effective date of the new base rates.

For Pennsylvania utilities that were in a general base rate proceeding, including Electric Utility, no negative surcharge applies. The tax benefits that accrued during the period January 1, 2018 through October 26, 2018, the date before Electric Utility's base rate case became effective (see below), were refunded to Electric Utility ratepayers through a one-time bill credit.

Excess federal deferred income taxes. This regulatory liability is the result of remeasuring UGI Utilities' federal deferred income tax liabilities on utility plant due to the enactment of the TCJA on December 22, 2017 (see Note 6). In order for our utility assets to continue to be eligible for accelerated tax depreciation, current law requires that excess federal deferred income taxes resulting from the remeasurement be amortized no more rapidly than over the remaining lives of the assets that gave rise to the excess federal deferred income taxes, ranging from 1 year to approximately 65 years. This regulatory liability has been increased to reflect the tax benefit generated by the amortization of the excess deferred federal income taxes and is being amortized and credited to tax expense.

Other Regulatory Matters

Utility Merger. On March 8, 2018 and March 13, 2018, UGI Utilities filed merger authorization requests with the PAPUC and MDPSC, respectively, to merge PNG and CPG into UGI Utilities, with a targeted effective date of October 1, 2018. After receiving all necessary FERC, MDPSC, and PAPUC approvals, CPG and PNG were merged into UGI Utilities effective October 1, 2018. Consistent with the MDPSC order issued July 25, 2018, and the PAPUC order issued September, 26, 2018, the former CPG, PNG and UGI Utilities, Inc. Gas Division service territories became the UGI Central, UGI North and UGI South rate districts of the UGI Utilities, Inc. Gas Division, respectively, without any ratemaking change. UGI Utilities' obligations under the settlement approved by the PAPUC include various non-monetary conditions requiring UGI Utilities to maintain separate accounting-type schedules for limited future ratemaking purposes.

Base Rate Filings. On January 28, 2019, UGI Gas filed a request with the PAPUC to increase its operating revenues for residential, commercial and industrial customers by $71,090 annually. The requested rate increase applies to the consolidated UGI Central, UGI North and UGI South rate districts. The increased revenues would fund ongoing system improvements and operations necessary to maintain safe and reliable natural gas service and fund new programs designed to promote and reward customers' efforts to increase efficient use of natural gas. Additionally, UGI Gas has proposed a 4.5% negative surcharge applicable to all customer distribution service bills to return $26,249 of tax benefits experienced by UGI Utilities over the period January 1, 2018 to June 30, 2018, inclusive of interest. As proposed, the negative surcharge will become effective for a twelve-month period beginning on the effective date of the new base rates. UGI Gas is requesting that the new gas rates become effective March 29, 2019. However, the PAPUC typically suspends the effective date for general base rate proceedings for a period not to exceed nine months after the filing date to allow for investigation and public hearings. The Company cannot predict the timing or the ultimate outcome of the rate case review process.

On January 26, 2018, Electric Utility filed a rate request with the PAPUC to increase its annual base distribution revenues by $9,200, which was later reduced by the Company to $7,700 to reflect the impact of the TCJA and other adjustments. The increased revenues would fund ongoing system improvements and operations necessary to maintain safe and reliable electric service. On October 25, 2018, the PAPUC approved a final order providing for a $3,201 annual base distribution rate increase for Electric Utility effective October 27, 2018. As part of the final order, Electric Utility provided customers with a one-time $210 billing credit associated with 2018 TCJA tax benefits. On November 26, 2018, the Pennsylvania Office of Consumer Advocate filed an appeal to the Pennsylvania Commonwealth Court challenging the PAPUC's acceptance of the Company's use of a fully projected future test year and handling of consolidated federal income tax benefits. The Company cannot predict the ultimate outcome of this appeal.

On January 19, 2017, PNG (now the UGI North rate district of Gas Utility) filed a rate request with the PAPUC to increase PNG's annual base operating revenues for residential, commercial and industrial customers by $21,700 annually. The increased revenues would fund ongoing system improvements and operations necessary to maintain safe and reliable natural gas service. On June 30, 2017, all active parties supported the filing of a Joint Petition for Approval of Settlement of all issues with the PAPUC providing for an $11,250 PNG annual base distribution rate increase. On August 31, 2017, the PAPUC approved the Joint Petition and the increase became effective on October 20, 2017.

Manor Township, Pennsylvania Natural Gas Incident Complaint. In connection with a July 2, 2017, explosion in Manor Township, Lancaster County, Pennsylvania, that resulted in the death of one Company employee and injuries to two Company employees and one sewer authority employee, and destroyed two residences and damaged several other homes, the BIE filed a formal complaint at the PAPUC in which BIE alleged that the Company committed multiple violations of federal and state gas pipeline regulations in connection with its emergency response leading up to the explosion, and it requested that the PAPUC order the Company to pay approximately $2,100 in civil penalties, which is the maximum allowable fine. On November 16, 2018, the Company filed its formal written answer contesting the BIE complaint. The matter remains pending before the PAPUC.

Note 8 — Debt

Subsequent Event. On February 1, 2019, UGI Utilities issued in a private placement $150,000 of 4.55% Senior Notes due February 1, 2049. The 4.55% Senior Notes were issued pursuant to a Note Purchase Agreement dated December 21, 2018, between UGI Utilities and certain note purchasers. The 4.55% Senior Notes are unsecured and rank equally with UGI Utilities' existing outstanding senior debt. The net proceeds from the sale of the 4.55% Senior Notes were used to reduce short-term borrowings and for general corporate purposes. The 4.55% Senior Notes include the usual and customary covenants for similar type notes including, among others, maintenance of existence, payment of taxes when due, compliance with laws and maintenance of insurance. The 4.55% Senior Notes require UGI Utilities not to exceed a ratio of Consolidated Debt to Consolidated Total Capital, as defined, of 0.65 to 1.00.

Note 9 — Commitments and Contingencies

Contingencies

From the late 1800s through the mid-1900s, UGI Utilities and its current and former subsidiaries owned and operated a number of MGPs prior to the general availability of natural gas. Some constituents of coal tars and other residues of the manufactured gas process are today considered hazardous substances under the Superfund Law and may be present on the sites of former MGPs. Between 1882 and 1953, UGI Utilities owned the stock of subsidiary gas companies in Pennsylvania and elsewhere and also operated the businesses of some gas companies under agreement. By the early 1950s, UGI Utilities divested all of its utility operations other than certain Pennsylvania operations, including those which now constitute UGI South and Electric Utility. Beginning in 2006 and 2008, UGI Utilities also owned and operated two acquired subsidiaries (CPG and PNG), which now constitute UGI North and UGI Central, with similar histories of owning, and in some cases operating, MGPs in Pennsylvania. CPG and PNG merged into UGI Utilities effective October 1, 2018.

Prior to the Utility Merger, each of UGI Utilities and its subsidiaries, CPG and PNG, were subject to COAs with the PADEP to address the remediation of specified former MGP sites in Pennsylvania. In accordance with the COAs, as amended to recognize the Utility Merger, UGI Utilities, as the successor to CPG and PNG, is required to either obtain a certain number of points per calendar year based on defined eligible environmental investigatory and/or remedial activities at the MGPs and in the case of one COA, an additional obligation to plug specific natural gas wells, or make expenditures for such activities in an amount equal to an annual environmental cost cap. The cost cap of the three COAs, in the aggregate, is $5,350. The three COAs are currently scheduled to terminate at the end of 2031, 2020, and 2020. At December 31, 2018, September 30, 2018 and December 31, 2017, our aggregate estimated accrued liabilities for environmental investigation and remediation costs related to the COAs totaled $50,484, $50,970, and $53,409, respectively. UGI Utilities has recorded associated regulatory assets for these costs because recovery of these costs from customers is probable (see Note 7).

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

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

(Thousands of dollars, except where indicated otherwise)

Other Matters

Manor Township, Pennsylvania Natural Gas Explosion. On July 2, 2017, an explosion occurred in Manor Township, Pennsylvania which resulted in the death of one Company employee and injuries to two other Company employees and an employee of the local sewer authority, and significant property damage. The NTSB and the BIE are investigating the Manor Township incident. The NTSB investigative team includes representatives from the Company, the BIE, the local fire department and the Pipeline and Hazardous Materials Safety Administration and the Company. The Company continues to cooperate with the investigation and provide information requested by the investigating parties. The Occupational Safety and Health Administration has closed its investigation with no findings. The BIE filed a formal complaint at the PAPUC in which the BIE alleged that the Company committed multiple violations of federal and state gas pipeline regulations in connection with its emergency response leading up to the explosion and it requested that the PAPUC order the Company to pay approximately $2,100 in civil penalties, which is the maximum allowable fine. On November 16, 2018, the Company filed its formal written answer contesting the BIE complaint. The matter remains pending before the PAPUC.

While the investigation into this incident is still underway and the cause of the explosion has not been determined, the Company has received claims as a result of the explosion and may become involved in lawsuits relative to the incident. The Company maintains workers' compensation insurance and liability insurance for personal injury, property and casualty damages and anticipates that third-party claims associated with the explosion, in excess of the Company's deductible, will be recovered through the Company's insurance. Although the Company cannot predict the result of these pending or future claims, we believe that claims and expenses associated with the explosion will not have a material impact on our consolidated financial statements.

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

Note 10 — Defined Benefit Pension and Other Postretirement Plans

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

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

	Pension Benefits		Other Postretirement Benefits	
Three Months Ended December 31,	2018	2017	2018	2017
Service cost	$ 1,637	$ 1,881	$ 31	$ 67
Interest cost	6,050	5,767	109	112
Expected return on assets	(8,140)	(7,777)	(185)	(177)
Amortization of:				
Prior service cost (benefit)	63	63	(109)	(110)
Actuarial loss	1,720	2,984	17	24
Net benefit cost (benefit)	1,330	2,918	(137)	(84)
Change in associated regulatory liabilities	—	—	(343)	(123)
Net benefit cost (benefit) after change in regulatory liabilities	$ 1,330	$ 2,918	$ (480)	$ (207)

(Thousands of dollars, except where indicated otherwise)

Pension Plan assets are held in trust and consist principally of publicly traded, diversified equity and fixed income mutual funds and, to a much lesser extent, UGI Common Stock. It is our general policy to fund amounts for Pension Plan benefits equal to at least the minimum contribution required by ERISA. From time to time we may, at our discretion, contribute additional amounts. During the three months ended December 31, 2018, the Company made no contributions to the Pension Plan. During the three months ended December 31, 2017, the Company made cash contributions to the Pension Plan of $3,359. The Company expects to make additional cash contributions of approximately $11,500 to the Pension Plan during the remainder of Fiscal 2019.

UGI Utilities has established a VEBA trust to pay retiree health care and life insurance benefits by depositing into the VEBA the annual amount of postretirement benefits costs, if any. The difference between such cash deposits or expense recorded and the amounts included in UGI Gas' and Electric Utility's rates, if any, is deferred for future recovery from, or refund to, ratepayers. There were no required contributions to the VEBA during the three months ended December 31, 2018 and 2017.

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

Note 11 — Fair Value Measurements

Derivative Instruments

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

	Asset (Liability)			
	Level 1	Level 2	Level 3	Total
December 31, 2018:				
Assets:				
Commodity contracts	$ 1,336	$ —	$ —	$ 1,336
Liabilities:				
Commodity contracts	$ (733)	$ —	$ —	$ (733)
Interest rate contracts	$ —	$ (1,655)	$ —	$ (1,655)
September 30, 2018:				
Assets:				
Commodity contracts	$ 3,154	$ —	$ —	$ 3,154
Interest rate contracts	$ —	$ 30	$ —	$ 30
Liabilities:				
Commodity contracts	$ (146)	$ —	$ —	$ (146)
December 31, 2017:				
Assets:				
Commodity contracts	$ 678	$ 19	$ —	$ 697
Liabilities:				
Commodity contracts	$ (2,151)	$ (112)	$ —	$ (2,263)

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

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Other Financial Instruments

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

	December 31, 2018	September 30, 2018	December 31, 2017
Carrying amount	$ 840,461	$ 842,130	$ 860,000
Estimated fair value	$ 829,794	$ 826,470	$ 909,283

Note 12 — Derivative Instruments and Hedging Activities

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

Commodity Price Risk

Gas Utility's tariffs contain clauses that permit recovery of all prudently incurred costs of natural gas it sells to retail core-market customers, including the cost of financial instruments used to hedge purchased gas costs. As permitted and agreed to by the PAPUC pursuant to Gas Utility's annual PGC filings, Gas Utility currently uses NYMEX natural gas futures and option contracts to reduce commodity price volatility associated with a portion of the natural gas it purchases for its retail core-market customers. At December 31, 2018, September 30, 2018 and December 31, 2017, the volumes of natural gas associated with Gas Utility's unsettled NYMEX natural gas futures and option contracts totaled 14.7 million dekatherms, 23.2 million dekatherms and 13.4 million dekatherms, respectively. At December 31, 2018, the maximum period over which Gas Utility is economically hedging natural gas market price risk is 9 months. Gains and losses on Gas Utility natural gas futures contracts and natural gas option contracts are recorded in regulatory assets or liabilities on the Condensed Consolidated Balance Sheets because it is probable such gains or losses will be recoverable from, or refundable to, customers through the PGC recovery mechanism (see Note 7).

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

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

Interest Rate Risk

UGI Utilities has a variable-rate term loan that is indexed to short-term market interest rates. UGI Utilities has entered into a forward starting, amortizing, pay- fixed, receive-variable interest rate swap that generally fixes the underlying prevailing market interest rates on borrowings at 3.00% beginning September 30, 2019 through July 2022. We have designated this forward-starting interest rate swap as a cash flow hedge. The initial notional amount of term loan debt subject to this interest rate swap agreement is $114,063.

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

Our long-term debt typically is issued at fixed rates of interest. As these long-term debt issuances mature, we typically refinance such debt with new debt having interest rates reflecting then-current market conditions. In order to reduce market rate risk on the underlying benchmark rate of interest associated with near- to medium-term forecasted issuances of fixed-rate debt, from time to time we enter into IRPAs. We account for IRPAs as cash flow hedges.

As of December 31, 2018, September 30, 2018 and December 31, 2017, we had no unsettled IRPAs. At December 31, 2018, the amount of net losses associated with interest rate hedges (excluding pay-fixed, receive-variable interest rate swaps) expected to be reclassified into earnings during the next twelve months is $3,485.

Derivative Instrument Credit Risk

Our commodity exchange-traded futures contracts generally require cash deposits in margin accounts. At December 31, 2018, September 30, 2018 and December 31, 2017, restricted cash in brokerage accounts totaled $3,308, $1,190 and $3,665, respectively.

Offsetting Derivative Assets and Liabilities

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

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

(Thousands of dollars, except where indicated otherwise)

Fair Value of Derivative Instruments

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

	December 31, 2018	September 30, 2018	December 31, 2017
Derivative assets:			
Derivatives designated as hedging instruments:			
Interest rate contracts	$ —	$ 30	$ —
Derivatives subject to PGC and DS mechanisms:			
Commodity contracts	1,336	3,002	450
Derivatives not designated as hedging instruments:			
Commodity contracts	—	152	247
Total derivative assets — gross	1,336	3,184	697
Gross amounts offset in the balance sheet	(266)	(146)	(19)
Total derivative assets — net (a)	$ 1,070	$ 3,038	$ 678
Derivative liabilities:			
Derivatives designated as hedging instruments:			
Interest rate contracts	$ (1,655)	$ —	$ —
Derivatives subject to PGC and DS mechanisms:			
Commodity contracts	(499)	(146)	(2,263)
Derivatives not designated as hedging instruments:			
Commodity contracts	(234)	—	—
Total derivative liabilities — gross	(2,388)	(146)	(2,263)
Gross amounts offset in the balance sheet	266	146	19
Total derivative liabilities — net (a)	$ (2,122)	$ —	$ (2,244)

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

Effects of Derivative Instruments

The following table provides information on the effects of derivative instruments not subject to ratemaking mechanisms on the Condensed Consolidated Statements of Income and changes in AOCI for the three months ended December 31, 2018 and 2017:

	Loss Recognized in AOCI		Loss Reclassified from AOCI into Income		
Three Months Ended December 31,	2018	2017	2018	2017	Location of Loss Reclassified from AOCI into Income
Cash Flow Hedges:					
Interest rate contracts	$ (1,685)	$ —	$ (872)	$ (871)	Interest expense

	(Loss) Gain Recognized in Income		Location of (Loss) Gain Recognized in Income
Three Months Ended December 31,	2018	2017	
Derivatives Not Designated as Hedging Instruments:			
Commodity contracts	$ (396)	$ 149	Operating and administrative expenses

(Thousands of dollars, except where indicated otherwise)

The amounts of derivative gains and losses on cash flow hedges representing ineffectiveness were not material for all periods presented.

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

Note 13 — Accumulated Other Comprehensive Income

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

Three Months Ended December 31, 2018	Postretirement Benefit Plans	Derivative Instruments	Total
AOCI — September 30, 2018	$ (4,920)	$ (15,409)	$ (20,329)
Net losses on interest rate contract	—	(1,198)	(1,198)
Reclassifications of benefit plans actuarial losses and net prior service credits	132	—	132
Reclassifications of net losses on IRPAs	—	620	620
Reclassification of stranded income tax effects related to TCJA	(1,712)	(3,739)	(5,451)
AOCI — December 31, 2018	$ (6,500)	$ (19,726)	$ (26,226)

Three Months Ended December 31, 2017	Postretirement Benefit Plans	Derivative Instruments	Total
AOCI — September 30, 2017	$ (8,995)	$ (17,796)	$ (26,791)
Reclassifications of benefit plans actuarial losses and net prior service credits	220	—	220
Reclassifications of net losses on IRPAs	—	592	592
AOCI — December 31, 2017	$ (8,775)	$ (17,204)	$ (25,979)

Note 14 — Related Party Transactions

UGI provides certain financial and administrative services to UGI Utilities. UGI bills UGI Utilities monthly for all direct expenses incurred by UGI on behalf of UGI Utilities and an allocated share of indirect corporate expenses incurred or paid with respect to services provided to UGI Utilities. The allocation of indirect UGI corporate expenses to UGI Utilities utilizes a weighted, three-component formula comprising revenues, operating expenses and net assets employed and considers UGI Utilities' relative percentage of such items to the total of such items for all UGI operating subsidiaries for which general and administrative services are provided. Management believes that this allocation method is reasonable and equitable to UGI Utilities and this allocation method has been accepted by the PAPUC in past rate case proceedings and management audits as a reasonable method of allocating such expenses. UGI Utilities also engages in other services with various other affiliates pursuant to arrangements authorized by the PAPUC using similar allocation or market-based pricing methods. These billed expenses are classified as "Operating and administrative expenses — related parties" in the Condensed Consolidated Statements of Income. In addition, UGI Utilities provides limited administrative services to UGI and certain of UGI's subsidiaries under PAPUC affiliated interest agreements. Amounts billed to these entities by UGI Utilities totaled $1,182 and $1,046 during the three months ended December 31, 2018 and 2017, respectively.

UGI Utilities is a party to SCAAs with Energy Services which have terms of up to three years. At December 31, 2018, UGI Utilities was a party to four SCAAs with Energy Services, and, during the periods covered by the financial statements, was a party to other SCAAs with Energy Services. Under the SCAAs, UGI Utilities has, among other things, released certain storage and transportation contracts (subject to recall for operational purposes) to Energy Services for the terms of the SCAAs. UGI Utilities also transferred certain associated storage inventories upon the commencement of the SCAAs, receives a transfer of storage inventories at the end of the SCAAs, and makes payments associated with refilling storage inventories during the term of the SCAAs. UGI Utilities incurred costs associated with Energy Services' SCAAs totaling $3,101 during both three months ended December 31, 2018 and 2017. Energy Services, in turn, provides a firm delivery service and makes certain payments to UGI Utilities for its various obligations under the SCAAs. These payments totaled $743 and $718 during the three months ended December 31, 2018 and 2017, respectively. In conjunction with the SCAAs, UGI Utilities received security deposits from Energy Services. The amounts of such security deposits, which are included in "Other current liabilities" on the Condensed Consolidated Balance Sheets, at December 31, 2018, was $9,040 and at September 30, 2018 and December 31, 2017, were $11,040.

UGI Utilities reflects the historical cost of the gas storage inventories and any exchange receivable from Energy Services (representing amounts of natural gas inventories used but not yet replenished by Energy Services) in "Inventories" on the Condensed Consolidated Balance Sheets. At December 31, 2018, September 30, 2018 and December 31, 2017, the carrying values of these gas storage inventories, comprising approximately 5.9 bcf, 6.7 bcf and 6.1 bcf of natural gas, were $15,921, $17,701 and $17,043, respectively.

UGI Utilities has gas supply and delivery service agreements with Energy Services pursuant to which Energy Services provides certain gas supply and related delivery service to Gas Utility primarily during the heating-season months of November through March. The aggregate amount of these transactions (exclusive of transactions pursuant to the SCAAs) during the three months ended December 31, 2018 and 2017 totaled $36,237 and $34,588, respectively.

From time to time, UGI Utilities sells natural gas or pipeline capacity to Energy Services. During the three months ended December 31, 2018 and 2017, revenues associated with such sales to Energy Services totaled $22,862 and $21,147, respectively. Also from time to time, UGI Utilities purchases natural gas and pipeline capacity from Energy Services (in addition to those transactions already described above) and purchases a firm storage service from UGI Storage Company, a subsidiary of Energy Services, under one-year agreements. During the three months ended December 31, 2018 and 2017, such purchases totaled $44,382 and $37,597, respectively.

Note 15 — Segment Information

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

The accounting policies of our reportable segments are the same as those described in Note 2 of the Company's 2018 Annual Report. Our Chief Operating Decision Maker evaluates the performance of our Gas Utility and Electric Utility segments principally based upon their income before income taxes. Financial information by business segment follows:

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

			Reportable Segments	
Three Months Ended December 31, 2018	Total		Gas Utility	Electric Utility
Revenues	$ 322,725		$ 297,142	$ 25,583
Cost of sales	$ 159,519		$ 145,120	$ 14,399
Depreciation	$ 22,474		$ 21,040	$ 1,434
Operating income	$ 77,074		$ 73,584	$ 3,490
Pension and other postretirement plans non-service income	$ 412		$ 361	$ 51
Interest expense	$ (11,738)		$ (11,218)	$ (520)
Income before income taxes	$ 65,748		$ 62,727	$ 3,021
Capital expenditures (including the effects of accruals)	$ 77,319		$ 75,074	$ 2,245
As of December 31, 2018				
Total assets	$ 3,424,773		$ 3,251,331	$ 173,442
Goodwill	$ 182,145		$ 182,145	$ —

			Reportable Segments	
Three Months Ended December 31, 2017	Total		Gas Utility	Electric Utility
Revenues	$ 323,105		$ 299,965	$ 23,140
Cost of sales	$ 151,774		$ 138,858	$ 12,916
Depreciation	$ 20,354		$ 19,000	$ 1,354
Operating income (a)	$ 96,870		$ 94,185	$ 2,685
Pension and other postretirement plans non-service expense (a)	$ (575)		$ (504)	$ (71)
Interest expense	$ (10,939)		$ (10,526)	$ (413)
Income before income taxes	$ 85,356		$ 83,155	$ 2,201
Capital expenditures (including the effects of accruals)	$ 71,699		$ 68,842	$ 2,857
As of December 31, 2017				
Total assets	$ 3,174,693		$ 3,038,250	$ 136,443
Goodwill	$ 182,145		$ 182,145	$ —

(a) Amounts reflect the reclassification of non-service income (expense) associated with our pension and other postretirement plans from "Operating and administrative expenses" to "Pension and other postretirement plans non-service income (expense)" on the Condensed Consolidated Statements of Income as a result of the adoption of ASU No. 2017-07 (see Note 3).

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

Forward-Looking Statements

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

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

These factors, and those factors set forth in Item 1A. Risk Factors in the Company's 2018 Annual Report, are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. Other unknown or unpredictable factors could also have material adverse effects on future results. We undertake no obligation to update publicly any forward-looking statement whether as a result of new information or future events except as required by the federal securities laws.

ANALYSIS OF RESULTS OF OPERATIONS

The following analysis compares our results of operations for the 2018 three-month period with the 2017 three-month period. Our analysis of results of operations should be read in conjunction with the segment information included in Note 15 to the Condensed Consolidated Financial Statements.

Our 2018 three-month period and 2017 three-month period results were significantly impacted by the TCJA in the U.S. The significant changes resulting from the law that impacted UGI Utilities included a reduction in the U.S. federal income tax rate from 35% to 21% effective January 1, 2018, resulting in a blended rate of 24.5% for Fiscal 2018, and the elimination of bonus depreciation on regulated utility property beginning in Fiscal 2019. For Fiscal 2019, our U.S. federal income tax rate is 21%.

As a result of the TCJA, during the 2017 three-month period we remeasured our existing deferred income tax assets and liabilities at the new tax rates in the U.S. Due to the effects of utility ratemaking, most of the reductions in UGI Utilities' deferred income tax assets and liabilities resulting from the enactment of the TCJA were not recognized immediately in income tax expense but were reflected in regulatory assets and liabilities in accordance with utility ratemaking. For further information on the effects of the TCJA, and the regulatory impacts on UGI Utilities resulting from the TCJA and the actions of the PAPUC, see Notes 6 and 7 to Condensed Consolidated Financial Statements.

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

Three Months Ended December 31,	2018	2017	Increase (Decrease)	
(Dollars in millions)				
Gas Utility:				
Revenues (a)	$ 297.1	$ 300.0	$ (2.9)	(1.0)%
Total margin (a)(b)	$ 152.0	$ 161.1	$ (9.1)	(5.6)%
Operating and administrative expenses	$ 56.1	$ 47.9	$ 8.2	17.1 %
Operating income	$ 73.6	$ 94.2	$ (20.6)	(21.9)%
Income before income taxes	$ 62.7	$ 83.2	$ (20.5)	(24.6)%
System throughput — bcf				
Core market	26.5	25.5	1.0	3.9 %
Total	75.7	69.2	6.5	9.4 %
Heating degree days — % (warmer) than normal (c)	(0.5)%	(1.9)%	—	—
Electric Utility:				
Revenues	$ 25.6	$ 23.1	$ 2.5	10.8 %
Total margin (b)	$ 9.9	$ 8.9	$ 1.0	11.2 %
Operating and administrative expenses (b)	$ 5.1	$ 5.0	$ 0.1	2.0 %
Operating income	$ 3.5	$ 2.7	$ 0.8	29.6 %
Income before income taxes	$ 3.0	$ 2.2	$ 0.8	36.4 %
Distribution sales — gwh	249.7	246.6	3.1	1.3 %

(a) In accordance with the PAPUC Order issued May 17, 2018, Gas Utility's revenues and total margin for the three months ended December 31, 2018, were reduced by $13.5 million to reflect the give back of tax savings of the TCJA (see Notes 6 and 7 to Condensed Consolidated Financial Statements).

(b) Gas Utility's total margin represents total revenues less total cost of sales. Electric Utility's total margin represents total revenues less total cost of sales and revenue-related taxes, i.e. Electric Utility gross receipts taxes, of $1.3 million during each of the three months ended December 31, 2018 and 2017. For financial statement purposes, revenue-related taxes are included in "Operating and administrative expenses" on the Condensed Consolidated Statements of Income (but are excluded from Electric Utility operating expenses presented above).

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

Temperatures in Gas Utility's service territory during the three months ended December 31, 2018, were slightly warmer than normal and 1.5% colder than the three months ended December 31, 2017. Gas Utility core market volumes increased 1.0 bcf (3.9%) principally reflecting the effects of the colder weather and growth in the number of core market customers. Total Gas Utility distribution system throughput increased 6.5 bcf reflecting higher large firm delivery service volumes and the previously mentioned higher core market volumes partially offset by a decrease in interruptible delivery service volumes. Electric Utility kilowatt-hour sales were 1.3% higher than the prior-year period principally reflecting the impact of the colder weather on Electric Utility heating-related sales.

UGI Utilities revenues decreased $0.4 million reflecting a $2.9 million decrease in Gas Utility revenues partially offset by a $2.5 million increase in Electric Utility revenues. In accordance with the May 17, 2018, PAPUC Order, during the three months ended December 31, 2018, Gas Utility's revenues were reduced by $13.5 million to reflect the give back of tax savings of the TCJA. Excluding the impact of this reduction in revenues, Gas Utility revenues increased $10.6 million principally reflecting an increase in off-system sales revenues including capacity releases ($17.5 million), due in large part to the adoption of ASC 606 (which requires that capacity release contracts be reflected on a gross, rather than net, basis), and higher other revenues ($1.8 million), partially offset by lower core market revenues ($9.9 million). The $9.9 million decrease in Gas Utility core market revenues reflects lower average retail core market PGC rates ($19.0 million) partially offset by the effects of the higher core market throughput ($9.0 million).The increase in Electric Utility revenues during the 2018 three-month period principally reflects higher DS rates ($0.9 million), higher transmission revenue ($0.7 million), and an increase in Electric Utility base rates effective October 27, 2018 ($0.5 million).

UGI Utilities' cost of sales was $159.5 million in the three months ended December 31, 2018 compared with $151.8 million in the three months ended December 31, 2017, principally reflecting higher Gas Utility cost of sales ($6.3 million) and higher Electric Utility cost of sales ($1.5 million) from the higher DS rates and slightly higher distribution system sales. The higher Gas Utility cost of sales principally reflects higher cost of sales associated with off-system sales including capacity releases ($16.9 million) due in large part to the previously mentioned impact of ASC 606 on the presentation of capacity release contracts, and the effects of higher core market volumes ($4.3 million) partially offset by lower average retail core-market PGC rates ($16.3 million).

UGI Utilities total margin decreased $8.1 million reflecting lower total margin from Gas Utility ($9.1 million) attributable to the impact of the $13.5 million reduction in revenues resulting from the TCJA, partially offset by higher Electric Utility total margin ($1.0 million). Excluding the reduction in Gas Utility total margin resulting from the TCJA, Gas Utility total margin increased $4.4 million principally reflecting higher total margin from Gas Utility core market customers ($2.1 million) and higher other margin ($1.9 million) primarily reflecting the margin impacts of the presentation of certain revenues in accordance with the adoption of ASC 606. The increase in Electric Utility margin principally reflects the increase in base rates, higher transmission revenue and, to a lesser extent, the higher distribution volumes sold.

UGI Utilities operating income decreased $19.8 million, principally reflecting the decrease in total margin ($8.1 million), higher Gas Utility and Electric Utility operating and administrative expenses ($8.3 million), greater depreciation expense ($2.1 million), and higher other operating expense ($1.2 million). The increase in UGI Utilities operating and administrative expenses principally reflects the absence of a favorable payroll tax adjustment recorded in the prior-year period ($2.1 million) and higher general and administrative costs including an increase in uncollectible accounts expense ($1.6 million), higher IT maintenance and consulting expense ($1.2 million), higher contractor and outside services expense ($1.1 million) and higher compensation and benefits expense ($0.9 million). The increase in depreciation expense reflects increased distribution system and IT capital expenditure activity. UGI Utilities income before income taxes decreased $19.6 million principally reflecting the decrease in UGI Utilities operating income.

Interest Expense and Income Taxes

Interest expense in the 2018 three-month period was slightly higher than the prior-year period. The higher interest expense reflects higher long-term debt outstanding and higher short-term interest rates on revolver borrowings. The lower effective income tax rate in the prior-year period reflects the remeasurement effects on certain of our deferred income tax balances resulting from the enactment of the TCJA, which reduced our 2017 three-month period income tax expense, and increased our net income, by $8.1 million. Income tax expense in the 2018 three-month period and the 2017 three-month period reflects U.S. federal income tax rates on pre-tax earnings of 21% and 24.5%, respectively. See Note 6 to Condensed Consolidated Financial Statements.

FINANCIAL CONDITION AND LIQUIDITY

We depend on both internal and external sources of liquidity to provide funds for working capital and to fund capital requirements. Our short-term cash requirements not met by cash from operations are generally satisfied with borrowings under credit facilities. Our cash and cash equivalents at December 31, 2018, totaled $21.5 million compared to $10.3 million at September 30, 2018.

UGI Utilities' total debt outstanding at December 31, 2018, was $1,131.6 million, which includes $296.0 million of short-term borrowings, compared with total debt outstanding of $1,027.5 million at September 30, 2018, which includes $189.5 million of short-term borrowings. Total long-term debt outstanding at December 31, 2018, comprises $675.0 million of Senior Notes, a

$118.8 million variable-rate term loan, $40.0 million of Medium-Term Notes and $6.6 million of other long-term debt, and is net of $4.8 million of unamortized debt issuance costs.

The UGI Utilities Credit Agreement is an unsecured revolving credit agreement with a group of banks providing for borrowings up to $450 million (including a $100 million sublimit for letters of credit) which expires in March 2020. Borrowings under the Credit Agreement are classified as “Short-term borrowings” on the Condensed Consolidated Balance Sheets. At December 31, 2018, UGI Utilities’ available borrowing capacity under the UGI Utilities Credit Agreement was $152.0 million. During the 2018 and 2017 three-month periods, average daily short-term borrowings under the UGI Utilities Credit Agreement were $250.7 million and $168.1 million, respectively, and peak short-term borrowings totaled $311.0 million and $205.0 million, respectively. Peak short-term borrowings typically occur during the heating-season months of December and January when UGI Utilities’ investment in working capital, principally accounts receivable, is generally greatest.

Subsequent Event. On February 1, 2019, UGI Utilities issued in a private placement $150 million of 4.55% Senior Notes due February 1, 2049. The 4.55% Senior Notes were issued pursuant to a Note Purchase Agreement dated December 21, 2018, between UGI Utilities and certain note purchasers. The 4.55% Senior Notes are unsecured and rank equally with UGI Utilities’ existing outstanding senior debt. The net proceeds from the sale of the 4.55% Senior Notes were used to reduce short-term borrowings and for general corporate purposes.

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

Cash Flows

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

Cash provided by operating activities was $15.4 million in the 2018 three-month period compared to cash used by operating activities of $7.1 million in the prior-year period. Cash flow from operating activities before changes in operating working capital was $95.6 million in the 2018 three-month period, comparable to the $97.6 million recorded in the prior-year period. Changes in operating working capital used $80.1 million of operating cash flow during the 2018 three-month period compared to $104.7 million of cash used for changes in working capital during the prior-year period. The lower net cash used in the 2018 three-month period reflects, among other things, higher cash receipts from customers during the current-year period due to the timing of sales and associated revenues. Sales and associated revenues occurred earlier during the 2018 three-month period due to colder late October and November weather, compared to higher sales and associated revenues recorded later in the 2017 three-month period as a result of extremely cold late December 2017 weather. The higher cash received from customers in the current year was partially offset by net refunds of PGC costs, compared to net recoveries of PGC costs in the prior-year period.

Investing activities. Cash used by investing activities was $100.4 million in the 2018 three-month period compared to $91.1 million in the 2017 three-month period. Total cash capital expenditures were $98.7 million in the 2018 three-month period compared with $88.7 million recorded in the prior-year period. The increase in cash capital expenditures during the 2018 three-month period principally reflects higher IT capital expenditures associated with an Enterprise Resource Planning system, and higher main replacement and new business capital expenditures.

Financing activities. Cash provided by financing activities was $98.3 million in the 2018 three-month period compared with $100.9 million during the 2017 three-month period. Financing activity cash flows are primarily the result of net borrowings and repayments under revolving credit agreements, net borrowings and repayments of long-term debt and cash dividends paid to UGI. Cash from financing activities in the prior-year period includes the net proceeds from a $125 million unsecured term loan agreement. The 2018 three-month period reflects net credit agreement borrowings of $106.5 million compared with net borrowings of $11.5 million during the prior-year period. Credit agreement borrowings were lower in the prior-year period as the prior-period financing cash flow benefited from the previously mentioned $125 million issuance of term loan debt. Cash dividends paid during the 2018 three-month period totaled $5.0 million compared to cash dividends paid of $15.0 million during the prior-year period.

REGULATORY MATTERS

Utility Merger. On March 8, 2018 and March 13, 2018, UGI Utilities filed merger authorization requests with the PAPUC and MDPSC, respectively, to merge PNG and CPG into UGI Utilities, with a targeted effective date of October 1, 2018. After receiving all necessary FERC, MDPSC, and PAPUC approvals, CPG and PNG were merged into UGI Utilities effective October 1, 2018. Consistent with the MDPSC order issued July 25, 2018, and the PAPUC order issued September, 26, 2018, the former CPG, PNG and UGI Utilities, Inc. Gas Division service territories became the UGI Central, UGI North and UGI South rate districts of the UGI Utilities, Inc. Gas Division, respectively, without any ratemaking change. UGI Utilities' obligations under the settlement approved by the PAPUC include various non-monetary conditions requiring UGI Utilities to maintain separate accounting-type schedules for limited future ratemaking purposes.

Base Rate Filings. On January 28, 2019, UGI Gas filed a request with the PAPUC to increase its operating revenues for residential, commercial and industrial customers by $71.1 million annually. The requested rate increase applies to the consolidated UGI Central, UGI North and UGI South rate districts. The increased revenues would fund ongoing system improvements and operations necessary to maintain safe and reliable natural gas service and fund new programs designed to promote and reward customers' efforts to increase efficient use of natural gas. Additionally, UGI Gas has proposed a 4.5% negative surcharge applicable to all customer distribution service bills to return $26.2 million of tax benefits experienced by UGI Utilities over the period January 1, 2018 to June 30, 2018, inclusive of interest. As proposed, the negative surcharge will become effective for a twelve-month period beginning on the effective date of the new base rates. UGI Gas is requesting that the new gas rates become effective March 29, 2019. However, the PAPUC typically suspends the effective date for general base rate proceedings for a period not to exceed nine months after the filing date to allow for investigation and public hearings. The Company cannot predict the timing or the ultimate outcome of the rate case review process.

On January 26, 2018, Electric Utility filed a rate request with the PAPUC to increase its annual base distribution revenues by $9.2 million, which was later reduced by the Company to $7.7 million to reflect the impact of the TCJA and other adjustments. The increased revenues would fund ongoing system improvements and operations necessary to maintain safe and reliable electric service. On October 25, 2018, the PAPUC approved a final order providing for a $3.2 million annual base distribution rate increase for Electric Utility, effective October 27, 2018. As part of the final order, Electric Utility provided customers with a one-time $0.2 million billing credit associated with 2018 TCJA tax benefits. On November 26, 2018, the Pennsylvania Office of Consumer Advocate filed an appeal to the Pennsylvania Commonwealth Court challenging the PAPUC's acceptance of the Company's use of a fully projected future test year and handling of consolidated federal income tax benefits. The Company cannot predict the ultimate outcome of this appeal.

Manor Township, Pennsylvania Natural Gas Incident Complaint. In connection with a July 2, 2017, explosion in Manor Township, Lancaster County, Pennsylvania, that resulted in the death of one Company employee and injuries to two Company employees and one sewer authority employee, and destroyed two residences and damaged several other homes, the BIE filed a formal complaint at the PAPUC in which BIE alleged that the Company committed multiple violations of federal and state gas pipeline regulations in connection with its emergency response leading up to the explosion, and it requested that the PAPUC order the Company to pay approximately $2.1 million in civil penalties, which is the maximum allowable fine. On November 16, 2018, the Company filed its formal written answer contesting the BIE complaint. The matter remains pending before the PAPUC.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Commodity Price Risk

Gas Utility's tariffs contain clauses that permit recovery of all prudently incurred costs of natural gas it sells to its retail core-market customers, including the cost of financial instruments used to hedge purchased gas costs. The recovery clauses provide for periodic adjustments for the difference between the total amounts actually collected from customers through PGC rates and the recoverable costs incurred. Because of this ratemaking mechanism, there is limited commodity price risk associated with our Gas Utility operations. Gas Utility uses derivative financial instruments, including natural gas futures and option contracts traded on the NYMEX, to reduce volatility in the cost of gas it purchases for its retail core-market customers. The cost of these derivative financial instruments, net of any associated gains or losses, is included in Gas Utility's PGC recovery mechanism. The change in market value of natural gas futures contracts can require daily deposits of cash in futures accounts. At December 31, 2018, Gas Utility had $3.3 million of restricted cash in brokerage accounts. At December 31, 2018, the fair values of our natural gas futures and option contracts were not material.

Electric Utility's DS tariffs contain clauses which permit recovery of all prudently incurred power costs, including the cost of financial instruments used to hedge electricity costs, through the application of DS rates. Because of this ratemaking mechanism, there is limited power cost risk, including the cost of forward electricity purchase contracts, associated with our Electric Utility operations. At December 31, 2018, all of our Electric Utility's forward electricity purchase contracts were subject to the NPNS exception.

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

Interest Rate Risk

Our variable-rate debt at December 31, 2018, includes short-term borrowings and a variable-rate term loan. These debt agreements have interest rates that are generally indexed to short-term market interest rates. At December 31, 2018, combined borrowings outstanding under these variable-rate debt agreements totaled $414.8 million.

UGI Utilities' variable-rate term loan has an interest rate that is indexed to short-term market interest rates. UGI Utilities has entered into a forward starting, amortizing, pay-fixed, receive-variable interest rate swap that generally fixes the underlying prevailing market interest rates on the variable-rate term loan at 3.00% beginning September 30, 2019 through July 2022. We have designated this forward-starting interest rate swap as a cash flow hedge. At December 31, 2018, the fair value of this interest rate swap was a loss of $1.7 million. A 50 basis point adverse change in the one-month LIBOR would result in a decrease in fair value of approximately $1.5 million.

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

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

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

(b) Change in Internal Control over Financial Reporting

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

PART II OTHER INFORMATION

ITEM 1A. RISK FACTORS

In addition to the information presented in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our 2018 Annual Report, which could materially affect our business, financial condition or future results. The risks described in our 2018 Annual Report are not the only risks facing the Company. Other unknown or unpredictable factors could also have material adverse effects on future results.

ITEM 6. EXHIBITS

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

Exhibit No.	Exhibit	Registrant	Filing	Exhibit
4.1	Form of Note Purchase Agreement dated December 21, 2018 between the Company and the purchasers listed as signatories thereto.	Utilities	Form 8-K (12/21/18)	4.1
10.1	Form of Change in Control Agreement between UGI Utilities, Inc. and Mr. Robert Beard.			
31.1	Certification by the Chief Executive Officer relating to the Registrant’s Report on Form 10-Q for the quarter ended December 31, 2018, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.			
31.2	Certification by the Chief Financial Officer relating to the Registrant’s Report on Form 10-Q for the quarter ended December 31, 2018, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.			
32	Certification by the Chief Executive Officer and the Chief Financial Officer relating to the Registrant’s Report on Form 10-Q for the quarter ended December 31, 2018, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.			
101.INS	XBRL Instance			
101.SCH	XBRL Taxonomy Extension Schema			
101.CAL	XBRL Taxonomy Extension Calculation Linkbase			
101.DEF	XBRL Taxonomy Extension Definition Linkbase			
101.LAB	XBRL Taxonomy Extension Labels Linkbase			
101.PRE	XBRL Taxonomy Extension Presentation Linkbase			

EXHIBIT INDEX

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32	Certification by the Chief Executive Officer and the Chief Financial Officer relating to the Registrant's Report on Form 10-Q for the quarter ended December 31, 2018, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Labels Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

SIGNATURES

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

UGI Utilities, Inc.
(Registrant)

Date: February 7, 2019	By: /s/ Daniel J. Platt Daniel J. Platt Vice President - Finance and Chief Financial Officer
Date: February 7, 2019	By: /s/ Megan Mattern Megan Mattern Controller & Principal Accounting Officer

Exhibit 10.1

FORM OF CHANGE IN CONTROL AGREEMENT

This CHANGE IN CONTROL AGREEMENT ("Agreement") is made as of _____, between UGI Utilities, Inc. (the "Company") and _____ (the "Employee").

WHEREAS, the Company has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of key members of the Company's management to their assigned duties without distraction arising from the possibility of a Change in Control (as defined below), although no such change is now contemplated;

WHEREAS, in order to induce the Employee to remain in the employ of the Company, the Company agrees that the Employee shall receive the compensation set forth in this Agreement in the event the Employee's employment with the Company is terminated in connection with a Change in Control as a cushion against the financial and career impact on the Employee of any such Change in Control;

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements hereinafter set forth and intending to be legally bound hereby, the parties hereby agree as follows:

1. Definitions. For all purposes of this Agreement, the following terms shall have the meanings specified in this Section unless the context clearly otherwise requires:

(a) "Affiliate" and "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 of Regulation 12B under the Exchange Act and shall include, without limitation, UGI Corporation and its subsidiaries.

(b) A Person shall be deemed the "Beneficial Owner" of any securities: (i) that such Person or any of such Person's Affiliates or Associates, directly or indirectly, has the right to acquire (whether such right is exercisable immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding (whether or not in writing) or upon the exercise of conversion rights, exchange rights, rights, warrants or options, or otherwise; provided, however, that a Person shall not be deemed the "Beneficial Owner" of securities tendered pursuant to a tender or exchange offer made by such Person or any of such Person's Affiliates or Associates until such tendered securities are accepted for payment, purchase or exchange; (ii) that such Person or any of such Person's Affiliates or Associates, directly or indirectly, has the right to vote or dispose of or has "beneficial ownership" of (as determined pursuant to Rule 13d-3 of Regulation 13D-G under the Exchange Act), including without limitation pursuant to any agreement, arrangement or understanding, whether or not in writing; provided, however, that a Person shall not be deemed the "Beneficial Owner" of any security under this clause (ii) as a result of an oral or written agreement, arrangement or understanding to vote such security if such agreement, arrangement or understanding (A) arises solely from a revocable proxy given in response to a public proxy or consent solicitation made pursuant to, and in accordance with, the applicable provisions of the Proxy Rules under the Exchange Act, and (B) is not then reportable by such Person on Schedule 13D under the Exchange Act (or any comparable or successor report); or (iii) that are beneficially owned, directly or indirectly, by any other Person (or any Affiliate or Associate thereof) with which such Person (or any of such Person's Affiliates or Associates) has any agreement, arrangement or understanding (whether or not in writing) for the purpose of acquiring, holding, voting (except pursuant to a revocable proxy as described in the proviso to clause (ii) above) or disposing of any voting securities of the Company; provided, however, that nothing in this Section 1(b) shall cause a Person engaged in business as an underwriter of securities to be the "Beneficial Owner" of any securities acquired through such Person's participation in good faith in a firm commitment underwriting until the expiration of 40 days after the date of such acquisition.

(c) "Board" shall mean the Board of Directors of the Company.

(d) "Cause" shall mean (i) misappropriation of funds, (ii) habitual insobriety or substance abuse, (iii) conviction of a crime involving moral turpitude, or (iv) gross negligence in the performance of duties, which gross negligence has had a material adverse effect on the business, operations, assets, properties or financial condition of the Company. The determination of Cause shall be made by an affirmative vote of at least two-thirds of the members of the Board at a duly called meeting of the Board.

(e) "Change in Control" shall have the meaning set forth in the attached Exhibit A to this Agreement.

(f) "COBRA Cost" shall mean 100% of the "applicable premium" under section 4980B(f)(4) of the Code for continued medical and dental COBRA Coverage under the Company's benefit plans.

(g) "COBRA Coverage" shall mean continued medical and dental coverage under the Company's benefit plans, as determined under section 4980B of the Code.

(h) "Code" shall mean the Internal Revenue Code of 1986, as amended.

(i) "Compensation Committee" shall mean the Compensation and Management Development Committee of the Board.

(j) "Continuation Period" shall mean the ___-year period beginning on the Employee's Termination Date.

(h) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

(i) "Executive Severance Plan" shall mean the Company's Senior Executive Employee Severance Pay Plan, as in effect from time to time.

(j) "Good Reason Termination" shall mean a Termination of Employment initiated by the Employee upon one or more of the following occurrences:

(i) a material breach by the Company of any terms of this Agreement, including without limitation a material breach of Section 2 or 13 of this Agreement;

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

(iii) a material diminution in the Employee's base compensation as in effect immediately prior to the Change in Control; or

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

Notwithstanding the foregoing, the Employee shall be considered to have a Good Reason Termination only if the Employee provides written notice to the Company, pursuant to Section 3, specifying in reasonable detail the events or conditions upon which the Employee is basing such Good Reason Termination and the Employee provides such notice within 90 days after the event that gives rise to the Good Reason Termination. Within 30 days after notice has been provided, the Company shall have the opportunity, but shall have no obligation, to cure such events or conditions that give rise to the Good Reason Termination. If the Company does not cure such events or conditions within the 30-day period, the Employee may terminate employment with the Company based on Good Reason Termination within 30 days after the expiration of the cure period.

(n) "Key Employee" shall mean an employee who, at any time during the 12-month period ending on the identification date, is a "specified employee" under section 409A of the Code, as determined by the Compensation Committee or its delegate. The determination of Key Employees, including the number and identity of persons considered specified employees and the identification date, shall be made by the Compensation Committee or its delegate in accordance with the provisions of section 409A of the Code and the regulations issued thereunder.

(o) "Postponement Period" shall mean, for a Key Employee, the period of six months after separation from service (or such other period as may be required by section 409A of the Code), during which severance payments may not be paid to the Key Employee under section 409A of the Code.

(p) "Release" shall mean a release of any and all claims against the Company, its Affiliates, its Subsidiaries and all related parties with respect to all matters arising out of the Employee's employment by the Company and its Affiliates and Subsidiaries, or the termination thereof (other than claims relating to amounts payable under this Agreement or benefits accrued under any plan, program or arrangement of the Company or any of its Subsidiaries or Affiliates) and shall be in the form required by the Company of its terminating executives immediately prior to the Change in Control.

(q) "Subsidiary" shall mean any corporation in which the Company, directly or indirectly, owns at least a 50% interest or an unincorporated entity of which the Company, directly or indirectly, owns at least 50% of the profits or capital interests.

(r) "Termination Date" shall mean the effective date of the Employee's Termination of Employment, as specified in the Notice of Termination.

(s) "Termination of Employment" shall mean the termination of the Employee's actual employment relationship with the Company and its Subsidiaries and Affiliates.

2. Employment. After a Change in Control, during the term of the Agreement, Employee shall continue to serve in the same or a comparable executive position with the Company as in effect immediately before the Change in Control, and with the same or a greater target level of annual and long-term compensation as in effect immediately before the Change in Control.

3. Notice of Termination. Any Termination of Employment upon or following a Change in Control shall be communicated by a Notice of Termination to the other party hereto given in accordance with Section 14 hereof. For purposes of this Agreement, a "Notice of Termination" means a written notice which (i) indicates the specific provision in this Agreement relied upon, (ii) briefly summarizes the facts and circumstances deemed to provide a basis for the Employee's Termination of Employment under the provision so indicated, and (iii) if the Termination Date is other than the date of receipt of such notice, specifies the Termination Date (which date shall not be more than 15 days after the giving of such notice) except as provided in Section 1(m) above.

4. Severance Compensation upon Termination of Employment.

(a) In the event of the Employee's involuntary Termination of Employment by the Company or a Subsidiary or Affiliate for any reason other than Cause or in the event of a Good Reason Termination, in either event upon or within two years after a Change in Control, the Employee will receive the following amounts in lieu of any severance compensation and benefits under the Executive Severance Plan or any other severance plan of the Company or a Subsidiary or Affiliate:

(i) The Company shall pay to the Employee a lump sum cash payment equal to the greater of (A) or (B) as set forth below:

(A) The Separation Pay and Paid Notice as calculated under the terms of the Executive Severance Plan based on the Employee's compensation and service as of the Termination Date, or

(B) ____ multiplied by the sum of (1) the Employee's annual base salary plus (2) the Employee's annual bonus. The annual base salary for this purpose shall be the Employee's annual base salary in effect as of the Employee's Termination Date. The annual bonus shall be calculated for this purpose as the greater of (x) the average annual cash bonus paid to the Employee for the three full fiscal years of the Company preceding the fiscal year in which the Termination Date occurs or (y) the Employee's target annual cash bonus for the fiscal year in which the Termination Date occurs. For purposes of the preceding sentence, if the Employee has not received an annual cash bonus for three full fiscal years, the Employee's average annual cash bonus shall be determined by dividing the total annual cash bonuses received by the Employee during the preceding three full fiscal years by the number of full and fractional years for which the Employee received an annual cash bonus during such three-year period.

(ii) The Company shall pay to the Employee a single lump sum payment equal to the COBRA Cost that the Employee would incur if the Employee continued medical and dental coverage under the Company's benefit plans during the Continuation Period, based on the benefits in effect for the Employee (and, if applicable, his or her spouse and dependents) at the Termination Date, less the amount that the Employee would be required to contribute for medical and dental coverage if the Employee were an active employee. The cash payment shall include a tax gross up payment equal to 75% of the lump sum amount described in the preceding sentence. The Employee may elect continuation coverage under the Company's applicable medical and dental plans during the Continuation Period by paying the COBRA Cost of such coverage. COBRA Coverage shall run concurrently with the Continuation Period, and nothing in this Section shall limit the Employee's right to elect COBRA Coverage for the full period permitted by law.

(iii) The Employee's benefit under the Company's executive retirement plan in which the Employee participates shall be calculated as if the Employee had continued in employment during the Continuation Period, earning base salary and bonus at the annual rate calculated under subsection (i)(B) above.

(iv) The Company shall pay to the Employee an amount equal to the Employee's target annual cash bonus amount for the Company's fiscal year in which the Termination Date occurs, multiplied by the number of months (with a partial month counting as a full month) elapsed in the fiscal year to the Termination Date and divided by 12, as well as any amounts due but not yet paid from the prior year under such plan.

(b) Notwithstanding the foregoing, no payments shall be made to the Employee under this Section 4 unless the Employee signs and does not revoke a Release. The amounts described in subsections (a) (i), (ii) and (iv) above shall be paid on the 30th day after the Termination Date subject to the Company's receipt of a Release and expiration of the revocation period for the Release. Payments under this Agreement shall be made by mail to the last address provided for notices to the Employee pursuant to Section 14 of this Agreement.

5. Other Payments.

Upon any Termination of Employment entitling the Employee to payments under this Agreement, the Employee shall receive all accrued but unpaid salary and all benefits accrued and payable under any plans, policies and programs of the Company and its Subsidiaries or Affiliates, provided that the Employee shall not receive severance benefits under the Executive Severance Plan or any other severance plan of the Company or a Subsidiary or Affiliate.

6. Interest; Enforcement.

(a) If the Company shall fail or refuse to pay any amounts due the Employee under Section 4 on the applicable due date, the Company shall pay interest at the rate described below on the unpaid payments from the applicable due date to the date on which such amounts are paid. Interest shall be credited at an annual rate equal to the rate listed in the Wall Street Journal as the "prime rate" as of the Employee's Termination Date, plus 1%, compounded annually.

(b) It is the intent of the parties that the Employee not be required to incur any expenses associated with the enforcement of the Employee's rights under this Agreement by arbitration, litigation or other legal action, because the cost and expense thereof would substantially detract from the benefits intended to be extended to the Employee hereunder. Accordingly, the Company shall pay the Employee on demand the amount necessary to reimburse the Employee in full for all reasonable expenses (including all attorneys' fees and legal expenses) incurred by the Employee in enforcing any of the obligations of the Company under this Agreement. The Employee shall notify the Company of the expenses for which the Employee demands reimbursement within 60 days after the Employee receives an invoice for such expenses, and the Company shall pay the reimbursement amount within 15 days after receipt of such notice.

7. No Mitigation. The Employee shall not be required to mitigate the amount of any payment or benefit provided for in this Agreement by seeking other employment or otherwise, nor shall the amount of any payment or benefit provided for herein be reduced by any compensation earned by other employment or otherwise.

8. Non-Exclusivity of Rights. Nothing in this Agreement shall prevent or limit the Employee's continuing or future participation in or rights under any benefit, bonus, incentive or other plan or program provided by the Company, or any of its Subsidiaries or Affiliates, and for which the Employee may qualify.

9. No Set-Off. The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any

circumstances, including, without limitation, any set-off, counterclaim, recoupment, defense or other right which the Company may have against the Employee or others.

10. Taxation. All payments under this Agreement shall be subject to all requirements of the law with regard to tax withholding and reporting and filing requirements, and the Company shall use its best efforts to satisfy promptly all such requirements.

11. Effect of Section 280G on Payments.

(a) Notwithstanding any other provisions of this Agreement to the contrary, in the event that it shall be determined that any payment or distribution in the nature of compensation (within the meaning of section 280G(b)(2) of the Code) to or for the benefit of the Employee, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (the "Payments"), would constitute an "excess parachute payment" within the meaning of section 280G of the Code, the Company shall reduce (but not below zero) the aggregate present value of the Payments under the Agreement to the Reduced Amount (as defined below), if reducing the Payments under this Agreement will provide the Employee with a greater net after-tax amount than would be the case if no reduction was made. The Payments shall be reduced as described in the preceding sentence only if (A) the net amount of the Payments, as so reduced (and after subtracting the net amount of federal, state and local and payroll income taxes on the reduced Payments), is greater than or equal to (B) the net amount of the Payments without such reduction (but after subtracting the net amount of federal, state and local and payroll income taxes on the Payments and the amount of Excise Tax (as defined below) to which the Employee would be subject with respect to the unreduced Payments). Only amounts payable under this Agreement shall be reduced pursuant to this subsection (a). The "Reduced Amount" shall be an amount expressed in present value that maximizes the aggregate present value of Payments under this Agreement without causing any Payment under this Agreement to be subject to the Excise Tax, determined in accordance with section 280G(d)(4) of the Code. The term "Excise Tax" means the excise tax imposed under section 4999 of the Code, together with any interest or penalties imposed with respect to such excise tax.

(b) All determinations to be made under this Section 11 shall be made by an independent registered public accounting firm or consulting firm selected by the Company immediately prior to the Change in Control, which shall provide its determinations and any supporting calculations both to the Company and the Employee within 10 days of the Change in Control. Any such determination by such firm shall be binding upon the Company and the Employee.

(c) All of the fees and expenses of the firm in performing the determinations referred to in this Section shall be borne solely by the Company.

12. Term of Agreement. The term of this Agreement shall be for three years from the date hereof and shall be automatically renewed for successive one-year periods unless the Company notifies the Employee in writing that this Agreement will not be renewed at least 60 days prior to the end of the then current term; provided, however, that (i) if a Change in Control

occurs during the term of this Agreement, this Agreement shall remain in effect for two years following such Change in Control or until all of the obligations of the parties hereunder are satisfied or have expired, if later, and (ii) this Agreement shall terminate if the Employee's employment with the Company terminates for any reason before a Change in Control (regardless of whether the Employee is thereafter employed by a Subsidiary or Affiliate of the Company).

13. Successor Company. The Company shall require any successor or successors (whether direct or indirect, by purchase, merger or otherwise) to all or substantially all of the business or assets of the Company, by agreement in form and substance satisfactory to the Employee, to acknowledge expressly that this Agreement is binding upon and enforceable against the Company in accordance with the terms hereof, and to become jointly and severally obligated with the Company to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession or successions had taken place. Failure of the Company to notify the Employee in writing as to such successorship, to provide the Employee the opportunity to review and agree to the successor's assumption of this Agreement or to obtain such agreement prior to the effectiveness of any such succession shall be a breach of this Agreement. As used in this Agreement, the Company shall mean the Company as defined above and any such successor or successors to its business or assets, jointly and severally.

14. Notice. All notices and other communications required or permitted hereunder or necessary or convenient in connection herewith shall be in writing and shall be delivered personally or mailed by registered or certified mail, return receipt requested, or by overnight express courier service, as follows:

If to the Company, to:

460 North Gulph Road
King of Prussia, PA 19406
Attention: Corporate Secretary

If to the Employee, to the most recent address provided by the Employee to the Company or a Subsidiary or Affiliate for payroll purposes,

or to such other address as the Company or the Employee, as the case may be, shall designate by notice to the other party hereto in the manner specified in this Section; provided, however, that if no such notice is given by the Company following a Change in Control, notice at the last address of the Company or any successor pursuant to Section 13 shall be deemed sufficient for the purposes hereof. Any such notice shall be deemed delivered and effective when received in the case of personal delivery, five days after deposit, postage prepaid, with the U.S. Postal Service in the case of registered or certified mail, or on the next business day in the case of overnight express courier service.

15. Section 409A of the Code.

(a) This Agreement is intended to meet the requirements of the "short-term deferral exception," "separation pay exception" and other exceptions under section 409A of the Code, as applicable. However, if the Employee is a Key Employee and if required by section 409A of the Code, no payments or benefits under this Agreement shall be paid to the Employee during the Postponement Period. If payment is required to be delayed for the Postponement Period pursuant to section 409A, the accumulated amounts withheld on account of section 409A, with interest as described in Section 6 above, shall be paid in a lump sum payment within 15 days after the end of the Postponement Period. If the Employee dies during the Postponement Period prior to the payment of benefits, the amounts withheld on account of section 409A, with interest as described above, shall be paid to the Employee's estate within 60 days after the Employee's death.

(b) Notwithstanding anything in this Agreement to the contrary, if required by section 409A, payments may only be made under this Agreement upon an event and in a manner permitted by section 409A, to the extent applicable. As used in the Agreement, the term "termination of employment" shall mean the Employee's separation from service with the Company and its Subsidiaries and Affiliates within the meaning of section 409A and the regulations promulgated thereunder. For purposes of section 409A, each payment under the Agreement shall be treated as a separate payment. In no event may the Employee designate the year of payment for any amounts payable under the Agreement. All reimbursements and in-kind benefits provided under the Agreement shall be made or provided in accordance with the requirements of section 409A of the Code.

16. Governing Law. This Agreement shall be governed by and interpreted under the laws of the Commonwealth of Pennsylvania without giving effect to any conflict of laws provisions.

17. Contents of Agreement; Amendment. This Agreement supersedes all prior agreements with respect to the subject matter hereof (including without limitation any other change in control agreement in effect between the Company or a Subsidiary or Affiliate and the Employee) and sets forth the entire understanding between the parties hereto with respect to the subject matter hereof. This Agreement cannot be amended except pursuant to approval by the Board and a written amendment executed by the Employee and the Chair of the Compensation Committee. The provisions of this Agreement may require a variance from the terms and conditions of certain compensation or bonus plans under circumstances where such plans would not provide for payment thereof in order to obtain the maximum benefits for the Employee. It is the specific intention of the parties that the provisions of this Agreement shall supersede any provisions to the contrary in such plans, and such plans shall be deemed to have been amended to correspond with this Agreement without further action by the Company or the Board.

18. No Right to Continued Employment. Nothing in this Agreement shall be construed as giving the Employee any right to be retained in the employ of the Company or a Subsidiary or Affiliate.

19. Successors and Assigns. All of the terms and provisions of this Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective heirs, representatives, successors and assigns of the parties hereto, except that the duties and responsibilities of the Employee and the Company hereunder shall not be assignable in whole or in part.

20. Severability. If any provision of this Agreement or application thereof to anyone or under any circumstances shall be determined to be invalid or unenforceable, such invalidity or unenforceability shall not affect any other provisions or applications of this Agreement which can be given effect without the invalid or unenforceable provision or application.

21. Remedies Cumulative; No Waiver. No right conferred upon the Employee by this Agreement is intended to be exclusive of any other right or remedy, and each and every such right or remedy shall be cumulative and shall be in addition to any other right or remedy given hereunder or now or hereafter existing at law or in equity. No delay or omission by the Employee in exercising any right, remedy or power hereunder or existing at law or in equity shall be construed as a waiver thereof.

22. Miscellaneous. All section headings are for convenience only. This Agreement may be executed in several counterparts, each of which is an original. It shall not be necessary in making proof of this Agreement or any counterpart hereof to produce or account for any of the other counterparts.

23. Arbitration. In the event of any dispute under the provisions of this Agreement other than a dispute in which the sole relief sought is an equitable remedy such as an injunction, the parties shall be required to have the dispute, controversy or claim settled by arbitration in Montgomery County, Pennsylvania, in accordance with the commercial arbitration rules then in effect of the American Arbitration Association, before one arbitrator who shall be an executive officer or former executive officer of a publicly traded corporation, selected by the parties. Any award entered by the arbitrator shall be final, binding and nonappealable and judgment may be entered thereon by either party in accordance with applicable law in any court of competent jurisdiction. This arbitration provision shall be specifically enforceable. The arbitrator shall have no authority to modify any provision of this Agreement or to award a remedy for a dispute involving this Agreement other than a benefit specifically provided under or by virtue of the Agreement. The Company shall be responsible for all of the fees of the American Arbitration Association and the arbitrator and any expenses relating to the conduct of the arbitration (including reasonable attorneys' fees and expenses).

IN WITNESS WHEREOF, the undersigned, intending to be legally bound, have executed this Agreement as of the date first written above. By executing this Agreement, the undersigned acknowledge that this Agreement replaces and supersedes any other understanding regarding the matters described herein.

UGI Utilities, Inc.

By: ______________________

____

EXHIBIT A
UGI UTILITIES, INC.
CHANGE IN CONTROL

For purposes of this Agreement, "Change in Control" shall mean:

(i) Any Person (except the Employee, his Affiliates and Associates, UGI Corporation ("UGI"). any Subsidiary of UGI, any employee benefit plan of UGI or of any Subsidiary of UGI, or any Person or entity organized, appointed or established by UGI or any Subsidiary of UGI for or pursuant to the terms of any such employee benefit plan), together with all Affiliates and Associates of such Person, becomes the Beneficial Owner in the aggregate of 20% or more of either (i) the then outstanding shares of common stock of UGI (the "Outstanding UGI Common Stock") or (ii) the combined voting power of the then outstanding voting securities of UGI entitled to vote generally in the election of directors (the "UGI Voting Securities"); or

(ii) Individuals who, as of the beginning of any 24-month period, constitute the UGI Board of Directors (the "Incumbent UGI Board") cease for any reason to constitute at least a majority of the Incumbent UGI Board, provided that any individual becoming a director of UGI subsequent to the beginning of such period whose election or nomination for election by the UGI stockholders was approved by a vote of at least a majority of the directors then comprising the Incumbent UGI Board shall be considered as though such individual were a member of the Incumbent UGI Board, but excluding, for this purpose, any such individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the Directors of UGI; or

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

(iv) (A) Consummation of a complete liquidation or dissolution of UGI or (B) sale or other disposition of all or substantially all of the assets of UGI other than to a corporation with respect to which, following such sale or disposition, more than 50% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors is then owned beneficially, directly or indirectly, by all or substantially all of the individuals and entities who were the Beneficial Owners, respectively, of the Outstanding UGI Common Stock and UGI Voting Securities immediately prior to such sale or disposition in substantially the same proportion as their ownership of the Outstanding UGI Common Stock and UGI Voting Securities, as the case may be, immediately prior to such sale or disposition; or

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

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

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

EXHIBIT 31.1

CERTIFICATION

I, Robert F. Beard, certify that:

1. I have reviewed this periodic report on Form 10-Q of UGI Utilities, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

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

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

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

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

Date: February 7, 2019

/s/ Robert F. Beard

Robert F. Beard
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, Daniel J. Platt, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: February 7, 2019

/s/ Daniel J. Platt

Daniel J. Platt

Vice President - Finance and Chief Financial Officer

EXHIBIT 32

Certification by the Chief Executive Officer and Chief Financial Officer

Relating to a Periodic Report Containing Financial Statements

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

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

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

CHIEF EXECUTIVE OFFICER	CHIEF FINANCIAL OFFICER
/s/ Robert F. Beard	/s/ Daniel J. Platt
Robert F. Beard	Daniel J. Platt
Date: February 7, 2019	Date: February 7, 2019