



# UGI

CORPORATION

2016 ANNUAL REPORT

## CONTINUING TO DELIVER



New AmeriGas  
photo to be taken

New Flaga or  
Antargaz photo  
to be taken



**UGI Corporation (NYSE: UGI)** is a holding company that, through subsidiaries, distributes and markets energy products and related services. UGI Corporation common stock is a balanced growth and income investment. The Company has paid common dividends for 132 consecutive years and increased its dividend in each of the last 29 years.

**AmeriGas Partners, L.P.** (NYSE: APU) is the nation's largest retail propane marketer, serving approximately 2 million customers in all 50 states from approximately 2,000 locations. UGI Corporation, through subsidiaries, is the sole General Partner and owns 26% of the Partnership; the public owns the remaining 74%.

**UGI France, Flaga** and **AvantiGas** are the wholly owned subsidiaries of UGI that distribute liquefied petroleum gases (LPG) in Europe. UGI France, through Antargaz and Finagaz, is the largest LPG distributor in France, and Antargaz is the largest LPG distributor in Luxembourg and one of the largest LPG distributors in the Netherlands and Belgium. Flaga is the largest distributor of LPG in Austria, Denmark and Hungary and one of the largest distributors of LPG in Poland, the Czech Republic, Slovakia, Norway and Sweden. AvantiGas distributes LPG in the United Kingdom.

**Regions to come**

**UGI Utilities, Inc.** operates a regulated natural gas distribution business that serves nearly 617,000 customers in portions of 46 eastern and central Pennsylvania counties and more than 500 customers in portions of one Maryland county through its distribution system of approximately 12,000 miles of gas mains. UGI Utilities, Inc. also provides regulated electric utility service to approximately 62,000 customers in portions of Luzerne and Wyoming counties in northeastern Pennsylvania.

**UGI Energy Services** sells natural gas, electricity and liquid fuels to approximately 20,000 residential, commercial and industrial customers in ten eastern states and the District of Columbia and conducts UGI's midstream natural gas business through its ownership of underground natural gas storage, gas peaking plants, and pipeline assets in Pennsylvania. UGI Energy Services also owns all or a portion of electric generation assets, principally in Pennsylvania.

## Continuing to Deliver

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## UGI Corporation 2016 Annual Report

# Financial Highlights

Year Ended September 30, **2016** 2015 2014

## Income Statement Data (millions, except per share data)

Revenues	\$ 6,691.1	\$ 8,277.3
Operating income	\$ 834.9	\$ 1,005.6
Net income attributable to UGI (GAAP)	\$ 281.0	\$ 337.2
Adjusted net income attributable to UGI <sup>(1)</sup>	\$ 353.8	\$ 353.8
Earnings per share – diluted (GAAP)	\$ 1.60	\$ 1.92
Adjusted earnings per share (diluted) <sup>(1)</sup>	\$ 2.01	\$ 2.02

## Business Segment Data (millions of dollars)

Net income (loss) attributable to UGI (GAAP)		
AmeriGas Propane	\$ 61.0	\$ 63.0
UGI International	\$ 52.7	\$ 48.3
Gas Utility	\$ 115.8	\$ 118.8
Midstream & Marketing	\$ 108.9	\$ 117.8
Corporate & Other <sup>(2)</sup>	\$ (57.4)	\$ (10.7)

## Common Stock Data

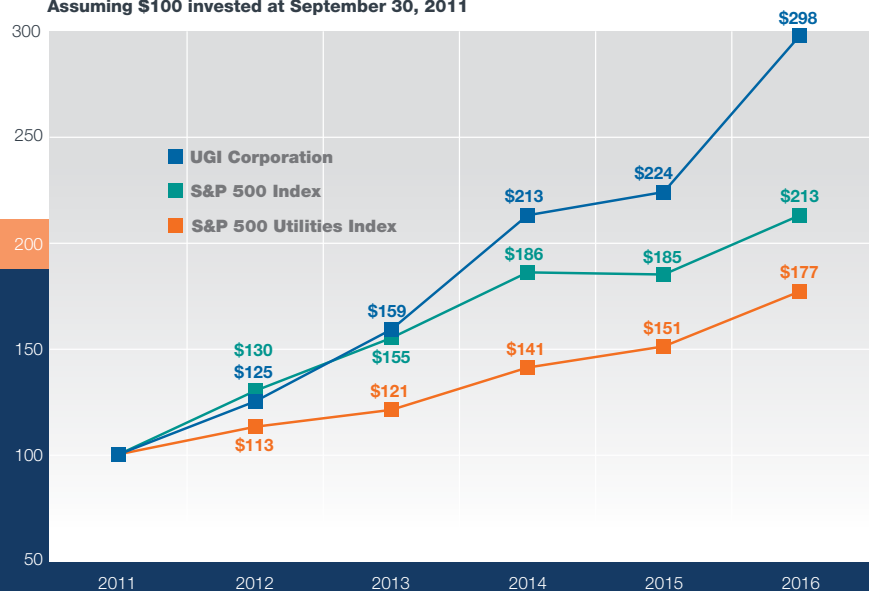
Shares outstanding (millions)	172.4	172.3
Return on average common equity	10.5%	13.1%
Book value per common share	\$ 15.62	\$ 15.44
Annualized dividend rate per common share	\$ 0.91	\$ 0.87
Market price of common stock		
High	\$ 39.74	\$ 36.69
Low	\$ 31.54	\$ 25.25
Close	\$ 34.82	\$ 34.09

(1) Adjusted net income attributable to UGI and Adjusted earnings per share (diluted) are not measures of performance or financial condition under accounting principles generally accepted in the United States of America ("GAAP"). For a more complete description of these non-GAAP measures, why management believes these non-GAAP measures are meaningful to investors, and reconciliations of these measures to net income attributable to UGI and diluted earnings per share, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in UGI Corporation's Annual Report on Form 10-K for the fiscal year ended September 30, 2015.

(2) Includes net after-tax gains and (losses) on commodity derivative instruments not associated with current period transactions totalling \$(53.3), \$(6.6) and \$4.3 in 2015, 2014 and 2013, respectively.

## Five-Year Cumulative Total Shareholder Return

Comparison between UGI Corporation, S&P 500 Index and S&P 500 Utilities Index  
Assuming \$100 invested at September 30, 2011



## To Our Shareholders

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### AmeriGas

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### UGI International

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**Marvin O. Schlanger John L. Walsh**

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**John L. Walsh**  
President and  
Chief Executive Officer

**Marvin O. Schlanger**  
Chairman of the Board



**UGI Utilities**

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**UGI Energy Services**

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# Continuing to Deliver: Sustainable Business Operations



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## Auburn Pennsylvania

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# Corporate Information

## Annual Meeting

The Annual Meeting of Shareholders will be held at 10:00 a.m. on Tuesday, January 24, 2017 in Ballrooms A and B of the Desmond Hotel and Conference Center, One Liberty Boulevard, Malvern, Pennsylvania 19355.

## Investor Services

### Transfer Agent and Registrar

Shareholder communications regarding transfer of shares, book-entry shares, lost certificates, lost dividend checks or changes of address should be directed to:

By Mail:	By Overnight Delivery:
Computershare Investor Services	Computershare Investor Services
P.O. Box 30170	211 Quality Circle, Suite 210
College Station, TX 77842-3170	College Station, TX 77845

800-850-1774 (U.S. and Canada), 312-360-5100 (other countries)

Shareholders can also view real-time account information and request transfer agent services online at the Computershare Investor Services website: [www.computershare.com/investor](http://www.computershare.com/investor). Computershare Investor Services can be accessed through telecommunications devices for the hearing impaired by calling:

800-822-2794 (U.S. and Canada), 312-588-4110 (other countries)

### Dividend Reinvestment and Direct Stock Purchase Plan

The plan is sponsored and administered by Computershare, N.A. and provides investors with a simple and convenient method to purchase shares of UGI Common Stock. Shareholders may use all or any part of the dividends they receive to purchase shares of Common Stock. The plan also permits participants to make monthly cash purchases of Common Stock not exceeding \$75,000 per year. Investors may become participants by making an initial cash investment of at least \$1,000 but not more than \$75,000. All such purchases are without brokerage commissions or service charges. For information about the Plan, write or call:

Computershare CIP c/o Computershare Investor Services  
P.O. Box 30170  
College Station, TX 77842-3170  
800-850-1774

Plan information is also available on the Computershare Investor Services website: [www.computershare.com/investor](http://www.computershare.com/investor)

## Investor Relations

Securities analysts, portfolio managers and other members of the professional investment community should direct inquiries about the Company to:

Treasurer  
UGI Corporation  
P.O. Box 858  
Valley Forge, PA 19482  
610-337-1000

### News, Earnings, Financial Reports and Governance Documents

Comprehensive news, webcast events, governance documents and other information about UGI and AmeriGas Partners, L.P. are available via the internet at [www.ugicorp.com](http://www.ugicorp.com).

You can request reports filed with the SEC and corporate governance documents, including the Company's Codes of Ethics, Principles of Corporate Governance, and the charters for each of the companies' Board Committees, free of charge, by writing to Treasurer, UGI Corporation, at the address above.

## Board of Directors:

### Marvin O. Schlanger

Chairman of the Board  
Principal, Cherry Hill Chemical Investments, LLC

### John L. Walsh

President and Chief Executive Officer

### M. Shawn Bort

Retired Senior Vice President – Finance, Saint-Gobain Corporation

### Richard W. Gochbauer

Retired Chief Executive Officer, United Stationers, Inc.

### Frank s. Hermance

Chairman of the Board, AMETEK, Inc.

### Ernest E. Jones

President and Chief Executive Officer, EJones Consulting, LLC and Former President and CEO, Philadelphia Work Force Development Corp.

### Anne Pol

Retired President and Chief Operating Officer,  
Trex Enterprises Corporation

### James B. Stallings, Jr.

Managing Partner, PS27 Ventures, LLC

### Roger B. Vincent

Retired President, Springwell Corporation

## Officers\*

### UGI Corporation

**John L. Walsh**  
President and  
Chief Executive Officer

### Davinder S. Athwal

Chief Risk Officer

### Kirk R. Oliver

Chief Financial Officer

### Monica M. Gaudiosi

Vice President and  
General Counsel, Secretary

### Marie-Dominique Ortiz-Landazabal

Vice President – Accounting and  
Financial Control and  
Chief Accounting Officer

### Bradley C. Hall

Vice President –  
New Business Development

### Erika A. Spott

Vice President – Human Resources  
and Global Leadership Development

### G. Gary Garcia

Treasurer

### Robert J. Cane

General Auditor

### AmeriGas Propane, Inc.

**Jerry E. Sheridan**  
President and  
Chief Executive Officer

### UGI Utilities, Inc.

**Robert F. Beard**  
President and  
Chief Executive Officer

### UGI Enterprises, Inc.

**Bradley C. Hall**  
President

### UGI International, LLC

**Roger Perreault**  
President

\*As of September 30, 2016



**UGI**  
CORPORATION

P.O. Box 858  
Valley Forge, PA 19482

You can obtain news and other information about  
UGI Corporation and AmeriGas Partners, L.P. at  
[www.ugicorp.com](http://www.ugicorp.com) or [www.amerigas.com](http://www.amerigas.com)







# UGI UTILITIES INC

## FORM 424B2

(Prospectus filed pursuant to Rule 424(b)(2))

Filed 09/26/08

Address	2525 N. 12TH STREET, SUITE 360 READING, PA 19612
Telephone	6107963400
CIK	0000100548
SIC Code	4932 - Gas and Other Services Combined
Fiscal Year	09/30

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Filed Pursuant to Rule 424(b)(2)  
Registration File Number 333-150719

## PROSPECTUS SUPPLEMENT TO PROSPECTUS DATED MAY 19, 2008

**UGI Utilities, Inc.****\$108,000,000 6.375% Senior Notes Due 2013**

We are offering \$108 million of 6.375% Senior Notes due 2013. We will pay interest on the notes semi-annually in arrears on March 30 and September 30 of each year until maturity, beginning on March 30, 2009. The notes will mature on September 30, 2013. We may redeem the notes, in whole or in part, at any time prior to maturity by paying the make-whole price described in this prospectus supplement. We must redeem all of the notes under the circumstances and at the redemption price described in this prospectus supplement under the caption "Description of the Notes—Special Mandatory Redemption of the Notes."

Please read the information described under the captions "Description of the Notes" in this prospectus supplement and "Description of Debt Securities" in the accompanying prospectus for a more detailed description of the terms of the notes.

**Investing in the notes involves risks. See "Risk Factors" beginning on page S- 6 of this prospectus supplement to read about important factors you should consider before buying the notes.**

	Price to Public(1)	Underwriting Discounts and Commissions	Proceeds to UGI Utilities
Per 6.375% Senior Note due 2013	100.0%	0.6%	99.4%
Total	\$108,000,000	\$ 648,000	\$107,352,000

(1) Plus accrued interest from October 1, 2008, if settlement occurs after that date.

The notes will be our senior unsecured obligations and, as described in this prospectus supplement under the caption "Description of the Notes," will rank equally with all of our other senior unsecured indebtedness. The notes will not be listed on any securities exchange or included in any automated quotation system.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement and the accompanying prospectus. Any representation to the contrary is a criminal offense.**

The underwriters expect to deliver the notes on or about October 1, 2008 through the book-entry facilities of The Depository Trust Company.

*Joint Bookrunners***Wachovia Securities****Citi****Credit Suisse**

The date of this prospectus supplement is September 24, 2008

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**Table of Contents****ABOUT THIS PROSPECTUS SUPPLEMENT**

This document is in two parts. The first part is the prospectus supplement, which describes the terms of this offering of the notes. The second part is the accompanying prospectus dated May 19, 2008, which is part of the Registration Statement on Form S-3 (Registration No. 333-150719). Generally, when we refer to the “prospectus,” we are referring to both parts combined. If the description of the offering of the notes varies between this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement. If any information in this prospectus supplement conflicts with any information that has been incorporated by reference, you should rely on the most recent information.

**You should rely only on the information contained in or incorporated by reference into this prospectus supplement, the accompanying prospectus or any free writing prospectus authorized by UGI Utilities, Inc. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. You should not assume that the information contained in or incorporated by reference into this prospectus supplement and the accompanying prospectus is accurate as of any date other than the date of the document in which such information appears.**

**WHERE YOU CAN FIND MORE INFORMATION**

This prospectus supplement does not repeat important information that you can find in the accompanying prospectus or in the Registration Statement on Form S-3 and in the reports and other documents that we file with the Securities and Exchange Commission (the “SEC”) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). The SEC allows us to “incorporate by reference” the information we file with it, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this prospectus supplement, and information that we file later with the SEC will automatically update and supersede that information. We incorporate by reference the following documents, as well as all future documents filed with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act until we terminate this offering:

- Annual Report on Form 10-K for the fiscal year ended September 30, 2007;
- Quarterly Reports on Form 10-Q for the quarters ended December 31, 2007, March 31, 2008, and June 30, 2008; and
- Current Reports on Form 8-K dated March 5, 2008, September 22, 2008, and September 24, 2008.

We will provide you with a copy of any or all of the information that has been incorporated by reference in the prospectus but not delivered with the prospectus. We will provide this information upon written or oral request at no cost to you. To make a request, please contact:

Robert H. Knauss, Esq.  
Vice President and General Counsel  
UGI Utilities, Inc.  
100 Kachel Boulevard, Suite 400  
Green Hills Corporate Center  
Reading, PA 19607  
(610) 796-3400

We are not required to, and do not, provide annual reports to holders of our debt securities unless specifically requested by a holder.

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**Table of Contents****FORWARD-LOOKING STATEMENTS**

Some information in this prospectus supplement, as well as in the accompanying prospectus and the documents that we have incorporated by reference, may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act. Such statements use forward-looking words such as “believe,” “plan,” “anticipate,” “continue,” “estimate,” “expect,” “may,” “will,” or other similar words. These statements discuss plans, strategies, events or developments that we expect or anticipate will or may occur in the future.

A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. We believe that we have chosen these assumptions or bases in good faith and that they are reasonable. However, we caution you that actual results almost always vary from assumed facts or bases, and the differences between actual results and assumed facts or bases can be material, depending on the circumstances.

When considering forward-looking statements, you should keep in mind the following important factors that could affect our future results and could cause those results to differ materially from those expressed in our forward-looking statements: (1) inability to successfully manage acquisitions; (2) adverse weather conditions resulting in reduced demand; (3) price volatility and the availability of oil, electricity and natural gas and the capacity to transport them to market areas; (4) inability to timely recover costs through rate proceedings; (5) changes in laws, regulations, and standards affecting, among other things, safety, tax and accounting matters; (6) the impact of pending and future legal proceedings; (7) competitive pressures from the same and alternative energy sources; (8) liability for environmental claims; (9) customer conservation measures due to high energy prices and improvements in energy efficiency and technology resulting in reduced demand; (10) adverse labor relations; (11) large customer, counterparty or supplier defaults; (12) increased uncollectible accounts receivable; (13) liability in excess of insurance coverage for personal injury and property damage arising from operating hazards and risks incidental to distributing electricity and transporting, storing and distributing natural gas, and catastrophic events, including acts of terrorism; (14) political, regulatory and economic conditions in the United States; and (15) reduced access to capital markets and interest rate fluctuations.

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

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**OFFERING SUMMARY**

*This is a summary of the offering. The summary may not contain all of the information about us and the notes that may be important to you. To learn more about us and the notes, you should carefully read this prospectus supplement, the accompanying prospectus, and the detailed information, including the financial statements and notes to those financial statements, incorporated by reference into this prospectus supplement and the accompanying prospectus. In addition, you should pay particular attention to the "Risk Factors" section beginning on page S-6 to determine whether an investment in the notes is appropriate for you. All references to "we," "our," "us," or "the Company" in this document mean UGI Utilities, Inc. and its subsidiaries, unless the context otherwise requires.*

**Who We Are**

We are a public utility company that owns and operates two natural gas distribution utilities and an electric utility in Pennsylvania. We are a wholly owned subsidiary of UGI Corporation ("UGI Corp").

Our Gas Utility segment ("Gas Utility") consists of our regulated natural gas distribution business and that of our wholly owned subsidiary, UGI Penn Natural Gas, Inc. ("UGIPNG"). Gas Utility served approximately 478,000 customers in eastern and northeastern Pennsylvania as of September 30, 2007. We acquired UGIPNG from Southern Union Company on August 24, 2006. Our Electric Utility segment ("Electric Utility") consists of our regulated electric distribution business, serving approximately 62,000 customers in northeastern Pennsylvania as of September 30, 2007. Gas Utility and Electric Utility are regulated by the Pennsylvania Public Utility Commission (the "PUC").

We were incorporated in Pennsylvania in 1925. Our executive offices are located at 100 Kachel Boulevard, Suite 400, Green Hills Corporate Center, Reading, Pennsylvania 19607, and our telephone number is (610) 796-3400. Our website is <http://www.ugi.com>. The information contained in or connected to our website is not incorporated into, and does not constitute a part of, this prospectus supplement or the accompanying prospectus.

**Our Business Strengths**

We believe that our business strengths include the following:

- a history of delivering superior customer service as recognized by J.D. Power and Associates;
- a favorable regulatory environment with gas-cost pass-through mechanisms for our gas utilities; and
- an experienced management team with a successful track record of growing the regulated gas utility operations within our service territory, including through acquisitions.

**Acquisition of PPL Gas Utilities Corporation**

On March 5, 2008, we signed a definitive agreement to acquire all of the issued and outstanding stock of PPL Gas Utilities Corporation ("PPL Gas"), the natural gas distribution utility of PPL Corporation, for approximately \$268 million plus working capital. Immediately after the closing, we intend to sell the assets of PPL Gas' wholly owned subsidiary Penn Fuel Propane, LLC ("Penn Fuel"), a retail propane distributor, to AmeriGas Propane, L.P., one of our affiliates, for cash consideration of approximately \$32 million plus working capital. PPL Gas distributes natural gas to approximately 75,000 customers in 34 counties in eastern and central Pennsylvania, and also distributes natural gas to several hundred customers in portions of one county in Maryland. PPL Gas is regulated by the PUC and the Maryland Public Service Commission (the "MPSC"). For its last fiscal year ended December 31, 2007, PPL Gas had net income of \$7.3 million and earnings before interest (\$5.5 million), taxes (\$7.2 million) and depreciation and amortization (\$9.2 million) of \$29.2 million. We are disclosing PPL Gas' earnings before interest, taxes, depreciation and amortization to provide additional information to investors about PPL Gas' underlying results.

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PPL Gas' natural gas distribution system consists of approximately 4,098 miles of pipeline mains, with 20 miles in Maryland and the remainder in Pennsylvania. It also has natural gas storage facilities in Pennsylvania. PPL Gas has approximately 300 employees.

We expect to realize a number of economic and strategic benefits as a result of our acquisition of PPL Gas. We believe that the transaction will provide:

- resources to allow us to continue to grow within our expanded service territory;
- service territories that complement our own; and
- the opportunity for sharing of best practices.

We expect to fund the acquisition of PPL Gas with a combination of cash on the balance sheet contributed by UGI Corp, borrowings under our revolving credit agreement, and the net proceeds from this offering. The acquisition has been approved by the PUC and the MPSC. The closing of the transaction currently is scheduled for October 1, 2008.

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<b>The Offering</b>	
Issuer	UGI Utilities, Inc.
Securities Offered	\$108 million aggregate principal amount of 6.375% senior notes due 2013.
Maturity Date	The notes mature on September 30, 2013.
Interest Rate	6.375% per annum. Interest on the notes will accrue from October 1, 2008, calculated on a basis of a 360-day year consisting of twelve 30-day months.
Interest Payment Dates	Each March 30 and September 30, commencing on March 30, 2009.
Ranking	The notes will rank equally in right of payment with all of our existing and future senior unsecured indebtedness, including our medium term notes, our outstanding senior notes and our bank credit facility. As of June 30, 2008, we had \$562 million of indebtedness outstanding and additional borrowing capacity of \$320 million under our bank credit facility. See "Capitalization." The notes will be structurally subordinated to any future indebtedness of our subsidiaries and effectively subordinated to any of our future indebtedness that is secured, to the extent of the value of the assets securing such indebtedness.
Optional Redemption	We may redeem the notes, in whole or in part, at any time by paying the make-whole price described in this prospectus supplement. See "Description of the Notes—Optional Redemption."
Special Mandatory Redemption of the Notes	If our proposed acquisition of PPL Gas is not completed on or prior to November 15, 2008 or the Stock Purchase Agreement is terminated on or prior to that date, we must redeem the notes at a redemption price equal to 100% of the aggregate principal amount of the notes, plus accrued and unpaid interest from the date of initial issuance to but excluding the redemption date. See "Description of the Notes—Special Mandatory Redemption of the Notes."
Certain Covenants	The terms of the indenture governing the notes restrict our ability to create certain liens, enter into certain sale and leaseback transactions, or, in certain cases, to consolidate, merge or transfer all or substantially all of our assets. These restrictions are subject to a number of important qualifications and exceptions, which are described under "Description of the Notes—Restrictive Indenture Provisions" and "—Consolidation, Merger, Sale or Conveyance."
Events of Default	If an event of default occurs, the principal amount of the notes then outstanding, together with any accrued interest, may be declared immediately due and payable, except that upon the occurrence of certain bankruptcy related events of default, such principal and interest will become immediately payable without any such declaration. See "Description of the Notes—Events of Default."



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Form and Denomination	The notes will be represented by one or more global notes issued in fully registered form that, when issued, will be registered in the name of Cede & Co., as registered owner and as nominee for DTC. Purchases and transfers of beneficial interests in such notes will be made in book-entry form. Purchases of notes or beneficial interests in the notes may be made in denominations of \$1,000 or any integral multiples thereof.
Use of Proceeds	We estimate that our net proceeds from this offering, after deducting estimated underwriting discounts and commissions and estimated offering expenses, will be approximately \$107.0 million. We intend to use the net proceeds from the sale of the notes, as well as cash on the balance sheet contributed by UGI Corp and borrowings under our revolving credit agreement, to finance our acquisition of PPL Gas. See “Use of Proceeds.”
Trustee, Registrar and Paying Agent	U.S. Bank National Association.
Risk Factors	See “Risk Factors” beginning on page S-6 and other information included in or incorporated by reference into this prospectus supplement and the accompanying prospectus for a discussion of information you should carefully consider before investing in the notes.

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**Summary Financial Information**

The following summary financial data of UGI Utilities, Inc., insofar as they relate to each of the years in the three-year period ended September 30, 2007, have been derived from our audited annual consolidated financial statements and the notes thereto, which are incorporated by reference into this prospectus supplement. In addition, the following summary financial data of UGI Utilities, Inc., insofar as they relate to the nine-month periods ended June 30, 2008 and 2007, have been derived from our unaudited condensed consolidated financial statements for the nine-month periods ended June 30, 2008 and 2007 and the notes thereto, which are incorporated by reference into this prospectus supplement, and which, in the opinion of our management, include all adjustments (consisting of normal recurring adjustments) that are necessary for a fair presentation of our financial position and results of operations for such periods. The operating results for the nine-month period ended June 30, 2008 are not necessarily indicative of the results that may be expected for the entire year. The following data should be read in conjunction with UGI Utilities' historical audited and unaudited consolidated financial statements, and the related notes thereto, which are incorporated herein by reference.

	<u>Nine Months Ended June 30,</u>		<u>Year Ended September 30,</u>		
	<u>2008</u>	<u>2007</u>	<u>2007</u>	<u>2006(1)</u>	<u>2005</u>
	(in thousands)				
<b>Statement of Operations Data:</b>					
Revenues	\$1,119,930	\$1,019,827	\$1,183,247	\$822,069	\$681,152
Depreciation and amortization	30,826	30,610	40,934	26,617	23,827
Operating income	160,336	154,174	165,093	104,889	103,279
Interest expense	29,880	32,117	42,327	24,345	18,326
Net income	77,967	73,552	74,187	48,641	50,821

- (1) Includes the results of the natural gas distribution business of Southern Union Company's PG Energy division beginning on August 24, 2006, the date of our acquisition of that business.

	<u>As of June 30, 2008</u>
	(in thousands)
<b>Balance Sheet Data:</b>	
Cash and cash equivalents	\$ 8,401
Total debt	562,000
Stockholder's equity	598,348

**Ratio of earnings to fixed charges**

	<u>Nine months ended June 30,</u>		<u>Year ended September 30,</u>			
	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Ratio of earnings to fixed charges	5.17	3.76	4.08	5.26	5.28	6.25

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**RISK FACTORS**

*You should consider the risks described below and the information under the heading “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended September 30, 2007, which is incorporated by reference into this prospectus supplement and the accompanying prospectus, as well as the other information included or incorporated by reference into this prospectus supplement and the accompanying prospectus, before making a decision to invest in the notes. Additional risks not presently known to us or that we currently deem immaterial may also impair our financial condition and business operations.*

**Risks Relating to the Notes**

***The indenture does not restrict the amount of additional debt that we may incur.***

The indenture under which the notes will be issued does not place any limitation on the amount of unsecured debt that we may incur. Our incurrence of additional debt may have important consequences for you as a holder of the notes, including making it more difficult for us to satisfy our obligations with respect to the notes and reducing the trading value of your notes, if any.

***There may be no trading market for the notes.***

We do not intend to list the notes on any securities exchange or to seek approval for quotations through any automated quotation system. For these reasons, we cannot assure you that:

- a liquid market for the notes will develop;
- you will be able to sell your notes; or
- you will receive any specific price upon any sale of the notes.

If a public market for the notes develops, the notes could trade at prices that may be higher or lower than their principal amount or purchase price, depending on many factors, including prevailing interest rates, the market for similar notes, and our financial performance.

**Risk Relating to Our Acquisition of PPL Gas**

***If we fail to successfully manage the acquisition of PPL Gas, our financial results may be adversely affected.***

We expect to complete the acquisition of the capital stock of PPL Gas from PPL Corporation on or about October 1, 2008. The acquisition of PPL Gas will increase the size of our natural gas utility business by adding approximately 75,000 customers to our pre-acquisition natural gas utility customer base as of September 30, 2007 of approximately 478,000 customers. Management may be distracted from day to day business operations in their efforts to successfully manage the PPL Gas business. If we fail to successfully manage the new acquisition, our business and financial condition could be adversely affected.

**Risks Relating to Our Business**

***Decreases in the demand for natural gas and electricity because of warmer-than-normal heating season weather could adversely affect our results of operations, financial condition and cash flows because our rate structure does not contain weather normalization provisions.***

Because many of our customers rely on natural gas or electricity to heat their homes, our results of operations are adversely affected by warmer-than-normal heating season weather. Weather conditions have a significant impact on the demand for natural gas and electricity for heating purposes. Accordingly, demand for natural gas and electricity is generally at its highest during the five-month peak heating season of November

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through March and is directly affected by the severity of the winter weather. Our rate structure does not contain weather normalization provisions to compensate for warmer-than-normal weather conditions, and we have historically sold less natural gas and electricity when weather conditions are milder and, consequently, earned less income. As a result, warmer-than-normal heating season weather could reduce our net income, harm our financial condition and adversely affect our cash flows.

***Energy efficiency and technology advances, as well as price-induced customer conservation, may result in reduced demand for our energy products and services.***

The trend toward increased conservation and technological advances, including installation of improved insulation and the development of more efficient furnaces and other heating devices, may reduce the demand for energy products. Prices for natural gas are subject to volatile fluctuations in response to changes in supply and other market conditions. During periods of high energy commodity costs, our prices generally increase, which may lead to customer conservation. A reduction in demand could lower our revenues and, therefore, lower our net income and adversely affect our cash flows. We cannot predict the materiality of the effect of future conservation measures or the effect that any technological advances in heating, conservation, energy generation or other devices might have on our operations.

***Electricity supplier defaults may adversely affect our results of operations.***

Generally, we purchase our power needs from electricity suppliers under fixed-price energy and capacity contracts. Should any of the suppliers under these contracts fail to provide electric power under the terms of these contracts through December 2009, any increases in the cost of replacement power or capacity could negatively impact our results and adversely affect our cash flows because of our inability to recover these potential increases in our current rates. Under PUC default service regulations that became effective in September of 2007, however, any potential increases in the cost of replacement power or capacity resulting from supplier contract defaults for power or capacity to be delivered after 2009 can be recovered through default service rates.

***Changes in commodity market prices may have a negative effect on our liquidity.***

Depending on the terms of our contracts with suppliers as well as our use of financial instruments including natural gas futures contracts to reduce volatility in the cost of natural gas we purchase, a change in the market price of electricity or natural gas could create payment obligations for the Company and expose us to an increased liquidity risk.

***Our need to comply with comprehensive, complex, and sometimes unpredictable government regulations may increase our costs and limit our revenue growth, which may result in reduced earnings.***

There are many governmental regulations that have an impact on our businesses. Existing statutes and regulations may be revised or reinterpreted and new laws and regulations may be adopted or become applicable to the Company, which may affect our businesses in ways that we cannot predict.

***Regulators may not allow timely recovery of costs for us, UGI Penn Natural Gas, Inc., or PPL Gas Utilities Corporation in the future, which may adversely affect our results of operations.***

In our Gas Utility and Electric Utility segments, our operations are subject to regulation by the PUC. The PUC, among other things, approves the rates that we, UGIPNG, and, after the acquisition, PPL Gas may charge to our utility customers, thus impacting the returns that we, UGIPNG, and PPL Gas may earn on the assets that are dedicated to those operations. We expect to file requests with the PUC to increase base rates that we charge customers of UGIPNG and, after the acquisition, of PPL Gas, early in 2009. If we, UGIPNG, or PPL Gas are required in a rate proceeding to reduce the rates we charge our utility customers, or if we, UGIPNG, or PPL Gas are unable to obtain approval for timely rate increases from the PUC, particularly when necessary to cover increased costs, our revenue growth will be limited and earnings may decrease.

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**Table of Contents*****We are subject to operating and litigation risks that may not be covered by insurance.***

Our business operations are subject to all of the operating hazards and risks normally incidental to the handling, storage and distribution of combustible products, such as natural gas. These risks could result in substantial losses due to personal injury and/or loss of life, severe damage to and destruction of property and equipment. As a result, we are sometimes a defendant in legal proceedings and litigation arising in the ordinary course of business. We believe that we are adequately insured for claims in excess of our self-insurance; however, certain types of damages, such as punitive damages and penalties, if any, may not be covered by insurance. There can be no assurance that our insurance will be adequate to protect us from all material expenses related to pending and future claims or that such levels of insurance will be available in the future at economical prices.

***Remediation costs resulting from liability from contamination claims could reduce our net income.***

We are investigating and remediating contamination at a number of present and former operating sites in the U.S., including former sites where we or our former subsidiaries operated manufactured gas plants. We have also received claims from third parties that allege that we are responsible for costs to clean up properties where we or our former subsidiaries operated a manufactured gas plant or conducted other operations. Costs we incur to remediate sites outside of Pennsylvania cannot be recovered in our future PUC rate proceedings, and insurance may not cover all or even part of these costs. Our actual costs to clean up these sites may exceed our current estimates due to factors beyond our control, such as:

- the discovery of presently unknown conditions;
- changes in environmental laws and regulations;
- judicial rejection of our legal defenses to the third-party claims; or
- the insolvency of other responsible parties at the sites at which we are involved.

In addition, if we discover additional contaminated sites, we could be required to incur material costs, which would reduce our net income.

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**USE OF PROCEEDS**

We intend to use all of the net proceeds from the sale of the notes, as well as cash on the balance sheet contributed by UGI Corp and borrowings under our revolving credit agreement, to fund our acquisition of all of the capital stock of PPL Gas.

**CAPITALIZATION**

The following table sets forth our consolidated capitalization as of June 30, 2008 (1) on an actual basis and (2) as adjusted to give effect to (i) the consummation of this offering, (ii) the acquisition on October 1, 2008 of PPL Gas using the proceeds from this offering, the receipt of a \$120 million cash contribution from UGI Corp, and estimated borrowings of \$62.7 million under our bank credit facility, and (iii) the sale of the assets of Penn Fuel immediately after our acquisition of PPL Gas and the use of the estimated proceeds therefrom of \$33 million to repay borrowings under our bank credit facility, as if those transactions had occurred on June 30, 2008. The purchase price for PPL Gas and the sale price for the assets of Penn Fuel include estimates of the working capital in the amount of \$21 million for PPL Gas and in the amount of \$1 million for Penn Fuel as of October 1, 2008. The as adjusted amount of cash and cash equivalents reflects an estimate of the cash and cash equivalents of PPL Gas as of October 1, 2008 in the amount of \$840,000. You should read this table in conjunction with “Offering Summary—Acquisition of PPL Gas Utilities Corporation,” “Offering Summary—Summary Financial Information,” “Use of Proceeds” and our consolidated financial statements and the notes to those financial statements that are incorporated by reference into this prospectus supplement.

	June 30, 2008 (in thousands)	
	Actual	As Adjusted
Cash and cash equivalents	\$ 8,401	\$ 9,241
Debt (including current maturities):		
Bank loans	\$ 30,000	\$ 59,650
Medium-Term Notes (due 2012-2034)	257,000	257,000
5.75% Senior Notes due October 2016	175,000	175,000
6.21% Senior Notes due October 2036	100,000	100,000
6.375% Senior Notes due September 2013 offered hereby	—	108,000
Total debt	\$ 562,000	\$ 699,650
Stockholder's equity(1)	598,348	718,348
Total capitalization	\$ 1,160,348	\$ 1,417,998

(1) Does not reflect the payment to UGI Corp by UGI Utilities of a dividend in July 2008 in the amount of \$18.4 million.

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### DESCRIPTION OF THE NOTES

#### General

The following description of the notes supplements and, to the extent inconsistent, supersedes the description of the general terms and provisions of the debt securities set forth under the section entitled “Description of Debt Securities” in the accompanying prospectus. You should read the accompanying prospectus in conjunction with this prospectus supplement and any free writing prospectuses we provide to you.

We will issue the notes under an indenture dated as of August 1, 1993 between UGI Utilities, Inc. and U.S. Bank National Association, successor trustee to Wachovia Bank, National Association, as trustee, and a supplemental indenture to be dated as of the closing date, between UGI Utilities, Inc. and U.S. Bank National Association, as trustee. We are permitted to issue additional notes under the indenture in an unlimited principal amount.

We summarize selected provisions of the indenture below. Because this section is only a summary, it is not complete and does not describe every aspect of the notes. You should read the indenture before you make any investment decision. Capitalized and other terms not otherwise defined in this prospectus supplement shall have the meanings given to them in the indenture.

The notes are senior, unsecured obligations and will rank pari passu with our existing and future senior unsecured indebtedness, including our medium-term notes, outstanding senior notes and bank credit facility. As of June 30, 2008, we had \$562 million of indebtedness outstanding and additional borrowing capacity of \$320 million under our bank credit facility. See “Capitalization.” The notes will be structurally subordinated to any future indebtedness of our subsidiaries and effectively subordinated to any of our future indebtedness that is secured, to the extent of the value of the assets securing such indebtedness. The specific terms of the notes are set forth below:

- Title: 6.375% senior notes due 2013
- Stated maturity date: September 30, 2013
- Interest rate: 6.375% per annum
- Date interest starts accruing: October 1, 2008
- Interest payment dates: March 30 and September 30
- First interest payment date: March 30, 2009
- Regular record dates for interest: March 15 and September 15
- Computation of interest: on the basis of a 360-day year consisting of twelve 30-day months.
- Form of notes: one or more global notes that we will deposit with or on behalf of The Depository Trust Company (“DTC”).
- Ranking: The notes will constitute a separate series of our unsecured and unsubordinated debt securities, ranking equally with any other unsecured and unsubordinated debt of ours.

We will issue the notes in denominations of \$1,000 and integral multiples of \$1,000.

The notes will be limited initially to \$108 million aggregate principal amount. We may, without the consent of the holders, increase the principal amount of the notes in the future.

#### Optional Redemption

At any time, from time to time, we may redeem the notes, in whole or in part, at a redemption price equal to the greater of:

- 100% of the principal amount of the notes to be redeemed; and

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- the sum of the present values of the remaining scheduled payments of principal and interest on the notes to be redeemed (not including any portion of such payments of interest accrued as of the date of redemption) discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (as defined below) plus 50 basis points;

plus accrued interest to the date of redemption.

We will mail notice of any redemption to the trustee and DTC or its nominee, not less than 30 days and not more than 60 days before the redemption date. Notice by DTC or its nominee to these participants and by participants to “street name” holders of indirect interests in the notes will be made according to arrangements among them and may be subject to statutory or regulatory requirements. If we redeem only some of the notes, it is the practice of the trustee to determine by lot the amount of notes to be redeemed. Unless we default in payment of the redemption price on the redemption date, interest will cease to accrue on the notes or portions of notes called for redemption. On or before the redemption date, we will deposit with the trustee or one or more paying agents money sufficient to pay the redemption price of and accrued interest on the notes to be redeemed on that date.

“*Comparable Treasury Issue*” means the United States Treasury security selected by the Reference Treasury Dealers as having a maturity comparable to the remaining term of the notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such notes.

“*Reference Treasury Dealer*” means (1) each of Citigroup Global Markets Inc. and Credit Suisse Securities (USA) LLC, and their respective successors; and a primary U.S. Government securities dealer (a “Primary Treasury Dealer”) selected by Wachovia Capital Markets, LLC and its successors; provided that if any of the foregoing ceases to be, and has no affiliate that is, a Primary Treasury Dealer, we will substitute for it another Primary Treasury Dealer, and (2) any other Primary Treasury Dealer selected by us.

“*Reference Treasury Dealer Quotations*” means, with respect to a Reference Treasury Dealer and any redemption date, the average, as determined by the trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the trustee by that Reference Treasury Dealer at 3:30 p.m., New York City time, on the third business day preceding that redemption date.

“*Treasury Rate*” means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity (computed as of the third business day immediately preceding that redemption date) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Reference Treasury Dealer Quotations for that redemption date.

## Special Mandatory Redemption of the Notes

In the event that, for any reason, (i) the proposed acquisition of PPL Gas is not completed on or prior to November 15, 2008 or (ii) the Stock Purchase Agreement is terminated on or prior to November 15, 2008, we will redeem all of the notes on the Special Mandatory Redemption Date at the Special Mandatory Redemption Price. Notice of a special mandatory redemption will be mailed promptly after the occurrence of the event triggering redemption to each holder of the notes at its registered address. If funds sufficient to pay the Special Mandatory Redemption Price (including any accrued and unpaid interest) of all the notes to be redeemed on the Special Mandatory Redemption Date are deposited with the Paying Agent on or before such Special Mandatory Redemption Date, and certain other conditions are satisfied, on and after such Special Mandatory Redemption Date the notes will cease to bear interest.



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For purposes of the foregoing discussion of a special mandatory redemption, the following definitions are applicable:

“Special Mandatory Redemption Date” means the earlier to occur of (a) December 15, 2008 if the proposed acquisition has not been completed on or prior to November 15, 2008, or (b) the 30th day (or if such day is not a business day, the first business day thereafter) following the termination of the Stock Purchase Agreement for any reason.

“Special Mandatory Redemption Price” means 100% of the aggregate principal amount of the notes together with accrued and unpaid interest from the date of initial issuance to but excluding the Special Mandatory Redemption Date.

“Stock Purchase Agreement” means that certain Stock Purchase Agreement between PPL Corporation and us, dated as of March 5, 2008.

### Book-Entry Issuance

The notes will be represented by one or more global notes that will be deposited with and registered in the name of DTC or its nominee. We will not issue certificated notes to you, except in the limited circumstances described below. Each global note will be issued to DTC, which will keep a computerized record of its participants whose clients have purchased the notes. Each participant will then keep a record of its own clients. Unless it is exchanged in whole or in part for a certificated note, a global note may not be transferred. DTC, its nominees and their successors may, however, transfer a global note as a whole to one another, and these transfers are required to be recorded on our records or a register to be maintained by the trustee.

Beneficial interests in a global note will be shown on, and transfers of beneficial interests in the global note will be made only through, records maintained by DTC and its participants. DTC has provided us with the following information: DTC is a limited purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered under the provisions of Section 17A of the Exchange Act. DTC holds securities that its direct participants deposit with DTC. DTC also records the settlements among direct participants of securities transactions, such as transfers and pledges, in deposited securities through computerized records for direct participants’ accounts. This book-entry system eliminates the need to exchange certificated securities. Direct participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations.

DTC’s book-entry system is also used by other organizations such as securities brokers and dealers, banks and trust companies that work through a direct participant. The rules that apply to DTC and its participants are on file with the SEC.

DTC is owned by a number of its direct participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the Financial Industry Regulatory Authority.

When you purchase notes through the DTC system, the purchases must be made by or through a direct participant, which will receive credit for the notes on DTC’s records. When you actually purchase the notes, you will become their beneficial owner. Your ownership interest will be recorded only on the direct or indirect participants’ records. DTC will have no knowledge of your individual ownership of the notes. DTC’s records will show only the identity of the direct participants and the principal amount of the notes held by or through them. You will not receive a written confirmation of your purchase or sale or any periodic account statement directly from DTC. You should instead receive these from your direct or indirect participant. As a result, the direct or indirect participants are responsible for keeping accurate account of the holdings of their customers.

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The trustee will wire payments on the notes to DTC's nominee. We and the trustee will treat DTC's nominee as the owner of each global note for all purposes. Accordingly, we, the trustee and any paying agent will have no direct responsibility or liability to pay amounts due on a global note to you or any other beneficial owners in that global note.

It is DTC's current practice, upon receipt of any payment of distributions or liquidation amounts, to proportionately credit direct participants' accounts on the payment date based on their holdings. In addition, it is DTC's current practice to pass through any consenting or voting rights to such participants by using an omnibus proxy. Those participants will, in turn, make payments to and solicit votes from you, the ultimate owner of notes, based on their customary practices. Payments to you will be the responsibility of the participants and not of DTC, the trustee or the Company.

Notes represented by one or more global notes will be exchangeable for certificated notes with the same terms in authorized denominations only if:

- DTC is unwilling or unable to continue as a depository or ceases to be a clearing agency registered under applicable law, and a successor is not appointed by us within 90 days;
- an event of default occurs and is continuing in respect of the notes; or
- we decide to discontinue the book-entry system.

If a global note is exchanged for certificated notes, the trustee will keep the registration books for the notes at its corporate office and follow customary practices and procedures regarding those certificated notes.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that we believe to be reliable, but we take no responsibility for the accuracy of this information.

### Exchange, Transfer and Payment

Payments of any amounts owing in respect of the global notes will be made through one or more paying agents appointed under the indenture to DTC or its nominee as the holder of the global notes. Initially, the paying agent for the notes will be U.S. Bank National Association, as trustee, whose offices are in Philadelphia, Pennsylvania. You may exchange or transfer the notes at the same offices.

If you hold notes registered in definitive form with an aggregate principal amount equal to or greater than \$1,000,000, you may instruct us in writing to direct our paying agent to pay the principal and accrued interest of such notes directly to your account at any United States bank, as long as such written instructions are received no less than 15 days prior to a scheduled interest payment date and as long as the United States bank is equipped to receive such a direct deposit.

You may transfer or exchange notes without a service charge. We may, however, require a payment to cover any applicable tax or governmental charge.

If we have transferred funds to our paying agent to make scheduled principal or interest payments in respect of any of the notes, and you do not claim such principal or interest payment within three years, we may reclaim such funds and you will have to look to us, and not the paying agent, for payment.

### Same-Day Settlement and Payment

Settlement for the notes will be made by the underwriters in immediately available funds. For so long as the notes are represented by global notes, we will make all payments of principal and interest in immediately available funds.

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Secondary trading in long-term notes and debentures of corporate issuers is generally settled in clearing-house or next-day funds. In contrast, the notes will trade in the Same-Day Funds Settlement System maintained by DTC until maturity, and secondary market trading activity in the notes will, therefore, be required by DTC to settle in immediately available funds. We cannot assure you as to the effect, if any, of settlement in immediately available funds on trading activity in the notes.

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**Table of Contents****CERTAIN MATERIAL UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS**

The following is a summary of the material U.S. federal income tax considerations of this offering to beneficial owners of the notes. The discussion below is based upon the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), applicable Treasury regulations, rulings, administrative pronouncements and judicial decisions as of the date hereof, all of which are subject to change or differing interpretations at any time with possible retroactive effect. No assurance can be given that the Internal Revenue Service (the "IRS") will agree with the views expressed in this summary, or that a court will not sustain any challenge by the IRS in the event of litigation.

This summary deals only with notes that are held as capital assets (generally, property held for investment) within the meaning of Section 1221 of the Code. This summary does not include any description of the tax laws of any state, local or non-U.S. government that may be applicable to a particular holder and does not consider any aspects of U.S. federal tax law other than income taxation. In addition, this summary does not address tax considerations applicable to holders that may be subject to special tax rules, such as dealers or traders in securities or commodities, financial institutions or financial services entities, banks, thrifts, insurance companies, expatriates, corporations subject to Section 7874 of the Code, partnerships or other pass-through entities or investors in such entities, regulated investment companies, tax-exempt entities, persons that hold notes as a part of a hedge, straddle, conversion transaction, constructive sale or other similar arrangement, investors who received notes as compensation, holders subject to the U.S. federal alternative minimum tax, and investors who have elected mark-to-market accounting. This summary also does not address tax consequences to U.S. Holders (as defined below) whose functional currency is not the U.S. dollar.

For purposes of this discussion, a U.S. Holder is a beneficial owner of notes that is, for U.S. federal income tax purposes: (a) an individual who is a citizen or resident of the United States; (b) a corporation (or other business entity treated as a corporation) created or organized in or under the laws of the United States or any state thereof (including the District of Columbia); (c) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (d) a trust if a court within the United States can exercise primary supervision over its administration, and one or more United States persons have the authority to control all of the substantial decisions of that trust, or a trust that was in existence on August 20, 1996, and validly elected to continue to be treated as a domestic trust. A Non-U.S. Holder is any beneficial owner of notes who is neither a U.S. Holder nor a partnership for U.S. federal income tax purposes.

If a partnership (or other entity that is treated as a partnership for U.S. federal income tax purposes) is the beneficial owner of notes, the tax treatment of the partnership or a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. A beneficial owner that is a partnership and the partners in such a partnership should consult its own tax advisors regarding the tax consequences of this offering.

**The discussion set out below is intended only as a general summary of the principal U.S. federal income tax considerations of this offering to a beneficial owner of notes and is not tax or legal advice to any particular holder. You are urged to consult your own tax advisor as to the tax consequences of this offering, including the application to your particular situation of the tax considerations discussed below, as well as the application of state, local, foreign or other tax laws.**

**Consequences to U.S. Holders**

The following is a summary of the general U.S. federal income tax consequences that will apply to you if you are a "U.S. Holder" of the notes. Certain consequences to "Non-U.S. Holders" of the notes are described under "—Consequences to Non-U.S. Holders," below.

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**Table of Contents***Payments of Interest*

Subject to the discussion below, stated interest on a note will generally be taxable to a U.S. Holder as ordinary income at the time it is paid or accrued in accordance with the U.S. Holder's regular method of accounting for U.S. federal income tax purposes. Further, if as expected, the notes are issued at par or at a discount that is "de minimis" for U.S. federal income tax purposes, the notes will not be treated as issued with original issue discount for such purposes.

*Disposition of Notes*

Upon the sale, exchange, redemption or other taxable disposition of a note, a U.S. Holder generally will recognize taxable gain or loss equal to the difference between the amount realized on such disposition (except to the extent any amount realized is attributable to accrued but unpaid interest, which is treated as interest as described above) and the holder's adjusted tax basis in the note. A U.S. Holder's adjusted tax basis in a note generally will equal the cost of the note to such holder.

Gain or loss recognized on the disposition of a note generally will be capital gain or loss, and will be long-term capital gain or loss if, at the time of such disposition, the U.S. Holder's holding period for the note is more than 12 months. Certain U.S. Holders (including individuals) currently are eligible for preferential tax rates in respect of long-term capital gain. The deductibility of capital losses by U.S. Holders is subject to certain limitations.

*Information Reporting and Backup Withholding*

In general, information reporting requirements will apply to certain payments of principal, premium (if any) and interest on and the proceeds of certain sales of notes unless the U.S. Holder is an exempt recipient. A backup withholding tax may apply to such payments if the U.S. Holder fails to provide its taxpayer identification number or certification of exempt status or has been notified by the I.R.S. that payments to the U.S. Holder are subject to backup withholding.

Any amounts withheld under the backup withholding rules will generally be allowed as a refund or a credit against a U.S. Holder's U.S. federal income tax liability provided that the U.S. Holder furnishes the required information to the I.R.S. on a timely basis.

**Consequences to Non-U.S. Holders**

The following is a summary of the U.S. federal income tax consequences that will generally apply to you if you are a Non-U.S. Holder of notes.

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### *Payments of Interest*

The 30% U.S. federal withholding tax (or lower applicable treaty rate) generally will not apply to any payment to a Non-U.S. Holder of interest on a note provided that:

- such interest is not effectively connected with the conduct by the Non-U.S. Holder of a trade or business within the United States (and, if an applicable income tax treaty requires, is not attributable to a U.S. permanent establishment maintained by the Non-U.S. Holder);
- the Non-U.S. Holder does not actually or constructively (under applicable attribution rules) own 10% or more of the total combined voting power of the Company's voting stock, within the meaning of Section 871(h)(3) of the Code;
- the Non-U.S. Holder is not a controlled foreign corporation that is related to the Company directly or indirectly through stock ownership; and
- (a) the Non-U.S. Holder provides its name and address, and certifies, under penalties of perjury, that it is not a United States person (which certification may be made on an I.R.S. Form W-8BEN) or (b) a securities clearing organization, bank, or other financial institution that holds customers' securities in the ordinary course of its business holds the note on a Non-U.S. Holder's behalf and certifies, under penalties of perjury, either that it has received I.R.S. Form W-8BEN from the holder or from another qualifying financial institution intermediary or that it is permitted to establish and has established the holder's foreign status through other documentary evidence, and otherwise complies with applicable requirements. If the notes are held by or through certain foreign intermediaries or certain foreign partnerships, such foreign intermediaries or partnerships must also satisfy the certification requirements of applicable Treasury Regulations.

Subject to the following paragraph, if a Non-U.S. Holder cannot satisfy the requirements described above, payments of interest will be subject to the 30% U.S. federal withholding tax, unless the holder provides the Company with a properly executed (1) I.R.S. Form W-8BEN claiming an exemption from or reduction in withholding under an applicable tax treaty or (2) I.R.S. Form W-8ECI stating that interest paid on the note is not subject to withholding tax because it is effectively connected with the holder's conduct of a trade or business in the United States.

If a Non-U.S. Holder is engaged in a trade or business in the United States and interest on a note is effectively connected with the conduct of that trade or business (and, if an income tax treaty applies, the interest is attributable to a U.S. permanent establishment), the Non-U.S. Holder will instead be required to pay U.S. federal income tax on that interest on a net income basis in the same manner as if the Non-U.S. Holder were a U.S. Holder. In addition, if a Non-U.S. Holder is a foreign corporation, it may be subject to a branch profits tax equal to 30% (or lower applicable treaty rate) of its earnings and profits for the taxable year, subject to adjustments, that are effectively connected with its conduct of a trade or business in the United States. For this purpose, interest on the notes that is effectively connected with your conduct of a trade or business in the United States would be included in your earnings and profits.

### *Disposition of Notes*

Any gain recognized upon the sale, exchange, redemption or other taxable disposition of a note (except with respect to accrued and unpaid interest, which would be taxable as such) will not be subject to the 30% U.S. federal withholding tax. Such gain also generally will not be subject to U.S. federal income tax unless:

- that gain is effectively connected with a Non-U.S. Holder's conduct of a trade or business in the United States (and, if an income tax treaty applies, is attributable to a U.S. permanent establishment); or
- the Non-U.S. Holder is an individual who is present in the United States for 183 days or more in the taxable year of the disposition, and certain other conditions are met.

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A Non-U.S. Holder described in the first bullet point above will generally be required to pay U.S. federal income tax on the net gain derived from the sale and if such holder is a foreign corporation, it may also be required to pay a branch profits tax at a 30% rate or a lower rate if so specified by an applicable tax treaty.

*Information Reporting and Backup Withholding*

In general, the Company must report to the I.R.S. and to each Non-U.S. Holder the amount of interest on the notes paid to such Non-U.S. Holder and the amount of tax, if any, withheld with respect to those payments. Copies of the information returns reporting such interest payments and any withholding may also be made available to the tax authorities in the country in which the Non-U.S. Holder resides under the provisions of an applicable tax treaty. Backup withholding may apply to certain payments of principal, premium (if any) and interest on the notes to Non-U.S. Holders, as well as to the proceeds of certain sales of notes made through brokers, unless the holder has made appropriate certifications as to its foreign status, or has otherwise established an exemption. The certification of foreign status described above under “— Payments of Interest” is generally effective to establish an exemption from backup withholding.

Any amounts withheld under the backup withholding rules will generally be allowed as a refund or a credit against a Non-U.S. Holder’s U.S. federal income tax liability provided that the Non-U.S. Holder furnishes the required information to the I.R.S. on a timely basis.

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**UNDERWRITING**

The Company and Wachovia Capital Markets, LLC as the representative of the underwriters for the offering named below, have entered into an underwriting agreement with respect to the notes. Subject to certain conditions, each underwriter has severally agreed to purchase the principal amount of notes indicated in the following table:

<u>Underwriters</u>	<u>Principal Amount of Notes</u>
Wachovia Capital Markets, LLC	75,600,000
Citigroup Global Markets Inc.	16,200,000
Credit Suisse Securities (USA) LLC	16,200,000
Total	<u>\$ 108,000,000</u>

The underwriting agreement provides that the obligations of the underwriters to purchase the notes offered hereby are subject to certain conditions and that the underwriters are obligated to purchase all of the notes in the offering if any are purchased. The underwriting agreement also provides that if an underwriter defaults, the purchase commitment of the non-defaulting underwriters may be increased or the offering of the notes may be terminated.

Notes sold by the underwriters to the public will initially be offered at the initial public offering price set forth on the cover of this prospectus supplement. Any notes sold by the underwriters to securities dealers may be sold at a discount from the initial public offering price of up to 0.35% of the principal amount. Any such securities dealers may resell any notes purchased from the underwriters to certain other brokers or dealers at a discount from the initial public offering price of up to 0.125% of the principal amount. If all the notes are not sold at the initial offering price, the underwriters may change the offering price and the other selling terms. The offering of the notes by the underwriters is subject to receipt and acceptance and subject to the underwriters' right to reject any order in whole or in part.

The notes are a new issue of securities with no established trading market. The Company has been advised by the underwriters that the underwriters intend to make a market in the notes but are not obligated to do so and may discontinue market making at any time without notice. No assurance can be given as to the liquidity of the trading market for the notes.

We estimate that our share of the total expenses of the offering, excluding underwriting discounts and commission, will be approximately \$400,000.

We have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended.

In connection with the offering, the underwriters may purchase and sell notes in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of notes than they are required to purchase in the offering. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the notes while the offering is in progress.

These activities by the underwriters, as well as other purchases by the underwriters for their own accounts, may stabilize, maintain or otherwise affect the market price of the notes. As a result, the price of the notes may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the underwriters at any time. These transactions may be effected in the over-the-counter market or otherwise.



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The underwriters also may impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased notes sold by or for the account of such underwriter in stabilizing or short covering transactions.

It is expected that delivery of the notes will be made against payment therefore on or about the date specified in the last paragraph of the cover page of this prospectus supplement, which will be the fifth business day following the date of pricing of the notes (such settlement cycle being referred to herein as "T+5"). Under Rule 15c6-1 under the Securities Exchange Act of 1934, as amended, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the notes on the date of pricing or the following business day will be required, by virtue of the fact that the notes initially will settle in T+5, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of notes who wish to trade those notes on the date of pricing or the following business day should consult their own advisor.

The underwriters or their affiliates are lenders under our bank credit facility. Based on our estimate of PPL Gas's working capital on the estimated closing date of the acquisition of the stock of PPL Gas, we expect to borrow an additional \$62.7 million under our bank credit facility, approximately \$33 million of which will be repaid with the proceeds of our sale of the assets of Penn Fuel. The underwriters have, from time to time, performed, and may in the future perform, various financial advisory, commercial banking and investment banking services for us and our affiliates, for which they have received and will receive customary fees and expenses.

**Table of Contents****LEGAL MATTERS**

The validity of the notes has been passed upon for us by Morgan, Lewis & Bockius LLP. Certain legal matters will be passed upon for the underwriters by Shearman & Sterling LLP, New York, New York.

**EXPERTS**

The consolidated financial statements of UGI Utilities, Inc. as of September 30, 2007 and 2006 and for each of the three years in the period ended September 30, 2007 and management's assessment of the effectiveness of internal control over financial reporting (which is included in Management's Report on Internal Control over Financial Reporting) as of September 30, 2007, incorporated in this prospectus supplement and the accompanying prospectus by reference to UGI Utilities, Inc.'s Annual Report on Form 10-K for the year ended September 30, 2007, have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

The consolidated financial statements of PPL Gas Utilities Corporation and subsidiaries as of and for the year ended December 31, 2007, incorporated by reference herein, have been audited by Ernst & Young LLP, an independent registered public accounting firm, as set forth in their report thereon incorporated by reference herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale of these securities is not permitted.

Subject to completion, dated May 19, 2008

**PROSPECTUS**

**\$220,000,000**

**UGI UTILITIES, INC.**

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**DEBT SECURITIES**

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This prospectus summarizes the general terms of these debt securities. We will provide the specific terms of these debt securities in supplements to this prospectus. You should read this prospectus and the prospectus supplements carefully before you invest.

**Investing in these debt securities involves certain risks. See “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended September 30, 2007, which is incorporated by reference into this prospectus, and “Risk Factors” in the applicable prospectus supplement, for a discussion of the factors you should carefully consider before purchasing these securities.**

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these debt securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is May 19, 2008

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You should rely only on the information we incorporate by reference or provide in this prospectus or any prospectus supplement. We have not authorized anyone else to provide you with different information. No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus. You must not rely on any unauthorized information or representations. This prospectus is an offer to sell only the debt securities offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date.

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**Table of Contents****ABOUT THIS PROSPECTUS**

This prospectus is part of a registration statement that we filed with the SEC using a “shelf” registration process. Under this shelf process, we may sell any of the types of debt securities described in this prospectus, including debentures, notes and/or other unsecured indebtedness, in one or more offerings up to a total dollar amount of \$220,000,000. This prospectus provides you with a general description of the debt securities that we may offer.

We provide information to you about the debt securities in three documents that progressively provide more detail:

1. This Prospectus. Contains general information that may or may not apply to each offering of debt securities.
2. The Prospectus Supplement. Will contain more specific information than this prospectus and may also add, update or change information contained in this prospectus. To the extent information differs from this prospectus, you should rely on the different information in the prospectus supplement.
3. The Pricing Supplement. If applicable, will provide final details about a specific offering and the terms of the offered debt securities, including their price. To the extent information differs from this prospectus or the prospectus supplement, you should rely on the different information in the pricing supplement.

You should read this prospectus, any prospectus supplement and any pricing supplement together with any additional information described under the heading WHERE YOU CAN FIND MORE INFORMATION to learn about us.

The terms “Company” and “UGI Utilities,” as well as the terms “our,” “we,” and “its,” are sometimes used to refer to UGI Utilities, Inc. or, collectively UGI Utilities, Inc. and its consolidated subsidiaries.

**WHERE YOU CAN FIND MORE INFORMATION**

This prospectus is part of a registration statement that we filed with the SEC. The registration statement contains additional information about us and the debt securities. In addition, we file annual, quarterly and special reports and other information with the SEC. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The SEC’s website address is <http://www.sec.gov>. Also, you may read and, for a fee, copy any document that we file with the SEC at the SEC’s public reference room at:

Room 1580  
100 F Street, N.E.  
Washington, D.C. 20549

Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference room.

This prospectus does not repeat important information that you can find elsewhere in the registration statement and in the reports and other documents that we file with the SEC under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). The SEC allows us to “incorporate by reference” the information we file with it, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this prospectus, and information that we file later with the SEC will automatically update and supersede that information. We incorporate by reference the following documents, as well as all future documents filed with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act until we terminate this offering:

- Annual Report on Form 10-K for the fiscal year ended September 30, 2007;
- Quarterly Reports on Form 10-Q for the quarters ended December 31, 2007 and March 31, 2008; and

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- Current Report on Form 8-K dated March 5, 2008.

We will provide you with a copy of any or all of the information that has been incorporated by reference in the prospectus but not delivered with the prospectus. We will provide this information upon written or oral request at no cost to you. To make a request, please contact:

Robert H. Knauss, Esq.  
Vice President and General Counsel  
UGI Utilities, Inc.  
100 Kachel Boulevard, Suite 400  
Green Hills Corporate Center  
Reading, PA 19607  
(610) 796-3400

We are not required to, and do not, provide annual reports to holders of our debt securities unless specifically requested by a holder.

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**Table of Contents****ABOUT UGI UTILITIES, INC.**

We are a public utility company that owns and operates two natural gas distribution utilities and an electric utility in Pennsylvania. We are a wholly owned subsidiary of UGI Corporation (“UGI”).

On August 24, 2006, we acquired a Pennsylvania natural gas utility business from Southern Union Company, which significantly increased our natural gas distribution business. The Gas Utility segment (“Gas Utility”) consists of the regulated natural gas distribution businesses of the Company and our subsidiary, UGI Penn Natural Gas, Inc. Gas Utility serves approximately 478,000 customers in eastern and northeastern Pennsylvania. The Electric Utility segment (“Electric Utility”) consists of the regulated electric distribution business of the Company, serving approximately 62,000 customers in northeastern Pennsylvania. Gas Utility and Electric Utility are regulated by the Pennsylvania Public Utility Commission (“PUC”).

On March 5, 2008, we signed a definitive agreement to acquire all of the capital stock of PPL Gas Utilities Corporation, the natural gas utility of PPL Corporation, for approximately \$268 million, plus working capital. The Company expects to fund the purchase price and related costs with a combination of balance sheet cash and long-term debt. The closing of the transaction is subject to various customary conditions, including receipt of the approval of the PUC and the Maryland Public Service Commission. The transaction is currently expected to close on or about September 30, 2008.

We were incorporated in Pennsylvania in 1925. Our executive offices are located at 100 Kachel Boulevard, Suite 400, Green Hills Corporate Center, Reading, Pennsylvania 19607, and our telephone number is (610) 796-3400.

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**Table of Contents****RISK FACTORS**

Please see the risk factors described under “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended September 30, 2007, which we incorporate by reference into this prospectus. Before making an investment decision, you should carefully read and consider these risks, as well as any other risks described in documents we incorporate by reference into this prospectus. Additional unknown or unpredictable risk factors could also have material adverse effects on future results.

**RATIO OF EARNINGS TO FIXED CHARGES**

Incorporated by reference from Exhibit 12.1 to our Form 10-Q for the period ended March 31, 2008.

**USE OF PROCEEDS**

Unless we state otherwise in the applicable prospectus supplement, the net proceeds from any sale of debt securities will be used for general corporate purposes, which may include refinancings of indebtedness, working capital, capital expenditures, repurchases and redemptions of securities, and acquisitions.

**DESCRIPTION OF DEBT SECURITIES**

We will issue the debt securities under an indenture dated August 1, 1993 between UGI Utilities, Inc. and U.S. Bank National Association, successor trustee to Wachovia Bank, National Association, as trustee, and a supplemental indenture, to be dated as of the closing date of each offering of debt securities, between UGI Utilities, Inc. and U.S. Bank National Association, as trustee.

We summarize selected provisions of the indenture below and refer you directly to the sections in the indenture where these provisions may be found. Because this is only a summary, it is not complete and does not describe every aspect of the debt securities. This summary is also subject to and qualified by reference to the description of the particular terms of the series of the debt securities that we offer to you and describe in the applicable prospectus supplement. You should read the indenture for provisions that may be important to you but that are not included in this summary.

**General**

We will issue the debt securities from time to time in one or more series. A prospectus supplement or a pricing supplement will describe the terms of a particular series and specify the aggregate principal amount of each series. The debt securities will be our direct unsecured obligations and will rank equally with our other unsecured debt. The indenture does not limit the amount of debt securities that we may issue under it.

**Provisions Applicable to a Particular Series**

The prospectus supplement or pricing supplement for a particular series of debt securities being offered will describe the specific terms related to the offering, including the price or prices at which the debt securities to be offered will be issued. These terms may include some or all of the following:

- the title of the series;
- the total principal amount of the debt securities of the series;
- the date or dates on which the principal is payable;
- the interest rate or rates, if any, or the method for determining the rate or rates, and the date or dates from which interest will accrue;



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- the date or dates from which interest will accrue, the interest payment dates and the record date for the interest payable on each interest payment date;
- the place or places where interest, principal and any premium payments will be made;
- whether we have the option to redeem the debt securities and, if so, the terms of our redemption option;
- any obligation that we have to redeem the debt securities by way of payment to a sinking fund;
- any obligation that we have to repurchase the debt securities at the holder's option;
- the portion of the principal payable upon acceleration of maturity, or provable in bankruptcy, if other than the entire principal;
- whether the debt securities will be represented by a global security, as discussed in the section below entitled Global Securities; and
- any other additional or different terms of the debt securities.

We will issue the debt securities in denominations of \$1,000 and any integral multiples of \$1,000, unless we state otherwise in the applicable prospectus supplement. (Section 2.7) We may offer and sell the debt securities at a discount below their principal amount. The applicable prospectus supplement will describe United States federal income tax and any other considerations applicable to those debt securities.

We need not issue all of the debt securities of a particular series at the same time and, unless otherwise provided, we may reopen a series, without the consent of the holders of the debt securities of that series, for issuances of additional debt securities of that series.

### Form, Exchange, Registration, Transfer and Payment

We will issue the debt securities in registered form, unless we state otherwise in the prospectus supplement. (Section 2.7) We will pay the principal of and interest on the debt securities at our agent's offices in Philadelphia, Pennsylvania or at any of our offices that we designate. You may exchange or transfer the debt securities at the same offices. (Section 3.2)

If you hold debt securities registered in definitive form with an aggregate principal amount equal to or greater than \$1,000,000, you may instruct us in writing to direct our paying agent to pay the principal and accrued interest of such debt securities directly to your account at any United States bank, as long as such written instructions are received no less than 15 days prior to a scheduled interest payment date and as long as the United States bank is equipped to receive such a direct deposit. (Section 3.1)

You may transfer or exchange debt securities without a service charge. We may, however, require a payment to cover any applicable tax or governmental charge. (Section 2.8)

If we have transferred funds to our paying agent to make scheduled principal or interest payments in respect of any of the debt securities, and you do not claim such principal or interest payment within three years, we may reclaim such funds and you will have to look to us, and not the paying agent, for payment. (Section 9.4)

### Global Securities

We may issue some or all of the debt securities of a particular series in the form of one or more global certificates registered in the name of a securities depository or its nominee identified in the applicable prospectus supplement.

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Each global security will be deposited with the securities depository or its nominee or a custodian for the securities depository, as identified in the applicable prospectus supplement.

Except with respect to transfers of the global security as a whole between the depository and its nominee or between the depository and a successor depository, a global security may not be transferred or exchanged unless and until it is exchanged in whole or in part for debt securities in definitive form. (Sections 2.4 and 2.8)

As long as the securities depository or its nominee is the registered holder of a global security representing a series of the debt securities, that person will be considered the sole owner and holder of the global security and the debt securities, or series of debt securities, that it represents for all purposes. (Sections 2.4 and 2.8) Unless we otherwise state in an applicable prospectus supplement, if you have a beneficial interest in a global security:

- you may not have the global security, or any debt securities that it represents, registered in your name;
- you may not receive or be entitled to receive physical delivery of certificated debt securities in exchange for your beneficial interest in the global security; and
- you will not be considered the holder of the global security, or any debt securities it represents, for any purpose under the indenture.

We will make all payments of principal and interest on a global security to the securities depository or its nominee as the holder of the global security. The laws of some jurisdictions require that certain purchasers of securities, for example, insurance companies, take physical delivery of securities in definitive form. These laws may impair your ability to transfer beneficial interests in a global security.

The only persons that may own beneficial interests in a global security are institutions having accounts with the securities depository or its nominee, which are called “participants” in this discussion, and persons that hold beneficial interests through participants. When a global security representing debt securities is issued, the securities depository will credit to the accounts of the participants that we, or the particular underwriters of the offering, identify for the securities depository on the depository’s book-entry, registration and transfer system, the respective principal amounts of debt securities that the global security represents.

Ownership of beneficial interests in a global security will be shown only, and the transfer of those ownership interests will be effected only through, records maintained by:

- the securities depository, with respect to a participant’s direct holdings; and
- the applicable participants with respect to beneficial interests that the participants hold on behalf of other persons.

Accordingly, if you hold a beneficial interest in debt securities through a participant, you must look to the participant to receive any payments in respect of principal or interest on the debt securities and must follow the participant’s own procedures to exercise your rights under the indenture.

We will describe the specific terms of any depository agreement in the applicable prospectus supplement.

### Restrictive Indenture Provisions

*Limitation on Mortgages.* Under the indenture, if we, or any of our subsidiaries, incur or guarantee debt that is secured by any of our or one of our subsidiary’s property, we must secure the debt securities at least equally and ratably with such secured debt. This requirement does not apply, however, if the total amount of our debt that is secured by property does not exceed 10% of our consolidated net tangible assets. (Section 3.10)

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This restriction on the incurrence or guarantee of debt secured by a mortgage does not apply to the following types of mortgages:

- mortgages of a subsidiary that existed at the time it became our subsidiary;
- mortgages that existed at the time of an acquisition of property or that were created in connection with an acquisition, for example, mortgages created to secure the purchase price in the acquisition;
- construction mortgages that are entered into, or for which commitments are received within certain time periods;
- mortgages in our favor or in favor of one of our subsidiaries;
- mortgages existing at the date that any then outstanding debt securities were issued;
- mortgages existing on any property at the time that we or one of our subsidiaries acquired it in connection with a merger, consolidation, lease, acquisition or other transaction;
- mortgages in favor of governmental bodies to secure payments pursuant to any contract or statute;
- any extensions, renewals or replacements of any of these categories of mortgages. (Section 3.10)

In determining whether the amount of debt secured by mortgages does not exceed 10% of our consolidated net tangible assets, the aggregate amount of debt secured by mortgages should not include the mortgages listed above. (Section 3.10). In calculating our consolidated net tangible assets, the following items should be subtracted from our total consolidated assets using our most recent consolidated balance sheet:

- applicable reserves and other properly deductible items;
- current liabilities, except the current portion of long-term liabilities and liabilities under capital leases; and
- various intangible assets. (Section 1.1)

*Limitations on Sale and Leaseback Transactions.* The indenture prohibits us and any of our subsidiaries from selling or transferring property with the intention of leasing it back. However, this restriction does not apply in the following situations:

- if the lease period is for a term of not more than three years at the end of which the use will be discontinued;
- if the sale and leaseback transaction is between us and one of our subsidiaries or between subsidiaries;
- if we or our subsidiary would be entitled under the limitation on mortgages provisions described above, without triggering an obligation on our part under those provisions to then equally and ratably secure the debt securities, to incur indebtedness secured by a mortgage on the property involved in the sale and leaseback transaction in an amount at least equal to the amount of attributable debt, which is an amount equal to the lesser of:
  - the fair market value of the property, as determined by our board, and
  - the present value of the total net amount of the rent payable by us under the lease of the property, discounted at the rate of interest set forth or implicit in the terms of the lease, or, if not practicable to determine such rate, the weighted average interest rate per annum paid by us to the holders of debt securities then outstanding compounded semi-annually;
- if, in the opinion of our board, the proceeds of the sale of the property in the sale and leaseback transaction are determined to represent the fair market value of such property, and we apply an amount of such proceeds equal to the greater of the net proceeds of the sale or the amount of attributable debt, as defined above, within 180 days of the sale, to either or both of:

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- the retirement of our or one of our subsidiary's debt that matures more than 12 months after its creation, other than pursuant to a mandatory retirement or prepayment of debt or a contractual obligation and other than debt that is subordinate to the debt securities or owed to us or a subsidiary, or
- the purchase, construction or development of comparable property; or
- if the sale and leaseback transaction is entered into within 60 days of our or our subsidiary's initial acquisition of the property. (Section 3.11)

## Events of Default

Under the indenture, it is an event of default if:

- we fail to pay any interest on any debt securities within 10 days of a scheduled interest payment date;
- we fail to pay all or a portion of the principal on any of the debt securities when it is due;
- we fail to make any required sinking fund payment in respect of any debt securities when due and payable;
- we fail to perform any other covenant or agreement applicable to the debt securities within 30 days after we receive written notice of that failure;
- we or one of our significant subsidiaries is involved in certain types of events involving bankruptcy, insolvency or reorganization;
- there is an event of default under any of our other instruments of indebtedness under which we had outstanding as of August 1, 1993, or at any time thereafter, an aggregate principal amount of \$10,000,000 or greater, if such event of default involves a failure to pay all or a portion of the principal amount of such indebtedness when due and payable, or the maturity of such indebtedness is accelerated and such acceleration is not rescinded or annulled within 10 days after notice of such acceleration is given to us, provided that such event of default has not been remedied or cured by us or waived by the holders of such indebtedness; or
- there is any other event of default under the terms of the debt securities.

Under certain circumstances, the trustee need not provide notice to the holders of the debt securities that an event of default has taken place. (Section 4.1)

## Remedies if an Event of Default Occurs

If an event of default occurs, other than an event of default involving bankruptcy, insolvency or reorganization, either the trustee or the holders of at least 25% in total principal amount of the debt securities of the relevant series may declare the entire principal amount of such series due and payable immediately. (Section 4.1)

If an event of default involving our failure to perform a covenant or agreement under the indenture occurs, and if such failure is with respect to all of the series of the debt securities outstanding at that time, then either the trustee or the holders of at least 25% in total principal amount of the debt securities may declare the entire principal amount of all of the debt securities due and payable immediately, if such event of default is continuing at the time the trustee or the holders make such declaration. (Section 4.1)

If an event of default occurs due to an event involving bankruptcy, insolvency or reorganization, the total principal amount of all of the outstanding debt securities will automatically be due and payable immediately, without notice to us. (Section 4.1)

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Under various circumstances, the declaration of an event of default under the indenture may be overturned by the holders of a majority in principal amount of the debt securities of all affected series outstanding at that time. (Section 4.10)

The holders of a majority in principal amount of the debt securities of any particular series outstanding have, with various exceptions, the right to direct the time, method and place of conducting any proceedings for any remedy available to the trustee with respect to the debt securities of that series. The trustee is under no obligation to exercise any of its rights or powers at the request or direction of the holders of the debt securities, however, unless those holders have offered the trustee reasonable indemnity against the expenses and liabilities that it might incur as a result. (Sections 4.9 and 5.2)

Except for actions for the payment of overdue principal or interest, under the indenture (Sections 4.6 and 4.7), a holder may not institute an action against us unless:

- the holder shall have previously given to the trustee written notice of default and continuation of such default; or
- the holders of not less than 25% in principal amount of the debt securities of the series outstanding at that time shall have requested the trustee to institute such action and shall have offered the trustee reasonable indemnity, and the holders of a majority of the principal amount of the debt securities of each affected series shall not have given the trustee contrary instructions; and
- the trustee shall not have instituted such action within 60 days of such request.

## Modification of the Indenture

Under the indenture, in order to change our rights and obligations or the rights of any holders of debt securities, the holders of not less than 51% in principal amount of the debt securities of all series affected by such change, voting as one class, must consent to the change. However, we may not make any of the following changes unless each holder of debt securities affected by such change gives his or her specific consent:

- extend the final maturity date of any of the debt securities;
- reduce the principal amount of any of the debt securities;
- reduce the interest rate on the debt securities or extend the interest payment date of any of the debt securities;
- reduce the amount payable to the holders of any debt securities on redemption of such debt securities;
- reduce the amount of principal that would be payable to the holders of the debt securities upon acceleration under the indenture;
- impair or affect any holder's right to institute suit for payment;
- impair or affect any holder's right to repayment; or
- reduce the percentage of principal amount held by holders required to modify other terms of the indenture from 51%. (Section 7.2)

## Consolidation, Merger, Sale or Conveyance

We may not merge or consolidate with any other corporation, or sell or convey all or substantially all of our assets to any person, unless:

- we are the surviving corporation, or

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- the successor corporation or the corporation that acquires our assets is incorporated in the United States, executes a supplemental indenture expressly assuming our obligation to make punctual payments of principal of and interest on all of the debt securities, according to the applicable interest rate under each series of debt securities, and expressly assumes all of our other obligations under the indenture.

We also may not merge or consolidate with any other corporation or sell or convey all or substantially all of our assets to any person if, immediately after such merger, consolidation, sale or conveyance, we or the successor corporation, as the case may be, would be in default of performance obligations under any covenant or condition contained in the indenture. (Section 8.1)

**Satisfaction and Discharge**

Under the indenture (Section 9.1), we may terminate certain of our obligations with respect to any series of debt securities by irrevocably depositing in trust with the trustee, on or within one year prior to the maturity or redemption date of such debt securities, cash sufficient to pay the principal of and interest, if any, due and to become due on such debt securities and any other sums payable to the holders of such debt securities.

**Governing Law**

The indenture and the debt securities are governed by the laws of the State of New York. (Section 10.8)

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**Table of Contents****PLAN OF DISTRIBUTION**

We may sell the debt securities:

- to or through underwriters or dealers; or
- through agents; or
- directly to one or more purchasers; or
- by a combination of the methods noted above.

The prospectus supplement or the pricing supplement will describe the details of the plan of distribution, including the offering price, our proceeds from the sale, the names of the underwriters, dealers or agents and their commissions, fees or discounts.

In connection with the sale of the debt securities, underwriters, dealers or agents may receive compensation from us or from purchasers in the form of discounts, concessions or commissions. Underwriters, dealers and agents that participate in the distribution of the debt securities may be underwriters as defined in the Securities Act of 1933, as amended (the "Act"). Any discounts or commissions they receive from us and any profits they receive on the resale of the debt securities may be treated as underwriting discounts and commissions under the Act. We will identify any underwriters, dealers or agents and describe their compensation in the prospectus supplement.

We may have agreements with the underwriters and agents to indemnify them against certain civil liabilities, including liabilities under the Act. Underwriters, dealers, and agents may engage in transactions with, or perform services for, us in the ordinary course of business. This includes commercial banking and investment banking transactions. If underwriters are used in the sale, they will acquire the debt securities for their own account. The underwriters may resell the debt securities in one or more transactions, including negotiated transactions. These sales will be made at a fixed public offering price or at varying prices determined at the time of the sale. We may offer the debt securities to the public through an underwriting syndicate or through a single underwriter.

Unless the prospectus supplement states otherwise, the obligations of the underwriters to purchase the debt securities will be subject to certain conditions. The underwriters will be obligated to purchase all of the debt securities of the series offered if any of the debt securities are purchased, unless the prospectus supplement states otherwise. We may change from time to time any initial public offering price and any discounts or concessions allowed, re-allowed or paid to dealers.

If we designate agents to sell the debt securities, they will agree to use their reasonable efforts to solicit purchases pursuant to terms agreed to with the Company.

We may choose to sell the debt securities directly to one or more purchasers. In this case, no underwriters, dealers or agents would be involved.

We may authorize underwriters, dealers or agents to solicit certain investors to purchase debt securities on a delayed delivery basis, which provides for payment and delivery on a specified future date. The prospectus supplement will provide the details of any such arrangement, including the offering price and commissions payable on the solicitations.

**EXPERTS**

The consolidated financial statements of UGI Utilities, Inc. as of September 30, 2007 and 2006 and for each of the three years in the period ended September 30, 2007 and management's assessment of the effectiveness of internal control over financial reporting (which is included in Management's Report on Internal Control over Financial Reporting) as of September 30, 2007, incorporated in this Prospectus by reference to UGI Utilities,

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Inc.'s Annual Report on Form 10-K for the year ended September 30, 2007, have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

**LEGAL OPINION**

Morgan, Lewis & Bockius LLP has issued an opinion about the legality of the debt securities on our behalf. Any underwriters will be advised about the legality of the debt securities by their own legal counsel.



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

**FORM 10-K**

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

**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

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.)

P. O. Box 12677, 2525 N. 12<sup>th</sup> Street, Suite 360  
Reading, PA 19612

(Address of Principal Executive Offices) (Zip Code)

(610) 796-3400

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

At November 15, 2016, 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.

**The Registrant meets the conditions set forth in General Instruction I(1)(a) and (b) of Form 10-K and is therefore filing this Form 10-K with the reduced disclosure format permitted by that General Instruction.**

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**FORWARD-LOOKING INFORMATION**

Information contained in this Annual Report on Form 10-K may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such statements use forward-looking words such as “believe,” “plan,” “anticipate,” “continue,” “estimate,” “expect,” “may,” 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 our Risk Factors included in Item 1A herein and the following important factors which could affect our future results and could cause those results to differ materially from those expressed in our forward-looking statements: (1) adverse weather conditions resulting in reduced demand; (2) price volatility and availability of oil, electricity and natural gas and the capacity to transport 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; and (17) the interruption, disruption, failure or malfunction of our information technology systems, including due to cyber attack.

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

**PART I:****ITEMS 1. AND 2. BUSINESS AND PROPERTIES****GENERAL**

UGI Utilities, Inc. (“UGI Utilities” or the “Company”) is a public utility company that owns and operates three natural gas distribution utilities in Pennsylvania and portions of one Maryland county and an electric utility in Pennsylvania. We are a wholly owned subsidiary of UGI Corporation (“UGI”).

The Gas Utility segment (“Gas Utility”) consists of the regulated natural gas distribution businesses of UGI Utilities, UGI Penn Natural Gas, Inc. (“PNG”), and UGI Central Penn Gas, Inc. (“CPG”). Gas Utility serves over 626,000 customers in eastern and central Pennsylvania and more than five hundred customers in portions of one Maryland county. UGI Utilities’ natural gas distribution utility is referred to as “UGI Gas”. The Electric Utility segment (“Electric Utility”) consists of the regulated electric distribution business of UGI Utilities, serving approximately 62,000 customers in northeastern Pennsylvania. Gas Utility is regulated by the Pennsylvania Public Utility Commission (“PUC”) and, with respect to its several hundred customers in Maryland, the Maryland Public Service Commission. Electric Utility is regulated by the PUC.

UGI Utilities was incorporated in Pennsylvania in 1925. Our executive offices are located at P.O. Box 12677, 2525 N. 12th Street, Suite 360, Reading, Pennsylvania 19612, and our telephone number is (610) 796-3400. In this report, the terms “Company” and “UGI Utilities,” as well as the terms, “our,” “we,” and “its,” are sometimes used to refer to UGI Utilities, Inc. or, collectively UGI Utilities, Inc. and its consolidated subsidiaries. The terms “Fiscal 2016,” “Fiscal 2015” and “Fiscal 2014” refer to the fiscal years ended September 30, 2016, September 30, 2015 and September 30, 2014, respectively.

**GAS UTILITY*****Service Area; Revenue Analysis***

Gas Utility provides natural gas distribution services to over 626,000 customers in certificated portions of 44 eastern and central Pennsylvania counties through its distribution system. Contemporary materials, such as plastic or coated steel, comprise approximately 89% of Gas Utility's 12,000 miles of gas mains, with bare steel pipe comprising approximately 8% and cast iron pipe comprising approximately 3% of Gas Utility's gas mains. In accordance with Gas Utility's agreement with the PUC, Gas Utility will replace the cast iron portion of its gas mains by March of 2027 and the bare steel portion by September 2041. The service area includes the cities of Allentown, Bethlehem, Easton, Harrisburg, Hazleton, Lancaster, Lebanon, Reading, Scranton, Wilkes-Barre, Lock Haven, Pittston, Pottsville, and Williamsport, Pennsylvania, and the boroughs of Honesdale and Milford, Pennsylvania. Located in Gas Utility's service area are major production centers for basic industries such as specialty metals, aluminum, glass, and paper product manufacturing. Gas Utility also distributes natural gas to more than 500 customers in portions of one Maryland county.

System throughput (the total volume of gas sold to or transported for customers within Gas Utility's distribution system) for Fiscal 2016 was approximately 212.4 billion cubic feet (“bcf”). System sales of gas accounted for approximately 25% of system throughput, while gas transported for residential, commercial and industrial customers who bought their gas from others accounted for approximately 75% of system throughput.

***Sources of Supply and Pipeline Capacity***

Gas Utility is permitted to recover prudently incurred costs of natural gas it sells to its customers. See “Management's Discussion and Analysis of Financial Condition and Results of Operations - Market Risk Disclosures” and Note 4 to Consolidated Financial Statements. Gas Utility meets its service requirements by utilizing a diverse mix of natural gas purchase contracts with marketers and producers, along with storage and transportation service contracts. These arrangements enable Gas Utility to purchase gas from Gulf Coast, Mid-Continent, Appalachian and Marcellus sources. For the transportation and storage function, Gas Utility has long-term agreements with a number of pipeline companies, including Texas Eastern Transmission, LP, Columbia Gas Transmission, LLC, Transcontinental Gas Pipeline Company, LLC, Dominion Transmission, Inc., ANR Pipeline Company, and Tennessee Gas Pipeline Company, L.L.C.

### ***Gas Supply Contracts***

During Fiscal 2016, Gas Utility purchased approximately 64.7 bcf of natural gas for sale to core-market customers (principally comprised of firm- residential, commercial and industrial customers that purchase their gas from Gas Utility (“retail core-market”)) and off-system sales customers. Approximately 88% of the volumes purchased were supplied under agreements with 10 suppliers. The remaining 12% of gas purchased by Gas Utility was supplied by approximately 30 producers and marketers. Gas supply contracts for Gas Utility are generally no longer than 12 months. Gas Utility also has long-term contracts with suppliers for natural gas peaking supply during the months of November through March.

### ***Seasonality***

Because many of its customers use gas for heating purposes, Gas Utility’s sales are seasonal. For Fiscal 2016, nearly 60% of Gas Utility's sales volume was supplied, and more than 80% of Gas Utility’s operating income was earned, during the peak heating season from October through March.

### ***Competition***

Natural gas is a fuel that competes with electricity and oil and, to a lesser extent, with propane and coal. Competition among these fuels is primarily a function of their comparative price and the relative cost and efficiency of the equipment. Natural gas generally benefits from a competitive price advantage over oil, electricity, and propane, although the price gap between natural gas and oil narrowed in Fiscal 2016 due to a reduction in the price of oil. Fuel oil dealers compete for customers in all categories, including industrial customers. Gas Utility responds to this competition with marketing and sales efforts designed to retain, expand, and grow its customer base.

In substantially all of its service territories, Gas Utility is the only regulated gas distribution utility having the right, granted by the PUC or by law, to provide gas distribution services. Larger commercial and industrial customers have the right to purchase gas supplies from entities other than natural gas distribution utility companies. As a result of Pennsylvania's Natural Gas Choice and Competition Act, effective July 1, 1999, all of Gas Utility’s customers, including core-market customers, have been afforded this opportunity.

A number of Gas Utility's commercial and industrial customers have the ability to switch to an alternate fuel at any time and, therefore, are served on an interruptible basis under rates that are competitively priced with respect to the alternate fuel. Margin from these customers, therefore, is affected by the difference or “spread” between the customers’ delivered cost of gas and the customers’ delivered cost of the alternate fuel, the frequency and duration of interruptions, and alternative firm service options. See “Gas Utility and Electric Utility Regulation and Rates - Gas Utility Rates.”

Approximately 31% of Gas Utility’s annual throughput volume for commercial and industrial customers includes non-interruptible customers with firm rates with locations that afford them the opportunity of seeking transportation service directly from interstate pipelines, thereby bypassing Gas Utility. In addition, approximately 26% of Gas Utility’s annual throughput volume for commercial and industrial customers is from customers who are served under interruptible rates and are also in a location near an interstate pipeline. Gas Utility has 42 such customers, 39 of which have transportation contracts extending beyond fiscal year 2017. The majority of these customers are served under transportation contracts having 3- to 20-year terms and all are among the largest customers for Gas Utility in terms of annual volumes. No single customer represents, or is anticipated to represent, more than 5% of Gas Utility’s total revenues.

### ***Outlook for Gas Service and Supply***

Gas Utility anticipates having adequate pipeline capacity, peaking services, and other sources of supply available to it to meet the full requirements of all firm customers on its system through fiscal year 2017. Supply mix is diversified, market priced, and delivered pursuant to a number of long-term and short-term primary firm transportation and storage arrangements, including transportation contracts held by some of Gas Utility's larger customers.

During Fiscal 2016, Gas Utility supplied transportation service to four major co-generation installations and nine electric generation facilities. Gas Utility continues to seek new residential, commercial, and industrial customers for both firm and interruptible service. In Fiscal 2016, Gas Utility connected over 2,300 new commercial and industrial customers. In the residential market sector, Gas Utility added nearly 14,000 residential heating customers during Fiscal 2016. Approximately 30% of these customers were the result of new home construction and approximately 70% of these customers converted to natural gas heating from other energy sources, mainly oil and electricity. Existing non-heating gas customers who added gas heating systems to replace other energy sources primarily accounted for the other residential heating connections in Fiscal 2016.

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

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

## **ELECTRIC UTILITY**

### ***Service Area; Sales Analysis***

Electric Utility supplies electric service to approximately 62,000 customers in portions of Luzerne and Wyoming counties in northeastern Pennsylvania through a system consisting of over 2,200 miles of transmission and distribution lines and 13 substations. For Fiscal 2016, approximately 56% of sales volume came from residential customers, 33% from commercial customers, and 11% from industrial and other customers.

### ***Sources of Supply***

Electric Utility is permitted to recover prudently incurred electricity costs, including costs to obtain supply to meet its customers' energy requirements, pursuant to a supply plan filed and approved by the PUC. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Market Risk Disclosures” and Note 4 to Consolidated Financial Statements. Electric Utility distributes electricity that it purchases from wholesale markets and electricity that customers purchase from other suppliers. During Fiscal 2016, nine retail electric generation suppliers provided energy for customers representing approximately 25% of Electric Utility’s sales volume. See “Gas Utility and Electric Utility Regulation and Rates - Electric Utility Rates.”

### ***Competition***

As a result of the Electricity Generation Customer Choice and Competition Act (“ECC Act”), all Pennsylvania retail electric customers have the ability to choose their retail electric generation supplier. Under the ECC Act and Act 129 of 2008, which revised the default service requirements contained in Chapter 28 of the Public Utility Code, Electric Utility remains the “default service” provider for its customers who do not choose an alternate retail electric generation supplier. In Fiscal 2016, Electric Utility served nearly all of the electric customers within its service territory and is the only regulated electric utility having the right, granted by the PUC or by law, to distribute electricity in its service territory. As an energy source, electricity competes with natural gas, oil, propane, and other heating fuels for residential heating purposes.

The terms and conditions under which Electric Utility provides default service, and rules governing the rates that may be charged for such service, have been established in the Default Service (“DS”) rate plans approved by the PUC. Consistent with the terms of the DS rate plans, default service rates are designed to recover all reasonable and prudent costs incurred in providing electricity to default service customers. See “Gas Utility and Electric Utility Regulation and Rates - Electric Utility Rates.”

## **GAS UTILITY AND ELECTRIC UTILITY REGULATION AND RATES**

### ***Pennsylvania Public Utility Commission Jurisdiction***

UGI Utilities' gas and electric utility operations are subject to regulation by the PUC as to rates, terms and conditions of service, accounting matters, issuance of securities, contracts and other arrangements with affiliated entities, and various other matters. There are primarily two types of rates that UGI Utilities may charge customers for gas and electric service: (i) rates designed to recover purchased gas costs (“PGCs”) and electric default service costs; and (ii) rates designed to recover costs other than PGCs and electric default service costs. Rates designed to recover costs other than PGCs and electric default service costs are primarily established in general base rate proceedings.

### *Gas Utility Rates*

In January 2016, UGI Gas filed a request with the PUC for its first base rate increase in over 21 years. On October 14, 2016, the PUC approved a settlement that was effective October 19, 2016 and will result in a \$27.0 million increase in annual base rate revenues. The settlement permits UGI Gas to establish new reconcilable surcharges to permit the timely recovery of the costs of universal service programs designed to assist low income customers, and costs associated with a new energy efficiency and conservation program. UGI Gas will also be permitted to implement a new Technology and Economic Development Rider to provide additional flexibility in establishing the rates of smaller volume commercial and industrial customers to encourage cost-effective load growth. The base rates of PNG and CPG were last established in 2009 and 2011, respectively.

On February 20, 2014, the PUC entered an order approving a Growth Extension Tariff (“GET Gas”) program under which UGI Gas, PNG, and CPG may invest up to \$5 million per year for five years, or \$75 million in the aggregate for all three utilities, to extend natural gas utility pipelines to provide service to unserved and underserved areas within their respective territories. Under the GET Gas program, customers utilizing the extended pipeline to receive natural gas will pay a monthly surcharge over a 10-year period to cover the cost of the extension. Gas Utility began connecting customers under the GET Gas program in October 2014.

In February 2012, Act 11 of 2012 (“Act 11”) became effective. Among other things, Act 11 authorized the PUC to permit electric and gas distribution companies, between base rate cases and subject to certain conditions, to recover reasonable and prudent costs incurred to repair, improve, or replace eligible property through a Distribution System Improvement Charge (“DSIC”) assessed to customers. DSICs are subject to quarterly adjustment, are capped at five percent of total customer charges absent a PUC-granted exception, may only be sought if a base rate case has been filed within the last five years, and are subject to certain earnings tests. In addition, Act 11 requires affected utilities to obtain approval of long-term infrastructure improvement plans (“LTIIP”) from the PUC. Act 11 also authorized electric and gas distribution companies to utilize a fully forecasted future test year when establishing rates in base rate cases before the PUC.

The PUC approved LTIIPs for UGI Gas, PNG, and CPG in 2014, and on June 30, 2016, approved a revised LTIIP for these entities that increases the projected spend on DSIC-eligible property for the 2016-2018 period from approximately \$266.3 million to \$402.8 million. The PUC also approved DSIC mechanisms for PNG and CPG in September 2014 and July 2015, respectively; both PNG and CPG are collecting revenues under their respective DSICs. On March 31, 2016, PNG and CPG filed petitions with the PUC seeking to increase the cap on their DSIC rate mechanisms from five percent to ten percent of billed distribution revenues. The PUC has not yet ruled on these petitions.

On November 9, 2016, UGI Gas received PUC approval to establish a DSIC tariff mechanism effective January 1, 2017. Revenues collected pursuant to the mechanism will be subject to refund and recoupment based on the PUC’s final resolution of certain matters set aside for hearing before an Administrative Law Judge. To commence recovery of revenue under the mechanism, UGI Gas must first place into service a threshold level of DSIC-eligible plant agreed upon in the settlement of its recent base rate case. Achievement of that threshold is not likely to occur prior to September 30, 2017.

The gas service tariffs for UGI Gas, PNG, and CPG contain PGC rates applicable to firm retail rate schedules for customers who do not obtain natural gas supply service from an alternative supplier. These PGC rates permit recovery of substantially all of the prudently incurred costs of natural gas that UGI Gas, PNG, and CPG sell to their customers. PGC rates are reviewed and approved annually by the PUC. UGI Gas, PNG, and CPG may request quarterly or, under certain conditions, monthly adjustments to reflect the actual cost of gas. Quarterly adjustments become effective on one day’s notice to the PUC and are subject to review during the next annual PGC filing. Each proposed annual PGC rate is required to be filed with the PUC six months prior to its effective date. During this period, the PUC holds hearings to determine whether the proposed rate reflects a least-cost fuel procurement policy consistent with the obligation to provide safe, adequate and reliable service. After completion of these hearings, the PUC issues an order permitting the collection of gas costs at levels that meet such standard. The PGC mechanism also provides for an annual reconciliation and for the payment or collection of interest on over and under collections. UGI Gas, PNG, and CPG may assign to and recover from alternative natural gas suppliers the costs of gas supply contracts acquired to serve the needs of smaller volume customers who elect to receive their natural gas supply service from an alternative supplier.

On June 23, 2016, Act 47 of 2016 was enacted. Act 47 revised the interest rates that applied to PGC over and under collections, removed the requirement that over and under collections be assessed to customers who leave default service to obtain natural gas from an alternative supplier by way of a so-called migration rider, provided additional assurance of cost recovery for PGC costs, and granted natural gas distribution companies the right to recover the reasonable costs incurred to implement customer choice on a full and current basis through a reconcilable rate mechanism. Gas Utility expects to implement the interest rate revision and migration rider provisions of Act 47 in December 2016.



***Electric Transmission and Wholesale Power Sale Rates***

FERC has jurisdiction over the rates and terms and conditions of service of electric transmission facilities used for wholesale or retail choice transactions. Electric Utility owns electric transmission facilities that are within the control area of the PJM Interconnection, LLC (“PJM”) and are dispatched in accordance with a FERC-approved open access tariff and associated agreements administered by PJM. PJM is a regional transmission organization that regulates and coordinates generation supply and the wholesale delivery of electricity. Electric Utility receives certain revenues collected by PJM, determined under a formulary rate schedule that is adjusted in June of each year to reflect annual changes in Electric Utility’s electric transmission revenue requirements, when its transmission facilities are used by third parties.

FERC has jurisdiction over the rates and terms and conditions of service of wholesale sales of electric capacity and energy. Electric Utility has a tariff on file with FERC pursuant to which it may make power sales to wholesale customers at market-based rates.

***Electric Utility Rates***

Electric Utility is permitted to recover prudently incurred electricity costs, including costs to obtain supply to meet its customers’ energy requirements, pursuant to a supply plan filed with the PUC. Electric Utility’s operations are subject to regulation by the PUC as to rates, terms and conditions of service, accounting matters, issuance of securities, contracts and other arrangements with affiliated entities, and various other matters. The most recent general base rate increase for Electric Utility became effective in 1996. PUC default service regulations became applicable to Electric Utility’s provision of default service effective January 1, 2010 and Electric Utility, consistent with these regulations, has received PUC approval through May 31, 2017 of (i) default service tariff rules, (ii) a reconcilable default service cost rate recovery mechanism to recover the cost of acquiring default service supplies, (iii) a plan for meeting the post-2009 requirements of the Alternative Energy Portfolio Standards Act (“AEPS Act”), which requires Electric Utility to directly or indirectly acquire certain percentages of its supplies from designated alternative energy sources, and (iv) a reconcilable AEPS Act cost recovery rate mechanism to recover the costs of complying with AEPS Act requirements applicable to default service supplies for service rendered through May 31, 2017. Under these rules, default service rates for most customers are adjusted quarterly. On April 22, 2016, Electric Utility petitioned the PUC to approve a new default service plan for the period of June 1, 2017 through May 31, 2021. On November 9, 2016, the PUC approved a settlement allowing the Company’s new plan to become effective June 1, 2017.

***FERC Market Manipulation Rules and Other FERC Enforcement and Regulatory Powers***

UGI Utilities is subject to Section 4A of the Natural Gas Act, which prohibits the use or employment of any manipulative or deceptive devices or contrivances in connection with the purchase or sale of natural gas or natural gas transportation subject to the jurisdiction of FERC, and FERC regulations that are designed to promote the transparency, efficiency, and integrity of gas markets. UGI Utilities is also subject to Section 222 of the Federal Power Act, which prohibits the use or employment of any manipulative or deceptive devices or contrivances in connection with the purchase or sale of electric energy or transmission service subject to the jurisdiction of FERC, and FERC regulations that are designed to promote the transparency, efficiency, and integrity of electric markets. Under provisions of the Energy Policy Act of 2005 (“EPACT 2005”), Electric Utility is subject to certain electric reliability standards established by FERC and administered by an Electric Reliability Organization (“ERO”). Electric Utility anticipates that substantially all the costs of complying with the ERO standards will be recoverable through its PJM formulary electric transmission rate schedule.

EPACT 2005 also granted FERC authority to impose substantial civil penalties for the violation of any regulations, orders, or provisions under the Federal Power Act and Natural Gas Act, and clarified FERC’s authority over certain utility or holding company mergers or acquisitions of electric utilities or electric transmitting utility property valued at \$10 million or more.

***State Tax Surcharge Clauses***

UGI Utilities’ gas and electric service tariffs contain state tax surcharge clauses. The surcharges are recomputed whenever any of the tax rates included in their calculation are changed. These clauses protect UGI Utilities from the effects of increases in most of the Pennsylvania taxes to which it is subject.

***Utility Franchises***

UGI Utilities holds a certificate of public convenience issued by the PUC and certain “grandfather rights” predating the adoption of the Pennsylvania Public Utility Code and its predecessor statutes, which it believes are adequate to authorize it to carry on its business in substantially all of the territories to which it now renders gas or electric service. Under applicable Pennsylvania law,

UGI Utilities has certain rights of eminent domain as well as the right to maintain its facilities in streets and highways in its territories.

***Other Government Regulation***

In addition to regulation by the PUC and FERC, the gas and electric utility operations of UGI Utilities are subject to various federal, state and local laws governing environmental matters, occupational health and safety, pipeline safety and other matters. UGI Utilities is subject to the requirements of the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation, and Liability Act, and comparable state statutes with respect to the release of hazardous substances on property owned or operated by UGI Utilities. See Note 12 to Consolidated Financial Statements.

***Employees***

At September 30, 2016, UGI Utilities had nearly 1,600 employees.

**BUSINESS SEGMENT INFORMATION**

The table stating the amounts of revenues, operating income and identifiable assets attributable to UGI Utilities' operating segments for the 2016, 2015 and 2014 fiscal years appears in Note 16 to Consolidated Financial Statements included in this Report and is incorporated herein by reference.

**ITEM 1A. RISK FACTORS*****RISKS RELATED TO OUR BUSINESS***

***Regulators may not approve the rates we request and existing rates may be challenged, which may adversely affect our results of operations.***

Our Gas Utility and Electric Utility distribution operations are subject to regulation by the PUC. The PUC, among other things, approves the rates that we may charge to our utility customers, thus impacting the returns that we may earn on the assets that are dedicated to those operations. We expect that UGI Utilities and its subsidiaries will periodically file requests with the PUC to increase base rates that they charge customers. If we are required in a rate proceeding to reduce the rates we charge our utility customers, or if we are unable to obtain approval for timely rate increases from the PUC, particularly when necessary to cover increased costs, our revenue growth will be limited and earnings may decrease.

***We are subject to operating and litigation risks that may not be covered by insurance.***

Our business operations are subject to all of the operating hazards and risks normally incidental to the handling, storage and distribution of combustible products, such as natural gas. These risks could result in substantial losses due to personal injury and/or loss of life, and severe damage to and destruction of property and equipment arising from explosions and other catastrophic events, including acts of terrorism. As a result, we are sometimes a defendant in legal proceedings and litigation arising in the ordinary course of business. Additionally, environmental contamination could result in future legal proceedings. There can be no assurance that our insurance coverage will be adequate to protect us from all material expenses related to pending and future claims or that such levels of insurance will be available in the future at economical prices.

***Transmission and distribution systems may not operate as planned, which may increase our expenses or decrease our revenues and, thus, have an adverse effect on our financial results.***

Our ability to manage operational risk with respect to our transmission and distribution systems is critical to our financial results. We obtain our supply from local Marcellus Shale sources, as well as other trading points in the United States. If we experience physical capacity constraints on one or more of the interstate or intrastate natural gas pipelines that supply our business, we may not be able to supply our customers, which could have an adverse effect on our financial results. Our business also faces several risks, including the breakdown or failure of or damage to equipment or processes (especially due to severe weather or natural disasters), accidents and other factors. Operation of our transmission and distribution systems below our expectations may result in lost revenues or increased expenses, including higher maintenance costs.

As a result of an incident in April 2016, one of the interstate natural gas pipelines that supplies our business experienced physical capacity constraints. In response to this event, we have developed a contingency plan for the Fiscal 2017 winter heating season to obtain additional supply and impose mandatory demand reduction plans to maximize gas system reliability, if needed.

***Remediation costs resulting from liability from contamination claims could reduce our net income.***

We have received claims from third parties that allege that we are responsible for costs to clean up properties where we or our former subsidiaries operated a manufactured gas plant or conducted other operations. Costs we incur at sites outside of Pennsylvania cannot be recovered in future UGI Utilities' rate proceedings, and insurance may not cover all or even part of these costs. Our actual costs related to these sites may exceed our current estimates due to factors beyond our control, such as:

- the discovery of presently unknown conditions;
- changes in environmental laws and regulations;
- judicial rejection of our legal defenses to the third-party claims; or
- the insolvency of other responsible parties at the sites at which we are involved.

In addition, if we discover additional contaminated sites, we could be required to incur material costs, which would reduce our net income.

***If we are unable to protect our information technology systems against service interruption, misappropriation of data, or breaches of security resulting from cyber security attacks or other events, our operations could be disrupted and our business and reputation may suffer.***

In the ordinary course of business, we rely on information technology systems, including the Internet and third-party hosted services, to support a variety of business processes and activities and to store sensitive data, including (i) intellectual property, (ii) our proprietary business information and that of our suppliers and business partners, (iii) personally identifiable information of our customers and employees, and (iv) data with respect to invoicing and the collection of payments, accounting, procurement, and supply chain activities. In addition, we rely on our information technology systems to process financial information and results of operations for internal reporting purposes and to comply with financial reporting, legal, and tax requirements. Despite our security measures, our information technology systems may be vulnerable to attacks by hackers or breached due to employee error, malfeasance, sabotage, or other disruptions. A loss of our information technology systems, or temporary interruptions in the operation of our information technology systems, misappropriation of data, and breaches of security could have a material adverse effect on our business, financial condition, results of operations, and reputation. In addition, a cyber security attack could provide a cyber intruder with the ability to control or alter our pipeline operations. Such an act could result in critical pipeline failures. While we have purchased cyber security insurance, there are no assurances that the coverage would be adequate in relation to any incurred losses.

***Unforeseen difficulties with the implementation or operation of our information systems could adversely affect our internal controls and our business.***

We contracted with third party consultants to assist us with the design and implementation of an information system that supports our customer management and billing systems. The efficient execution of our business is dependent upon the proper functioning of our internal information systems. Any significant failure or malfunction of our information systems may result in disruptions to our operations. Our results of operations could be adversely affected if we encounter unforeseen problems with respect to the implementation and operation of this system.

#### **INDUSTRY-SPECIFIC RISKS**

***Decreases in the demand for natural gas and electricity because of warmer-than-normal heating season weather could adversely affect our results of operations, financial condition and cash flows because our rate structure does not contain weather normalization provisions.***

Because many of our customers rely on natural gas or electricity to heat their homes and businesses, our results of operations are adversely affected by warmer-than-normal heating season weather. Weather conditions have a significant impact on the demand for natural gas and electricity for heating purposes. Accordingly, demand for natural gas and electricity used for heating purposes is generally at its highest during the peak heating season of October through March and is directly affected by the severity of the winter weather. Our rate structures do not contain weather normalization provisions to compensate for warmer-than-normal weather conditions, and we have historically sold less natural gas and electricity when weather conditions are milder and, consequently, earned less income. As a result, warmer-than-normal heating season weather could reduce our net income, harm our financial condition and adversely affect our cash flows.

***Energy efficiency and technology advances, as well as price induced customer conservation, may result in reduced demand for our energy products and services.***

The trend toward increased conservation and technological advances, including installation of improved insulation and the development of more efficient furnaces and other heating devices, may reduce the demand for energy products. Prices for natural gas are subject to volatile fluctuations in response to changes in supply and other market conditions. During periods of high energy commodity costs, our prices generally increase which may lead to customer conservation. A reduction in demand could lower our revenues, and, therefore, lower our net income and adversely affect our cash flows. State and/or federal regulation may require mandatory conservation measures which would reduce the demand for our energy products. We cannot predict the materiality of the effect of future conservation measures or the effect that any technological advances in heating, conservation, energy generation or other devices might have on our operations.

***Volatility in credit and capital markets may restrict our ability to grow, increase the likelihood of defaults by our customers and counterparties and adversely affect our operating results.***

The volatility in credit and capital markets may create additional risks to our business in the future. We are exposed to financial market risk (including refinancing risk) resulting from, among other things, changes in interest rates and conditions in the credit

and capital markets. Developments in the credit markets have the potential to increase our possible exposure to the liquidity, default and credit risks of our suppliers and vendors, counterparties associated with derivative financial instruments and our customers. Although we believe that current financial market conditions, if they were to continue for the foreseeable future, will not have a significant impact on our ability to fund our existing operations, such market conditions could restrict our ability to grow, limit the scope of major capital projects if access to credit and capital markets is limited, or adversely affect our operating results.

***Economic recession, volatility in the stock market and the low interest rate environment may negatively impact our pension liability.***

Economic recession, volatility in the stock market and the low interest rate environment have had a significant impact on our pension liability and funded status. Declines in the stock or bond market and valuation of stocks or bonds, combined with continued low interest rates, could further impact our pension liability and funded status and increase the amount of required contributions to our pension plans.

***Changes in commodity market prices may have a significant negative effect on our liquidity.***

Depending on the terms of our contracts with suppliers as well as our use of financial instruments including natural gas futures and option contracts to reduce volatility in the cost of natural gas we purchase, changes in the market price of electricity and natural gas could create payment obligations for the Company and expose us to significant liquidity risks.

***Our need to comply with, and respond to industry-wide changes resulting from, comprehensive, complex, and sometimes unpredictable government regulations, including regulatory initiatives aimed at increasing competition within our industry, may increase our costs and limit our revenue growth, which may adversely affect our operating results.***

There are many governmental regulations that have an impact on our businesses. Existing statutes and regulations may be revised or reinterpreted and new laws and regulations may be adopted or become applicable to the Company that may affect our businesses in ways that we cannot predict.

Moreover, we may be unable to timely respond to changes within the energy and utility sectors that may result from regulatory initiatives to further increase competition within our industry. Such regulatory initiatives may create opportunities for additional competitors to enter our markets and, as a result, we may be unable to maintain our revenues or continue to pursue our current business strategy.

***The risk of terrorism may adversely affect the economy and the price and availability of natural gas.***

Terrorist attacks may adversely impact the price and availability of natural gas as well as our results of operations, our ability to raise capital, and our future growth. The impact that the foregoing may have on our industry in general, and on us in particular, is not known at this time. An act of terror could result in disruptions of natural gas supplies and markets, cause price volatility in the cost of natural gas, and our infrastructure facilities could be direct or indirect targets. A lower level of economic activity could result in a decline in energy consumption, which could adversely affect our revenues or restrict our future growth. Instability in the financial markets as a result of terrorism could also affect our ability to raise capital.

***In response to natural gas incidents in the United States, regulators may adopt new laws or reinterpret existing laws and regulations relating to the replacement of cast iron and bare steel natural gas pipelines which may adversely affect our results of operations and cash flows.***

New federal or state laws may be adopted, or state and/or federal regulatory agencies, such as the PUC and United States Department of Transportation, may reinterpret existing laws and regulations relating to the timing of the replacement of cast iron and bare steel natural gas pipelines by all natural gas distribution and transmission companies under their respective jurisdictions. If the Company is required to comply with new or changed laws and regulations or the Company is not permitted to charge increased rates to recover a mandated increase in our costs, our cash flows and earnings may decrease.

***Our operations, capital expenditures and financial results may be affected by regulatory changes and/or market responses to global climate change.***

There continues to be concern, both nationally and internationally, about climate change and the contribution of greenhouse gas (“GHG”) emissions, most notably carbon dioxide, to global warming. In addition to carbon dioxide, greenhouse gases include, among others, methane, a component of natural gas. While some states have adopted laws and regulations regulating the emission of GHGs for some industry sectors, there is currently no federal or regional legislation mandating the reduction of GHG emissions

in the United States. Although Congress has not enacted federal climate change legislation, the Environmental Protection Agency (“EPA”) has begun adopting and implementing regulations to restrict emissions of GHGs from motor vehicles and certain large stationary sources, and to require reporting of GHG emissions by certain regulated facilities on an annual basis. Increased regulation of GHG emissions could impose significant additional costs on us, our suppliers, and our customers. In September 2009, the EPA issued a final rule establishing a system for mandatory reporting of GHG emissions. In November 2010, the EPA expanded the reach of its GHG reporting requirements to include the petroleum and natural gas industries. Petroleum and natural gas facilities subject to the rule, which include facilities of our natural gas distribution business, were required to begin emissions monitoring in January 2011 and to submit detailed annual reports beginning in March 2012. The rule does not require affected facilities to implement GHG emission controls or reductions. However, in August 2015, the EPA finalized the Clean Power Plan rule, which provides standards and guidelines for reducing existing power plants’ GHG emissions and related pollutants by 2030. Under the Clean Power Plan’s standards and guidelines, existing power plants will be required to reduce emissions through a rate-based or a mass-based approach; states began submitting their reduction plans to the EPA in September 2016. The impact of such legislation and regulations will depend on a number of factors, including (i) what industry sectors would be impacted, (ii) the timing of required compliance, (iii) the overall GHG emissions cap level, (iv) the allocation of emission allowances to specific sources and (v) the costs and opportunities associated with compliance. At this time, we cannot predict the effect that climate change regulation may have on our business, financial condition or results of operations in the future.

#### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

#### **ITEM 3. LEGAL PROCEEDINGS**

With the exception of those matters set forth in Note 12 to Consolidated Financial Statements included in Item 8 of this Report, no material legal proceedings are pending involving the Company, or any of its properties, and no such proceedings are known to be contemplated by governmental authorities other than claims arising in the ordinary course of the Company’s business.

#### **ITEM 4. MINE SAFETY DISCLOSURES**

None.

#### **PART II:**

#### **ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

##### **Market Information**

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

##### **Dividends**

Cash dividends declared on the Company’s Common Stock totaled \$47.0 million in Fiscal 2016, \$65.6 million in Fiscal 2015, and \$77.4 million in Fiscal 2014.

#### **ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) discusses our results of operations and our financial condition. MD&A should be read in conjunction with our Items 1 & 2, “Business and Properties,” Item 1A, “Risk Factors” and our Consolidated Financial Statements in Item 8 below including “Segment Information” included in Note 16 to Consolidated Financial Statements.

**EXECUTIVE OVERVIEW**

During Fiscal 2016, temperatures based upon heating degree days in our UGI Utilities Gas Utility and Electric Utility businesses were significantly warmer than normal and the prior year. During the second quarter of Fiscal 2016, which is typically our highest earnings quarter, temperatures in our Pennsylvania-based Gas Utility were nearly 24% warmer than the prior year, and temperatures in the critical heating-season month of December were 37% warmer than normal. As a result, Gas Utility core market volumes and margin were significantly below our expectations and below the prior fiscal year.

Our results in Fiscal 2016 reflect temperatures based upon heating degree days in our Gas Utility service territory that were 13.6% warmer than normal and 17.8% warmer than in Fiscal 2015. Our net income in Fiscal 2016 was \$97.4 million, a decrease of \$23.7 million (19.6%) from Fiscal 2015 net income of \$121.1 million. Lower results in Fiscal 2016 at our Gas Utility principally reflect the significantly warmer weather on our core market margin. Our Electric Utility's kilowatt-hour sales in Fiscal 2016 were also lower than the prior year reflecting lower heating-related sales from the warmer heating-season weather. The effects of the warmer weather and lower transmission revenue reduced Electric Utility total margin. The lower UGI Utilities total margin was partially offset by lower Fiscal 2016 operating and administrative expenses.

Notwithstanding the strong earnings headwinds brought on by the warm weather, during Fiscal 2016 we made significant strategic and operational progress in support of our long-term goals. Our Gas Utility business continues to grow despite declines in oil prices during Fiscal 2016 which had the effect of lowering our expected oil to natural gas conversion activity. In addition to growing the number of customers, our Gas Utility executed on its infrastructure replacement and system betterment program with record capital expenditures. In January 2016, UGI Gas filed for its first base rate increase in over 21 years which culminated in a \$27 million increase in annual base rate revenues. This increase went into effect in October 2016 and we will see the benefit of this rate increase in Fiscal 2017.

During Fiscal 2016, we completed two long-term debt issuances totaling \$300 million and an additional issuance of \$100 million in October 2016 after the end of the 2016 fiscal year. The proceeds were used to refinance maturing debt and to provide additional financing for our infrastructure replacement and betterment capital program and our information technology initiatives. These transactions reduced the overall cost of our long-term debt. We believe that we have sufficient liquidity in the forms of cash generated from operations and our revolving credit facility to fund business operations in Fiscal 2017.

**ANALYSIS OF RESULTS OF OPERATIONS**

The following analyses compare the Company's results of operations for Fiscal 2016, Fiscal 2015 and the year ended September 30, 2014 ("Fiscal 2014").

**Fiscal 2016 Compared with Fiscal 2015**

(Millions of dollars)	2016	2015 (c)	Decrease	
<b>Gas Utility:</b>				
Revenues	\$ 677.4	\$ 933.1	\$ (255.7)	(27.4)%
Total margin (a)	\$ 438.2	\$ 484.5	\$ (46.3)	(9.6)%
Operating and administrative expenses	\$ 174.5	\$ 196.9	\$ (22.4)	(11.4)%
Operating income	\$ 189.4	\$ 226.5	\$ (37.1)	(16.4)%
Income before income taxes	\$ 153.6	\$ 187.4	\$ (33.8)	(18.0)%
<b>System throughput — bcf</b>				
Core market	66.2	81.3	(15.1)	(18.6)%
Total	212.4	213.5	(1.1)	(0.5)%
Degree days — % (warmer) colder than normal (b)	(13.6)%	6.4%	—	—
<b>Electric Utility:</b>				
Revenues	\$ 91.1	\$ 107.6	\$ (16.5)	(15.3)%
Total margin (a)	\$ 35.6	\$ 39.8	\$ (4.2)	(10.6)%
Operating and administrative expenses	\$ 18.2	\$ 20.4	\$ (2.2)	(10.8)%
Operating income	\$ 11.5	\$ 14.2	\$ (2.7)	(19.0)%
Income before income taxes	\$ 9.6	\$ 12.1	\$ (2.5)	(20.7)%
Distribution sales — gwh	961.6	1,010.1	(48.5)	(4.8)%

bcf — billions of cubic feet.

gwh — millions of kilowatt-hours.

- (a) Gas Utility's total margin represents total revenues less total cost of sales. Electric Utility's total margin represents total revenues less total cost of sales and Electric Utility gross receipts taxes, of \$4.8 million and \$5.6 million during Fiscal 2016 and Fiscal 2015, respectively. Gross receipt taxes are included in taxes other than income taxes on the Consolidated Statements of Income.
- (b) Deviation from average heating degree days for the 15-year period 2000-2014 based upon weather statistics provided by the National Oceanic and Atmospheric Administration ("NOAA") for airports located within Gas Utility's service territory.
- (c) Amounts exclude PNG Gas' heating, ventilation and air-conditioning service business sold in June 2015 (see Note 16 to Consolidated Financial Statements).

Temperatures in Gas Utility's service territory during Fiscal 2016 based upon heating degree days were 13.6% warmer than normal and 17.8% warmer than Fiscal 2015. In particular, Gas Utility temperatures in the critical heating-season month of December were 37% warmer than normal. Gas Utility core market volumes declined 15.1 bcf (18.6%) reflecting the effects of the significantly warmer weather. Total Gas Utility Fiscal 2016 distribution system throughput was about equal to Fiscal 2015 as the lower core market volumes were substantially offset by higher large firm delivery service volumes. Gas Utility's core market customers comprise firm- residential, commercial and industrial ("retail core-market") customers who purchase their gas from Gas Utility and, to a much lesser extent, residential and small commercial customers who purchase their gas from others. Electric Utility kilowatt-hour sales were 4.8% lower than in the prior year principally reflecting the impact of the warmer weather on heating-related sales.

UGI Utilities revenues decreased \$273.1 million principally reflecting a \$255.7 million decrease in Gas Utility revenues and a \$16.5 million decrease in Electric Utility revenues. The lower Gas Utility revenues principally reflect a decrease in core market revenues (\$203.1 million) and lower off-system sales revenues (\$51.4 million). The \$203.1 million decrease in Fiscal 2016 Gas Utility core market revenues reflects the effects of the lower core market throughput (\$135.4 million) and lower average PGC rates (\$67.7 million). The lower Electric Utility revenues principally resulted from lower DS rates (\$8.0 million), lower sales



volumes (\$5.4 million) and lower transmission revenue (\$2.6 million). Because Gas Utility and Electric Utility are subject to reconcilable PGC and DS recovery mechanisms, increases or decreases in the actual cost of gas or electricity associated with customers who purchase their gas or electricity from UGI Utilities impact revenues and cost of sales but have no direct effect on retail core-market margin (see Note 4 to Consolidated Financial Statements for a discussion of these recovery mechanisms). UGI Utilities cost of sales was \$289.8 million in Fiscal 2016 compared with \$510.8 million in Fiscal 2015 principally reflecting the combined effects of the lower average Gas Utility PGC rates (\$92.3 million), lower cost of sales associated with Gas Utility off-system sales (\$51.4 million) and lower Gas Utility retail core-market volumes sold (\$67.5 million). Electric Utility cost of sales was \$11.5 million lower reflecting lower DS rates (\$8.5 million) and the lower volumes sold.

UGI Utilities Fiscal 2016 total margin decreased \$51.3 million principally reflecting lower Gas Utility total margin from core market customers (\$43.3 million). The decrease in Gas Utility core market margin reflects the lower core market throughput. Electric Utility total margin decreased \$4.2 million principally reflecting the lower volume sales as a result of the warmer Fiscal 2016 weather and the lower transmission revenue.

UGI Utilities operating income and income before income taxes decreased \$40.8 million and \$37.3 million, respectively. The decreases in operating income and income before income taxes principally reflects the decrease in total margin (\$51.3 million), higher depreciation expense (\$4.4 million) and lower other operating income (\$10.9 million) which includes, among other things, higher environmental matters expense (\$4.1 million), lower margin from off-system sales (\$2.2 million), lower revenue from construction services (\$2.1 million) and higher interest on PGC overcollections (\$1.1 million). These were partially offset by operating and administrative expenses that were \$25.6 million lower than the prior year primarily reflecting lower net preliminary development stage expenses associated with an information technology ("IT") project (\$8.6 million), including the year-over-year impact of the current year capitalization of \$5.4 million of such IT costs expensed in prior years (see Note 4 to Consolidated Financial Statements), and, to a lesser extent, lower uncollectible accounts (\$5.7 million), system maintenance expenses (\$4.8 million) and employee benefits (\$4.7 million).

**Interest Expense and Income Taxes.** Our interest expense in Fiscal 2016 was \$3.5 million lower than in Fiscal 2015 principally reflecting UGI Utilities' lower average long-term debt outstanding and lower average interest rates. Our effective income tax rate in Fiscal 2016 was slightly higher than in the prior year.

#### **Fiscal 2015 Compared with Fiscal 2014**

(Millions of dollars)	2015 (c)	2014 (c)	Increase (Decrease)	
<b>Gas Utility:</b>				
Revenues	\$ 933.1	\$ 977.3	\$ (44.2)	(4.5)%
Total margin (a)	\$ 484.5	\$ 480.6	\$ 3.9	0.8 %
Operating and administrative expenses	\$ 196.9	\$ 183.8	\$ 13.1	7.1 %
Operating income	\$ 226.5	\$ 236.2	\$ (9.7)	(4.1)%
Income before income taxes	\$ 187.4	\$ 199.6	\$ (12.2)	(6.1)%
<b>System throughput — bcf</b>				
Core market	81.3	80.4	0.9	1.1 %
Total	213.5	208.8	4.7	2.3 %
Degree days — % colder than normal (b)	6.4%	10.5%	—	—
<b>Electric Utility:</b>				
Revenues	\$ 107.6	\$ 108.1	\$ (0.5)	(0.5)%
Total margin (a)	\$ 39.8	\$ 36.0	\$ 3.8	10.6 %
Operating and administrative expenses	\$ 20.4	\$ 21.3	\$ (0.9)	(4.2)%
Operating income	\$ 14.2	\$ 9.7	\$ 4.5	46.4 %
Income before income taxes	\$ 12.1	\$ 7.8	\$ 4.3	55.1 %
Distribution sales — gwh	1,010.1	987.3	22.8	2.3 %

(a) Gas Utility's total margin represents total revenues less total cost of sales. Electric Utility's total margin represents total revenues less total cost of sales and Electric Utility gross receipts taxes, of \$5.6 million and \$5.8 million during Fiscal 2015 and Fiscal 2014, respectively. Gross receipt taxes are included in taxes other than income taxes on the Consolidated Statements of Income.

- (b) Deviation from average heating degree days for the 15-year period 2000-2014 based upon weather statistics provided by the National Oceanic and Atmospheric Administration (“NOAA”) for airports located within Gas Utility’s service territory.
- (c) Amounts exclude PNG Gas’ heating, ventilation and air-conditioning service business sold in June 2015 (see Note 16 to Consolidated Financial Statements).

Temperatures in Gas Utility’s service territory in Fiscal 2015 based upon heating degree days were 6.4% colder than normal but 3.7% warmer than in Fiscal 2014. Total Gas Utility distribution system throughput increased 4.7 bcf, notwithstanding the warmer weather, principally reflecting higher large firm delivery service volumes and slightly higher core market volumes reflecting, in large part, a 1.9% year-over-year increase in the number of core market customers. Electric Utility kilowatt-hour sales were 2.3% higher than in the prior year as lower heating-related sales were more than offset by the effects of a warmer Fiscal 2015 summer on air-conditioning sales.

UGI Utilities revenues decreased \$45.3 million principally reflecting a \$44.2 million decrease in Gas Utility revenues. The decrease in Gas Utility revenues principally reflects lower revenues from off-system sales (\$31.8 million) and lower revenues from core market customers (\$7.6 million). The decrease in core market revenues principally reflects the effects of lower average PGC rates during Fiscal 2015 partially offset by the slightly higher core market throughput. UGI Utilities’ cost of sales was \$510.8 million in Fiscal 2015 compared with \$562.9 million in Fiscal 2014 principally reflecting the effects of the lower off-system sales (\$31.8 million) and the effects on retail core-market cost of sales of the lower average PGC rates partially offset by slightly higher core market throughput on Gas Utility cost of sales. Electric Utility cost of sales decreased \$4.0 million in Fiscal 2015 principally reflecting the effects of lower average DS rates.

UGI Utilities Fiscal 2015 total margin increased \$7.0 million principally reflecting higher Gas Utility core market total margin (\$4.0 million) on the higher core market sales and higher large firm delivery service total margin (\$5.7 million). These increases were partially offset principally by lower margin from Gas Utility interruptible customers (\$7.0 million). Electric Utility total margin increased \$3.8 million principally reflecting an increase in transmission revenue.

UGI Utilities operating income and income before income taxes during Fiscal 2015 decreased \$4.7 million and \$7.4 million, respectively. A \$9.7 million decrease in Gas Utility operating income, notwithstanding a \$3.9 million increase in Gas Utility total margin, principally reflects higher operating and administrative expenses and higher depreciation expense partially offset by an increase in other operating income. Gas Utility Fiscal 2015 operating and administrative expenses were higher than in Fiscal 2014 principally reflecting, among other things, higher Fiscal 2015 Gas Utility distribution system expenses (\$4.8 million), and higher Gas Utility employee benefits, uncollectible accounts and other general administrative expenses. Gas Utility depreciation and amortization expense increased \$4.2 million reflecting the effects of greater distribution system capital expenditures. Gas Utility other operating income increased \$3.4 million reflecting, among other things, incremental income from Gas Utility construction services. Electric Utility Fiscal 2015 operating income increased \$4.5 million reflecting the higher Electric Utility total margin (\$3.8 million) and lower distribution and uncollectible accounts expense. The \$7.4 million decrease in UGI Utilities income before income taxes reflects the lower operating income (\$4.7 million) and higher long-term debt interest expense.

**Interest Expense and Income Taxes.** Our interest expense in Fiscal 2015 was higher than in Fiscal 2014 principally reflecting interest on the 4.98% Senior Notes which were issued in March 2014, the proceeds of which were used to refinance UGI Utilities’ 364-day Term Loan Credit Agreement. Our effective income tax rate in Fiscal 2015 was slightly lower than in the prior year.

## FINANCIAL CONDITION AND LIQUIDITY

### Capitalization and Liquidity

UGI Utilities’ total debt outstanding was \$783.9 million at September 30, 2016, which includes \$112.5 million of short-term borrowings, compared with total debt outstanding of \$691.5 million at September 30, 2015, which includes \$71.7 million of short-term borrowings. UGI Utilities’ total long-term debt outstanding at September 30, 2016, comprises \$575.0 million of Senior Notes and \$100.0 million of Medium-Term Notes, and is net of \$3.6 million of unamortized debt issuance costs.

In April 2016, UGI Utilities entered into a Note Purchase Agreement (the “2016 Note Purchase Agreement”) with a consortium of lenders. Pursuant to the 2016 Note Purchase Agreement, UGI Utilities issued \$100 million aggregate principal amount of 2.95% Senior Notes due June 2026 and \$200 million aggregate principal amount of 4.12% Senior Notes due September 2046 in June 2016 and September 2016, respectively. In October 2016, UGI Utilities issued \$100 million aggregate principal amount of 4.12% Senior Notes due in October 2046. The net proceeds of the issuance of these senior notes were used 1) to repay UGI Utilities’ maturing 5.75% Senior Notes, 7.37% Medium-term notes and 5.64% Medium-term notes; 2) to provide additional financing for UGI Utilities’ infrastructure replacement and betterment capital program and information technology initiatives; and 3) for general corporate purposes.

UGI Utilities has a credit agreement (the “Credit Agreement”) with a group of banks providing for borrowings of up to \$300 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 Consolidated Balance Sheets. During Fiscal 2016 and Fiscal 2015, average daily short-term borrowings under the Credit Agreement were \$150.8 million and \$61.7 million, respectively, and peak short-term borrowings totaled \$232.0 million and \$163.6 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 and inventories, is generally greatest. The Credit Agreement requires UGI Utilities to not exceed a ratio of Consolidated Debt to Consolidated Total Capital, as defined, of 0.65 to 1.00. UGI Utilities was in compliance with this covenant at September 30, 2016.

Based upon cash expected to be generated from operations and borrowings under the Credit Agreement, management believes the Company will be able to meet its anticipated contractual and projected cash commitments during Fiscal 2017. For additional discussion of UGI Utilities’ long-term debt and the Credit Agreement, see Note 7 to Consolidated Financial Statements.

### Cash Flows

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

Cash provided by operating activities was \$205.4 million in Fiscal 2016, \$306.7 million in Fiscal 2015 and \$188.7 million in Fiscal 2014. The decrease in cash flow from operating activities in Fiscal 2016 compared to Fiscal 2015 principally reflects lower cash flow from changes in operating working capital including refunds of PGC and DS overcollections. The significant increase in cash flow from operating activities in Fiscal 2015 compared with Fiscal 2014 primarily reflects the impact of lower natural gas prices on changes in working capital. Cash provided by operating activities before changes in operating working capital was \$204.9 million in Fiscal 2016, \$229.3 million in Fiscal 2015 and \$224.6 million in Fiscal 2014. The lower cash flow before changes in operating working capital in Fiscal 2016 compared to Fiscal 2015 reflects the lower year-over-year operating results and a \$36 million cash settlement of interest rate protection agreements, partially offset by an increase in deferred income taxes. Changes in operating working capital provided (used) \$0.5 million of cash in Fiscal 2016, \$77.4 million of cash in Fiscal 2015 and \$(35.9) million of cash in Fiscal 2014. The significantly higher cash flow from changes in operating working capital in Fiscal 2015 (compared to Fiscal 2016 and Fiscal 2014) reflects, in large part, the impact of declining natural gas prices on deferred fuel costs overcollections and cash flow from changes in inventories and accounts receivable.

**Investing activities.** Cash used by investing activities was \$252.5 million in Fiscal 2016, \$216.6 million in Fiscal 2015, and \$172.8 million in Fiscal 2014. The year-over-year increases in capital expenditures during the three-year period principally reflects higher year-over-year Gas Utility capital expenditures for infrastructure replacements, system improvements and information technology. Fiscal 2016 cash flow from investing activities includes a \$6.0 million decrease in restricted cash in futures brokerage accounts compared to a \$3.0 million increase in Fiscal 2015 and a \$0.4 million increase in Fiscal 2014. Changes in restricted cash in futures brokerage accounts are generally the result of changes in underlying commodity prices.

**Financing activities.** Cash provided (used) by financing activities was \$46.9 million in Fiscal 2016, \$(99.4) million in Fiscal 2015 and \$(8.2) million in Fiscal 2014. Financing activities cash flows are primarily the result of issuances and repayments of long-term debt, revolving credit agreement borrowings and cash dividends to UGI. Fiscal 2016 includes the issuance of \$300 million of senior notes, the proceeds of which were used to repay maturing long-term debt and short-term borrowings. During Fiscal 2016, net short-term borrowings totaled \$40.8 million compared to net short-term debt repayments of \$14.6 million in Fiscal 2015 and \$68.8 million of borrowings in Fiscal 2014. The greater short-term debt repayments in Fiscal 2015 resulted from the significantly higher cash provided by operating activities.

### Capital Expenditures

In the following table, we present capital expenditures by business segment for Fiscal 2016, Fiscal 2015 and Fiscal 2014. We also provide amounts we expect to spend in Fiscal 2017. We expect to finance a substantial portion of our Fiscal 2017 capital expenditures from cash generated by operations, borrowings under our Credit Agreement and cash proceeds from long-term debt issued in October 2016.

(Millions of dollars)	2017 (estimate)	2016	2015	2014
Gas Utility	\$ 327.1	\$ 251.3	\$ 189.7	\$ 156.4
Electric Utility	11.9	11.2	8.0	7.8
	<u>\$ 339.0</u>	<u>\$ 262.5</u>	<u>\$ 197.7</u>	<u>\$ 164.2</u>

The higher levels of Gas Utility capital expenditures in Fiscal 2016, as well as those estimated for Fiscal 2017, reflect greater main replacement and system improvement capital expenditures, increases in new business capital expenditures and expected investments in new information technology projects.

### Contractual Cash Obligations and Commitments

UGI Utilities has contractual cash obligations that extend beyond Fiscal 2016, including scheduled repayments of long-term debt and interest, operating lease obligations, unconditional purchase obligations for pipeline transportation and natural gas storage services, commitments to purchase natural gas and electricity and derivative financial instruments. The following table presents significant contractual cash obligations under agreements existing as of September 30, 2016:

(Millions of dollars)	Payments Due by Period				
	Total	Fiscal 2017	Fiscal 2018 - 2019	Fiscal 2020 - 2021	Thereafter
Long-term debt (a)	\$ 675.0	\$ 20.0	\$ 40.0	\$ —	\$ 615.0
Interest on long-term fixed rate debt (b)	687.9	32.6	58.7	57.3	539.3
Operating leases	16.2	6.0	8.1	1.9	0.2
UGI Utilities supply, storage and transportation contracts	737.8	205.5	262.4	134.9	135.0
<b>Total</b>	<u>\$ 2,116.9</u>	<u>\$ 264.1</u>	<u>\$ 369.2</u>	<u>\$ 194.1</u>	<u>\$ 1,289.5</u>

(a) Based upon stated maturity dates.

(b) Based upon stated interest rates.

The components of the other noncurrent liabilities included in our Consolidated Balance Sheet at September 30, 2016, principally consist of pension and other postretirement benefit liabilities recorded in accordance with GAAP and estimated obligations for environmental investigation and remediation. These liabilities are not included in the table of Contractual Cash Obligations and Commitments above because they are estimates of future payments and not contractually fixed as to timing or amount. We believe the minimum required contributions to our pension plan in Fiscal 2017 are not expected to be material. Contributions to the pension plan in years beyond Fiscal 2017 will depend in large part on the impacts of future returns on pension plan assets and interest rates on pension plan liabilities. For additional information on these liabilities, see Notes 9 and 12 to Consolidated Financial Statements.

### Pension Plan

UGI Utilities has a defined benefit pension plan covering employees hired prior to January 1, 2009, of UGI, UGI Utilities, PNG, CPG and certain of UGI's other domestic wholly owned subsidiaries (the "Pension Plan").

The fair values of the Pension Plan's assets totaled \$463.4 million and \$430.8 million at September 30, 2016 and 2015, respectively. At September 30, 2016 and 2015, the underfunded positions of the Pension Plan, defined as the excess of the projected benefit obligations ("PBOs") over the Pension Plan's assets, were \$182.0 million and \$132.8 million, respectively.

We believe we are in compliance with regulations governing defined benefit pension plans, including Employee Retirement Income Security Act of 1974 ("ERISA") rules and regulations. Required minimum contributions to the U.S. Pension Plan in Fiscal 2017 are not expected to be material. Pre-tax pension cost associated with the Pension Plan in Fiscal 2016 was \$11.4 million. Pre-tax pension cost associated with Pension Plan in Fiscal 2017 is expected to be approximately \$15.4 million.

Generally accepted accounting principles ("GAAP") guidance associated with pension and other postretirement plans generally requires recognition of an asset or liability in the statement of financial position reflecting the funded status of pension and other postretirement benefit plans with current year changes recognized in shareholder's equity unless such amounts are subject to regulatory recovery. Through September 30, 2016, we have recorded cumulative after-tax charges to stockholder's equity of \$11.8 million and regulatory assets of \$183.1 million in order to reflect the funded status of our pension and postretirement benefit plans.

For a more detailed discussion of the Pension Plans and other postretirement benefit plans, see Note 9 to Consolidated Financial Statements.

## REGULATORY MATTERS

***UGI Gas Base Rate Filing.*** On January 19, 2016, UGI Utilities filed a rate request with the PUC to increase UGI Gas's annual base operating revenues for residential, commercial and industrial customers by \$58.6 million. The increased revenues would fund ongoing system improvements and operations necessary to maintain safe and reliable natural gas service. On June 30, 2016, a Joint Petition for Approval of Settlement of all issues providing for a \$27.0 million UGI Gas annual base distribution rate increase, to be effective October 19, 2016, was filed with the PUC ("Joint Petition"). On October 14, 2016, the PUC approved the Joint Petition with a minor modification which had no effect on the \$27.0 million base distribution rate increase. The increase became effective on October 19, 2016.

***Distribution System Improvement Charge.*** On April 14, 2012, legislation became effective enabling gas and electric utilities in Pennsylvania, under certain circumstances, to recover the cost of eligible capital investment in distribution system infrastructure improvement projects between base rate cases. The charge enabled by the legislation is known as a distribution system improvement charge ("DSIC"). The primary benefit to a company from a DSIC charge is the elimination of regulatory lag, or delayed rate recognition, that occurs under traditional ratemaking relating to qualifying capital expenditures. To be eligible for a DSIC, a utility must have filed a general rate filing within five years of its petition seeking permission to include a DSIC in its tariff, and not exceed certain earnings tests. Absent PUC permission, the DSIC is capped at five percent of the amount billed to customers. PNG and CPG received PUC approval on a DSIC tariff, initially set at zero, in 2014. PNG and CPG began charging a DSIC at a rate other than zero, beginning April 1, 2015 and April 1, 2016, respectively. In March 2016, PNG and CPG filed petitions, seeking approval to increase the maximum allowable DSIC from five percent to ten percent of billed distribution revenues. To date, no action has been taken by the PUC on either of these petitions. The Company cannot predict the timing or outcome of these petitions. On November 9, 2016, UGI Gas received PUC approval to establish a DSIC tariff mechanism effective January 1, 2017. Revenue collected pursuant to the mechanism will be subject to refund and recoupment based on the PUC's final resolution of certain matters set aside for hearing before an administrative law judge. To commence recovery of revenue under the mechanism, UGI Gas must first place into service a threshold level of DSIC-eligible plant agreed upon in the settlement of its recent base rate case. Achievement of that threshold is not likely to occur prior to September 30, 2017.

## MANUFACTURED GAS PLANTS

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 Gas and Electric Utility. UGI Utilities also has two acquired subsidiaries (CPG and PNG) which have similar histories of owning, and in some cases operating, MGPs in Pennsylvania.

UGI Utilities and its subsidiaries have entered into agreements with the Pennsylvania Department of Environmental Protection ("DEP") to address the remediation of former MGPs in Pennsylvania. CPG is party to a Consent Order and Agreement ("CPG-COA") with the DEP requiring CPG to perform a specified level of activities associated with environmental investigation and remediation work at certain properties in Pennsylvania on which MGP related facilities were operated ("CPG MGP Properties") and to plug a minimum number of non-producing natural gas wells per year. In addition, PNG is a party to a Multi-Site Remediation Consent Order and Agreement ("PNG-COA") with the DEP. The PNG-COA requires PNG to perform annually a specified level of activities associated with environmental investigation and remediation work at certain properties on which MGP-related facilities were operated ("PNG MGP Properties"). Under these agreements, required environmental expenditures relating to the CPG MGP Properties and the PNG MGP Properties are capped at \$1.8 million and \$1.1 million, respectively, in any calendar year. The CPG-COA is scheduled to terminate at the end of 2018. The PNG-COA terminates in 2019 but may be terminated by either party effective at the end of any two-year period beginning with the original effective date in March 2004. At September 30, 2016 and 2015, our accrued liabilities for estimated environmental investigation and remediation costs related to the CPG-COA and the PNG-COA totaled \$11.3 million and \$13.8 million, respectively. CPG and PNG have recorded associated regulatory assets for these costs because recovery of these costs from customers is probable.

In May 2016, UGI Gas executed a Consent Order and Agreement ("UGI Gas-COA") with the DEP with an effective date of October 1, 2016. The UGI Gas-COA will terminate in September 2031 if not extended by the parties. The UGI Gas-COA requires UGI Gas to perform a specified level of activities associated with environmental investigation and remediation work at certain

properties in Pennsylvania on which MGP related facilities were operated (“UGI Gas MGP Properties”). Under this agreement, required environmental expenditures related to the UGI Gas MGP Properties are capped at \$2.5 million in any calendar year. At September 30, 2016, our estimated accrued liabilities for environmental investigation and remediation costs related to the UGI Gas-COA totaled \$43.7 million. UGI Gas has recorded an associated regulatory asset for these costs because recovery of these costs from customers is probable.

UGI Utilities does not expect its costs for investigation and remediation of hazardous substances at Pennsylvania MGP sites to be material to its results of operations because UGI Gas, CPG and PNG receive ratemaking recognition of estimated environmental investigation and remediation costs associated with their environmental sites. This ratemaking recognition balances 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 its former subsidiaries. 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 former subsidiaries 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 September 30, 2016, neither the undiscounted nor the accrued liability for environmental investigation and cleanup costs for UGI Utilities’ MGP sites outside of Pennsylvania was material.

#### **RELATED PARTY TRANSACTIONS**

UGI provides certain financial and administrative services to UGI Utilities. UGI bills UGI Utilities monthly for all direct expenses incurred by UGI on behalf of UGI Utilities and an allocated share of indirect corporate expenses incurred or paid with respect to services provided to UGI Utilities. The allocation of indirect UGI corporate expenses to UGI Utilities utilizes a weighted, three-component formula comprising revenues, operating expenses and net assets employed and considers UGI Utilities’ relative percentage of such items to the total of such items for all UGI operating subsidiaries for which general and administrative services are provided. Management believes that this allocation method is reasonable and equitable to UGI Utilities and this allocation method has been accepted by the PUC in past rate case proceedings and management audits as a reasonable method of allocating such expenses. These billed expenses are classified as operating and administrative expenses - related parties in the Consolidated Statements of Income. In addition, UGI Utilities provides limited administrative services to UGI and certain of UGI’s subsidiaries under PUC affiliated interest agreements. Amounts billed to these entities by UGI Utilities for all periods presented were not material.

From time to time, UGI Utilities is a party to Storage Contract Administration Agreements (“SCAAs”) with Energy Services which have terms of up to three years. At September 30, 2016, UGI Utilities was a party to one SCAA 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. Energy Services, in turn, provides a firm delivery service and makes certain payments to UGI Utilities for its various obligations under the SCAAs. During Fiscal 2016, Fiscal 2015 and Fiscal 2014, these payments were not material. UGI Utilities incurred costs associated with Energy Services’ SCAAs totaling \$12.7 million, \$16.8 million and \$38.3 million in Fiscal 2016, Fiscal 2015 and Fiscal 2014, 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 Consolidated Balance Sheets, were \$8.1 million and \$10.7 million at September 30, 2016 and 2015, respectively.

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) on its balance sheet under the caption inventories. The carrying values of these gas storage inventories at September 30, 2016 and 2015, comprising approximately 4.6 bcf and 5.0 bcf of natural gas, were \$11.1 million and \$12.9 million, 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 Fiscal 2016, Fiscal 2015 and Fiscal 2014 totaled \$63.3 million, \$47.8 million and \$35.8 million, respectively.

From time to time, the Company sells natural gas or pipeline capacity to Energy Services. During Fiscal 2016, Fiscal 2015 and Fiscal 2014, revenues associated with sales to Energy Services totaled \$30.7 million, \$79.2 million and \$109.9 million, respectively. Also from time to time, the Company purchases natural gas, pipeline capacity and electricity from Energy Services (in addition to those transactions already described above) and purchases a firm storage service from UGI Storage Company, a subsidiary of Energy Services, under one-year agreements. During Fiscal 2016, Fiscal 2015 and Fiscal 2014, such purchases totaled \$35.1 million, \$85.4 million and \$128.1 million, respectively.

#### **OFF-BALANCE-SHEET ARRANGEMENTS**

We do not have any off-balance-sheet arrangements that are expected to have an effect on the Company's financial condition, revenues and expenses, results of operations, liquidity, capital expenditures or capital resources.

#### **MARKET RISK DISCLOSURES**

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

##### *Commodity Price Risk*

Gas Utility's tariffs contain clauses that permit recovery of all of the prudently incurred costs of natural gas it sells to its retail core-market customers, including the cost of financial instruments used to hedge purchased gas costs. The recovery clauses provide for periodic adjustments for the difference between the total amounts actually collected from customers through PGC rates and the recoverable costs incurred. Because of this ratemaking mechanism, there is limited commodity price risk associated with our Gas Utility operations. Gas Utility uses derivative financial instruments including natural gas futures and option contracts traded on the New York Mercantile Exchange ("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 September 30, 2016 and 2015, Gas Utility had \$0.6 million and \$6.6 million of restricted cash in brokerage accounts, respectively. At September 30, 2016 and 2015, the fair values of our natural gas futures and option contracts were gains and (losses) of \$4.3 million and \$(3.3) million, respectively.

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 financial transmission rights ("FTRs") and forward electricity purchase contracts, associated with our Electric Utility operations. At September 30, 2016, all of our Electric Utility's forward electricity purchase contracts were subject to the normal purchase and normal sale ("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 expenses and other income. The amount of unrealized gains on these contracts and associated volumes under contract at September 30, 2016 and 2015, were not material.

##### *Interest Rate Risk*

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

Our variable-rate debt comprises borrowings under our Credit Agreement. This agreement provides for interest rates on borrowings that are indexed to short-term market interest rates. Based upon the average level of borrowings outstanding under these agreements in Fiscal 2016 and Fiscal 2015, an increase in short-term interest rates of 100 basis points (1%) would have increased annual interest expense by \$1.5 million and \$0.6 million, respectively.

Our long-term debt is typically issued at fixed rates of interest based upon market rates for debt having similar terms and credit ratings. As these long-term debt issues mature, we expect to refinance such debt with new debt having interest rates reflecting then-current market conditions. A 100 basis point increase in market interest rates would result in decreases in the fair value of this fixed-rate debt of approximately \$93 million and \$50 million at September 30, 2016 and 2015, respectively. A 100 basis point

decrease in market interest rates would result in increases in the fair value of this fixed-rate debt of approximately \$115 million and \$60 million at September 30, 2016 and 2015, respectively.

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 interest rate protection agreements (“IRPAs”). There were no unsettled IRPAs outstanding at September 30, 2016.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Accounting policies and estimates discussed in this section are those that we consider to be the most critical to an understanding of our financial statements because they involve significant judgments and uncertainties. Changes in these policies and estimates could have a material effect on the financial statements. The application of these accounting policies and estimates necessarily requires management’s most subjective or complex judgments regarding estimates and projected outcomes of future events which could have a material impact on the financial statements. Management has reviewed these critical accounting policies, and the estimates and assumptions associated with them, with the Company’s Audit Committee. In addition, management has reviewed the following disclosures regarding the application of these critical accounting policies and estimates with the Audit Committee. Also, see Note 2 to Consolidated Financial Statements, Summary of Significant Accounting Policies, which discusses the significant accounting policies that we have selected from acceptable alternatives.

**Goodwill Impairment Evaluation.** Our goodwill is the result of Gas Utility business acquisitions. We do not amortize goodwill, but test it at least annually for impairment at the reporting unit level. A reporting unit is the operating segment, or a business one level below the operating segment (a component), if discrete financial information is prepared and regularly reviewed by segment management. Components are aggregated as a single reporting unit if they have similar economic characteristics. A reporting unit with goodwill is required to perform an impairment test annually or whenever events or circumstances indicate that the value of goodwill may be impaired. During the fourth quarter of Fiscal 2016, the Company changed the measurement date for performing its annual goodwill impairment test from September 30 to July 31. This voluntary change in accounting principle, applied prospectively, is preferable as it aligns the annual goodwill impairment test date more closely with the Company’s internal budgeting process and did not delay, accelerate or avoid an impairment of the Company’s goodwill. We are required to recognize an impairment charge under GAAP if the carrying amount of a reporting unit exceeds its fair value and the carrying amount of the reporting unit’s goodwill exceeds the implied fair value of that goodwill as determined in the same manner as goodwill is recognized in a business combination. From time to time, we may assess qualitative factors to determine whether it is more likely than not that the fair value of such reporting unit is less than its carrying amount. From time to time, we may bypass the qualitative assessment and perform the first step of the two-step quantitative assessment by comparing the fair values of the reporting units with their carrying amounts, including goodwill. We determine the fair value of our Gas Utility generally based on a weighting of income and market approaches. For purposes of the income approach, fair values are determined based upon the present value of the reporting unit’s estimated future cash flows, including an estimate of the reporting unit’s terminal value based upon these cash flows, discounted at appropriate risk-adjusted rates. We use our internal forecasts to estimate future cash flows which may include estimates of long-term future growth rates based upon our most recent reviews of the long-term outlook for each reporting unit. Cash flow estimates used to establish fair values under our income approach involve management judgments based on a broad range of information and historical results. In addition, external economic and competitive conditions can influence future performance. For purposes of the market approach, we use valuation multiples for companies comparable to the reporting unit. The market approach requires judgment to determine the appropriate valuation multiples. Under certain circumstances, the Company may perform a qualitative approach to determine if it is not more likely than not that the carrying value of a reporting unit is greater than its fair value. As of September 30, 2016, our goodwill totaled \$182.1 million. We did not record any impairments of goodwill during Fiscal 2016, Fiscal 2015 or Fiscal 2014.

**Litigation Accruals and Environmental Remediation Liabilities.** We are involved in litigation that arises in the normal course of business. In addition, UGI Utilities and its former subsidiaries owned and operated a number of MGPs in Pennsylvania and elsewhere and PNG and CPG owned and operated a number of MGP sites located in Pennsylvania, at which hazardous substances may be present. In accordance with GAAP, we establish reserves for pending litigation or environmental remediation obligations when it is probable that a liability exists and the amount or range of amounts related to such liability can be reasonably estimated. When there is a range of possible loss with equal likelihood, liabilities recorded are based upon the low end of such range. Reasonable estimates involve management judgments based on a broad range of information and prior experience and include an evaluation of the nature of the claim, the procedural status of the matter, the probability or likelihood of success of prosecuting or defending the claim, the information available with respect to the claim, the opinions and views of outside counsel and other advisors, and past experience in similar matters. These judgments are reviewed quarterly as more information is received, and the amounts reserved are updated as necessary. Our estimated reserves may differ materially from the ultimate liability and such reserves may change materially as more information becomes available and estimated reserves are adjusted.



**Depreciation of Property, Plant and Equipment.** We compute depreciation on UGI Utilities property, plant and equipment on a straight-line basis over the average remaining lives of its various classes of depreciable property. Changes in the estimated useful lives of property, plant and equipment could have a material effect on our results of operations. As of September 30, 2016, UGI Utilities net property, plant and equipment totaled \$2,023.5 million and we recorded depreciation expense of \$64.3 million during Fiscal 2016.

**Regulatory Assets and Liabilities.** Gas Utility and Electric Utility are subject to regulation by the PUC. In accordance with accounting guidance associated with rate-regulated entities, we record the effects of rate regulation in our financial statements as regulatory assets or regulatory liabilities. We continually assess whether the regulatory assets are probable of future recovery by evaluating the regulatory environment, recent rate orders and public statements issued by the PUC, and the status of any pending deregulation legislation. If future recovery of regulatory assets ceases to be probable, the elimination of those regulatory assets would adversely impact our results of operations and cash flows. As of September 30, 2016, our regulatory assets and regulatory liabilities totaled \$395.1 million and \$55.6 million, respectively. For additional information on our regulatory assets and liabilities, see Note 2 and Note 4 to Consolidated Financial Statements.

**Pension Plan Assumptions.** Pension plan assumptions are significant inputs to the actuarial models that measure pension benefit obligations and pension expense. The cost of providing benefits under the Pension Plan is dependent on historical information such as employee age, length of service, level of compensation and the actual rate of return on plan assets. In addition, certain assumptions relating to the future are used to determine pension expense including mortality assumptions, the discount rate applied to benefit obligations, the expected rate of return on plan assets and the rate of compensation increase, among others. Assets of the Pension Plan are held in trust and consist principally of equity and fixed income mutual funds and, to a much lesser extent, direct investments in common stock including UGI Corporation common stock. Changes in plan assumptions as well as fluctuations in actual equity or fixed income market returns could have a material impact on future pension costs. We believe the two most critical assumptions are (1) the expected rate of return on plan assets and (2) the discount rate. A decrease in the expected rate of return on Pension Plan assets of 50 basis points to a rate of 7.00% would result in an increase in pre-tax pension cost of approximately \$2.1 million in Fiscal 2017. A decrease in the discount rate of 50 basis points to a rate of 3.30% would result in an increase in pre-tax pension cost of approximately \$4.0 million in Fiscal 2017. For additional information on our Pension Plan, see Note 9 to Consolidated Financial Statements.

**Purchase Price Allocations.** In the event that the Company enters into a material business combination, in accordance with accounting guidance associated with business combinations, the purchase price is allocated to the various assets and liabilities acquired at their estimated fair value. Fair values of assets acquired and liabilities assumed are based upon available information and we may involve an independent third-party to perform appraisals. Estimating fair values can be complex and subject to significant business judgment and most commonly impacts property, plant and equipment and intangible assets, including those with indefinite lives. Generally, we have, if necessary, up to one year from the acquisition date to finalize the purchase price allocation.

## RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

“Quantitative and Qualitative Disclosures About Market Risk” are contained in Item 7 - Management’s Discussion and Analysis of Financial Condition and Results of Operations under the caption “Market Risk Disclosures” and are incorporated herein by reference.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and the financial statement schedule referred to in the Index contained on page F-1 of this Report are incorporated herein by reference.

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

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

- (a) 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 September 30, 2016, were effective at the reasonable assurance level.
- (b) *Management's Annual Report on Internal Control over Financial Reporting.* Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company, as such term is defined in Rule 13a-15 (f) of the Securities Exchange Act of 1934, as amended. In order to evaluate the effectiveness of internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act of 2002, management has conducted an assessment, including testing, of the Company's internal control over financial reporting as of September 30, 2016, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO 2013 Framework").

Internal control over financial reporting refers to the process, designed under the supervision and participation of management including our Chief Executive Officer and Chief Financial Officer, to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States and includes policies and procedures that, among other things, provide reasonable assurance that assets are safeguarded and that transactions are executed in accordance with management's authorization and are properly recorded to permit the preparation of reliable financial information. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate due to changing conditions, or the degree of compliance with the policies or procedures may deteriorate.

Based on its assessment, management has concluded that the Company's internal control over financial reporting was effective as of September 30, 2016, based on the COSO 2013 Framework. Ernst & Young LLP, our independent registered public accounting firm, has audited the effectiveness of the Company's internal control over financial reporting as of September 30, 2016, as stated in their report, which appears herein.

- (c) During the most recent fiscal quarter, no change in the Company's internal control over financial reporting occurred that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

None.

**PART III:****ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The aggregate fees billed by Ernst & Young LLP, the Company's independent registered public accounting firm in Fiscal 2016 and Fiscal 2015, were as follows:

	2016	2015
Audit Fees	\$ 1,316,526	\$ 840,850
Audit-Related Fees	0	0
Tax Fees	0	0
All Other Fees	0	0
<b>Total Fees for Services Provided</b>	<b>\$ 1,316,526</b>	<b>\$ 840,850</b>

Consistent with SEC policies regarding auditor independence, the Audit Committee has responsibility for appointing, setting compensation and overseeing the work of the Company's independent accountants. In recognition of this responsibility, the Audit Committee has a policy of pre-approving audit and permissible non-audit services provided by the independent accountants. The Audit Committee has also delegated approval authority to its chair, such authority to be exercised in the intervals between meetings, in accordance with the Audit Committee's pre-approval policy.

Prior to engagement of the Company's independent accountants for the next year's audit, management submits a list of services and related fees expected to be rendered during that year within each of the four categories of services noted above to the Audit Committee for approval.

#### **PART IV:**

#### **ITEM 15. EXHIBITS AND FINANCIAL STATEMENTS SCHEDULES**

##### **(a) Documents filed as part of this report:**

##### **(1) Financial Statements:**

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

Report of Independent Registered Public Accounting Firm (on Internal Control over Financial Reporting)  
- Ernst & Young LLP

Report of Independent Registered Public Accounting Firm (on Consolidated Financial Statements and Schedule) - Ernst & Young LLP

Report of Independent Registered Public Accounting Firm - PricewaterhouseCoopers LLP

Consolidated Balance Sheets as of September 30, 2016 and 2015

Consolidated Statements of Income for the fiscal years ended September 30, 2016, 2015 and 2014

Consolidated Statements of Comprehensive Income for the years ended September 30, 2016, 2015 and 2014

Consolidated Statements of Cash Flows for the fiscal years ended September 30, 2016, 2015 and 2014

Consolidated Statements of Stockholder's Equity for the fiscal years ended September 30, 2016, 2015 and 2014

Notes to Consolidated Financial Statements

##### **(2) Financial Statement Schedule:**

For the years ended September 30, 2016, 2015 and 2014

II — Valuation and Qualifying Accounts

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

##### **(3) List of Exhibits:**

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

**Incorporation by Reference**

<b>Exhibit No.</b>	<b>Exhibit</b>	<b>Registrant</b>	<b>Filing</b>	<b>Exhibit</b>
3.1	UGI Utilities' Amended and Restated Articles of Incorporation.	Utilities	Registration Statement No. 333-72540 (10/31/01)	3
3.2	Bylaws of UGI Utilities as amended through September 30, 2003.	Utilities	Form 10-K (9/30/03)	3.2
4	Instruments defining the rights of security holders, including indentures. (The Company agrees to furnish to the Commission upon request a copy of any instrument defining the rights of holders of its long-term debt not required to be filed pursuant to the description of Exhibit 4 contained in Item 601 of Regulation S-K).			
4.1	UGI Utilities' Articles of Incorporation and Bylaws referred to in Exhibit Nos. 3.1 and 3.2.			
4.2	Indenture, dated as of August 1, 1993, by and between UGI Utilities, Inc., as Issuer, and U.S. Bank National Association, as successor trustee, incorporated by reference to the Registration Statement on Form S-3 filed on April 8, 1994.	Utilities	Registration Statement No. 33-77514 (4/8/94)	4(c)
4.3	Supplemental Indenture, dated as of September 15, 2006, by and between UGI Utilities, Inc., as Issuer, and U.S. Bank National Association, successor trustee to Wachovia Bank, National Association.	Utilities	Form 8-K (9/12/06)	4.2
4.4	Form of Fixed Rate Medium-Term Note.	Utilities	Form 8-K (8/26/94)	(4)i
4.5	Form of Fixed Rate Series B Medium-Term Note.	Utilities	Form 8-K (8/1/96)	4(i)
4.6	Form of Floating Rate Series B Medium-Term Note.	Utilities	Form 8-K (8/1/96)	4(ii)
4.7	Officer's Certificate establishing Medium-Term Notes Series.	Utilities	Form 8-K (8/26/94)	4(iv)
4.8	Form of Officer's Certificate establishing Series B Medium-Term Notes under the Indenture.	Utilities	Form 8-K (8/1/96)	4(iv)
4.9	Form of Officers' Certificate establishing Series C Medium-Term Notes under the Indenture.	Utilities	Form 8-K (5/21/02)	4.2
4.10	Forms of Floating Rate and Fixed Rate Series C Medium-Term Notes.	Utilities	Form 8-K (5/21/02)	4.1
4.11	Form of Note Purchase Agreement dated October 30, 2013 between the Company and the purchasers listed as signatories thereto.	Utilities	Form 8-K (10/30/13)	4.1
4.12	Note Purchase Agreement dated April 22, 2016 between the Company and the purchasers listed as signatories thereto.	Utilities	Form 8-K (4/28/16)	4.1

## Incorporation by Reference

Exhibit No.	Exhibit	Registrant	Filing	Exhibit
10.1**	UGI Corporation 2004 Omnibus Equity Compensation Plan Amended and Restated as of September 5, 2014.	UGI	Form 10-K (9/30/16)	10.25
10.2**	UGI Corporation 2004 Omnibus Equity Compensation Plan Amended and Restated as of September 5, 2014 - Terms and Conditions as effective January 1, 2016.	UGI	Form 10-K (9/30/16)	10.26
10.3**	UGI Corporation 2013 Omnibus Incentive Compensation Plan, effective as of September 5, 2014.	UGI	Form 10-K (9/30/16)	10.30
10.4**	Form of UGI Corporation 2013 Omnibus Incentive Compensation Plan, Nonqualified Stock Option Grant Letter for Non Employee Directors, dated January 28, 2016.	UGI	Form 10-Q (3/31/16)	10.3
10.5**	UGI Corporation 2013 Omnibus Incentive Compensation Plan, effective as of September 5, 2014 - Terms and Conditions for Non-Employee Directors effective January 1, 2016.	UGI	Form 10-K (9/30/16)	10.31
10.6**	UGI Corporation 2009 Deferral Plan, as Amended and Restated effective January 24, 2014.	UGI	Form 10-Q (3/31/14)	10.5
10.7**	UGI Corporation Senior Executive Employee Severance Plan, as amended and restated as of November 16, 2012.	UGI	Form 10-Q (6/30/13)	10.1
10.8**	UGI Corporation Supplemental Executive Retirement Plan and Supplemental Savings Plan, as Amended and Restated effective November 22, 2013.	UGI	Form 10-Q (3/31/14)	10.3
10.9**	UGI Corporation 2009 Supplemental Executive Retirement Plan for New Employees, as Amended and Restated effective July 26, 2016.	UGI	Form 10-K (9/30/16)	10.29
10.10**	UGI Utilities, Inc. Senior Executive Employee Severance Plan, as amended and restated as of November 16, 2012.	Utilities	Form 10-Q (6/30/13)	10.1
10.11**	UGI Utilities, Inc. Executive Annual Bonus Plan, effective as of October 1, 2006, as amended as of November 16, 2012.	Utilities	Form 10-Q (3/31/13)	10.2
10.12**	Form of UGI Corporation 2013 Omnibus Incentive Compensation Plan, Performance Unit Grant Letter for UGI Employees, dated January 1, 2016.	UGI	Form 10-Q (3/31/16)	10.1
10.13**	Form of UGI Corporation 2013 Omnibus Incentive Compensation Plan Performance Unit Grant Letter for UGI Utilities Employees, dated January 1, 2016.	Utilities	Form 10-Q (3/31/16)	10.1
10.14**	Form of UGI Corporation 2013 Omnibus Incentive Compensation Plan Nonqualified Stock Option Grant Letter for UGI Employees, dated January 1, 2016.	UGI	Form 10-Q (3/31/16)	10.4
10.15**	Form of UGI Corporation 2013 Omnibus Incentive Compensation Plan Nonqualified Stock Option Grant Letter for UGI Utilities Employees, dated January 1, 2016.	Utilities	Form 10-Q (3/31/16)	10.2

**Incorporation by Reference**

<b>Exhibit No.</b>	<b>Exhibit</b>	<b>Registrant</b>	<b>Filing</b>	<b>Exhibit</b>
10.16**	UGI Corporation Executive Annual Bonus Plan effective as of October 1, 2006, as amended November 16, 2012.	UGI	Form 10-Q (3/31/13)	10.14
10.17	FSS Service Agreement No. 79028 effective as of December 1, 2014 by and between Columbia Gas Transmission, LLC and UGI Utilities, Inc.	Utilities	Form 10-K (9/30/14)	10.16
10.18	SST Service Agreement No. 79133 effective as of December 1, 2014 by and between Columbia Gas Transmission, LLC and UGI Utilities, Inc.	Utilities	Form 10-K (9/30/14)	10.19
*10.19	Gas Supply and Delivery Service Agreement between UGI Utilities, Inc. and UGI Energy Services, LLC, effective November 1, 2015.			
10.20	Credit Agreement, dated as of March 27, 2015 among UGI Utilities, Inc., as borrower, PNC Bank, National Association, as administrative agent, Citizens Bank of Pennsylvania, as syndication agent, PNC Capital Markets LLC and Citizens Bank, N.A., as joint lead arrangers and joint bookrunners, and the other financial institutions from time to time parties thereto.	Utilities	Form 8-K (3/27/15)	10.1

**Incorporation by Reference**

<b>Exhibit No.</b>	<b>Exhibit</b>	<b>Registrant</b>	<b>Filing</b>	<b>Exhibit</b>
*12.1	Computation of Ratio of Earnings to Fixed Charges.			
14	Code of Ethics for principal executive, financial and accounting officers.	UGI	Form 10-K (9/30/03)	14
*23.1	Consent of Ernst & Young LLP.			
*23.2	Consent of PricewaterhouseCoopers LLP.			
*31.1	Certification by the Chief Executive Officer relating to the Registrant's Report on Form 10-K for the fiscal year ended September 30, 2016 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-K for the fiscal year ended September 30, 2016 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-K for the fiscal year ended September 30, 2016, 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			

\* Filed herewith.

\*\* As required by Item 15(a)(3), this exhibit is identified as a compensatory plan or arrangement.

**SIGNATURES**

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

Date: November 22, 2016

**UGI UTILITIES, INC.**

By: /s/ Daniel J. Platt

Daniel J. Platt

Vice President - Finance and Chief  
Financial Officer, Assistant Secretary and  
Treasurer (Principal Financial Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below on November 22, 2016 by the following persons on behalf of the Registrant in the capacities indicated.

<u>Signature</u>	<u>Title</u>
<u>/s/ Robert F. Beard</u> Robert F. Beard	President and Chief Executive Officer (Principal Executive Officer) and Director
<u>/s/ Daniel J. Platt</u> Daniel J. Platt	Vice President — Finance and Chief Financial Officer, Assistant Secretary and Treasurer (Principal Financial Officer)
<u>/s/ Megan Mattern</u> Megan Mattern	Controller (Principal Accounting Officer)
<u>/s/ Marvin O. Schlanger</u> Marvin O. Schlanger	Chairman and Director
<u>/s/ John L. Walsh</u> John L. Walsh	Vice Chairman and Director
<u>/s/ M. Shawn Bort</u> M. Shawn Bort	Director
<u>/s/ Richard W. Gochnauer</u> Richard W. Gochnauer	Director
<u>/s/ Frank S. Hermance</u> Frank S. Hermance	Director
<u>/s/ Ernest E. Jones</u> Ernest E. Jones	Director
<u>/s/ Anne Pol</u> Anne Pol	Director
<u>/s/ James B. Stallings, Jr.</u> James B. Stallings, Jr.	Director
<u>/s/ Roger B. Vincent</u> Roger B. Vincent	Director

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



No annual report or proxy material was sent to security holders in Fiscal 2016.

**UGI UTILITIES, INC. AND SUBSIDIARIES**  
**FINANCIAL INFORMATION**  
**FOR INCLUSION IN ANNUAL REPORT ON FORM 10-K**  
**YEAR ENDED SEPTEMBER 30, 2016**

UGI UTILITIES, INC. AND SUBSIDIARIES  
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Financial Statement Schedule:	
For the years ended September 30, 2016, 2015 and 2014:	
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We have omitted all other financial statement schedules because the required information is either (1) not present; (2) not present in amounts sufficient to require submission of the schedule; or (3) included elsewhere in the financial statements or related notes.

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholder of UGI Utilities, Inc.:

We have audited UGI Utilities, Inc. and subsidiaries' internal control over financial reporting as of September 30, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). UGI Utilities, Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, UGI Utilities, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of September 30, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of UGI Utilities, Inc. and subsidiaries as of September 30, 2016 and 2015, and the related consolidated statements of income, comprehensive income, stockholder's equity and cash flows for each of the two years in the period ended September 30, 2016 and our report dated November 22, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP  
Philadelphia, Pennsylvania  
November 22, 2016

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholder of UGI Utilities, Inc.

We have audited the accompanying consolidated balance sheets of UGI Utilities, Inc. and subsidiaries as of September 30, 2016 and 2015, and the related consolidated statements of income, comprehensive income, stockholder's equity and cash flows for each of the two years in the period ended September 30, 2016. Our audits also included the financial statement schedule for each of the two years in the period ended September 30, 2016 listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of UGI Utilities, Inc. and subsidiaries at September 30, 2016 and 2015, and the consolidated results of their operations and their cash flows for each of the two years in the period ended September 30, 2016, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), UGI Utilities, Inc. and subsidiaries' internal control over financial reporting as of September 30, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated November 22, 2016, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP  
Philadelphia, Pennsylvania  
November 22, 2016

**Report of Independent Registered Public Accounting Firm**

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

In our opinion, the consolidated statements of income, of comprehensive income, of cash flows and of stockholder's equity for the year ended September 30, 2014 present fairly, in all material respects, the results of operations and cash flows of UGI Utilities, Inc. and its subsidiaries for the year ended September 30, 2014, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the Index as Item 15(a)(2) for the year ended September 30, 2014 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audit. We conducted our audit of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP  
Philadelphia, Pennsylvania  
November 28, 2014

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

	September 30,	
	2016	2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,819	\$ 3,099
Restricted cash	583	6,602
Accounts receivable (less allowances for doubtful accounts of \$3,946 and \$5,599, respectively)	44,692	55,659
Accounts receivable — related parties	398	1,271
Accrued utility revenues	12,753	12,051
Inventories	42,340	51,716
Deferred income taxes	—	24,694
Prepaid income taxes	1,956	10,026
Regulatory assets	3,208	4,105
Derivative instruments	4,263	934
Prepaid expenses	10,499	9,701
Other current assets	11,510	14,202
Total current assets	135,021	194,060
Property, plant and equipment	2,998,915	2,753,499
Less accumulated depreciation and amortization	(975,374)	(929,130)
Net property, plant and equipment	2,023,541	1,824,369
Goodwill	182,145	182,145
Regulatory assets	391,933	300,103
Other assets	10,451	5,307
Total assets	<u>\$ 2,743,091</u>	<u>\$ 2,505,984</u>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
Current liabilities:		
Current maturities of long-term debt	\$ 19,986	\$ 246,893
Short-term borrowings	112,500	71,700
Accounts payable — trade	65,180	58,135
Accounts payable — related parties	3,995	4,430
Employee compensation and benefits accrued	16,323	14,286
Interest accrued	7,605	8,553
Customer deposits and advances	41,391	41,646
Derivative instruments	310	12,591
Regulatory liability - deferred fuel and power refunds	22,299	36,638
Other current liabilities	44,321	38,780
Total current liabilities	333,910	533,652
Long-term debt	651,455	372,913
Deferred income taxes	550,229	512,497
Deferred investment tax credits	3,268	3,597
Pension and other postretirement benefit obligations	184,516	135,003
Other noncurrent liabilities	94,976	57,702
Total liabilities	1,818,354	1,615,364
Commitments and contingencies (Note 12)		
Common stockholder's equity:		
Common Stock, \$2.25 par value (authorized — 40,000,000 shares; issued and outstanding — 26,781,785 shares)	60,259	60,259
Additional paid-in capital	473,580	471,904
Retained earnings	422,516	372,143
Accumulated other comprehensive loss	(31,618)	(13,686)
Total common stockholder's equity	924,737	890,620
Total liabilities and stockholder's equity	<u>\$ 2,743,091</u>	<u>\$ 2,505,984</u>

See accompanying Notes to Consolidated Financial Statements.

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

	Year Ended September 30,		
	2016	2015	2014
Revenues	\$ 768,484	\$ 1,041,581	\$ 1,086,889
Costs and expenses:			
Cost of sales — gas, fuel and purchased power (excluding depreciation shown below)	289,786	510,784	562,942
Operating and administrative expenses	180,842	206,319	195,408
Operating and administrative expenses — related parties	11,863	11,956	10,671
Taxes other than income taxes	15,789	16,134	16,608
Depreciation	64,260	59,841	55,776
Amortization	3,043	3,749	3,443
Other expense (income), net	2,000	(8,869)	(4,359)
	<u>567,583</u>	<u>799,914</u>	<u>840,489</u>
Operating income	200,901	241,667	246,400
Interest expense	37,630	41,128	38,471
Income before income taxes	163,271	200,539	207,929
Income taxes	65,898	79,484	83,823
Net income	<u>\$ 97,373</u>	<u>\$ 121,055</u>	<u>\$ 124,106</u>

See accompanying Notes to Consolidated Financial Statements.

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

	Year Ended September 30,		
	2016	2015	2014
Net income	\$ 97,373	\$ 121,055	\$ 124,106
Net losses on derivative instruments (net of tax of \$12,016, \$2,911 and \$0, respectively)	(16,942)	(4,105)	—
Reclassifications of net losses on derivative instruments (net of tax of \$(1,112), \$(1,109) and \$(1,112), respectively)	1,568	1,565	1,567
Benefit plans, principally actuarial losses (net of tax of \$2,267, \$2,469 and \$1,002, respectively)	(3,197)	(3,482)	(1,413)
Reclassifications of benefit plans actuarial losses and net prior service credits (net of tax of \$(454), \$(367) and \$(274), respectively)	639	517	385
Other comprehensive (loss) income	(17,932)	(5,505)	539
Comprehensive income	<u>\$ 79,441</u>	<u>\$ 115,550</u>	<u>\$ 124,645</u>

See accompanying Notes to Consolidated Financial Statements.



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

	Year Ended September 30,		
	2016	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 97,373	\$ 121,055	\$ 124,106
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	67,303	63,590	59,219
Deferred income taxes, net	76,938	29,356	33,588
Pension contributions, net of pension expense	1,580	(1,415)	(9,459)
Settlement of interest rate protection agreements	(35,975)	—	—
Provision for uncollectible accounts	7,760	13,498	13,149
Other, net	(10,112)	3,228	3,998
Net change in:			
Accounts receivable and accrued utility revenues	1,120	7,297	(19,718)
Inventories	9,376	43,503	(5,558)
Deferred fuel costs, net of changes in unsettled derivatives	(22,740)	51,778	(17,632)
Accounts payable	(3,053)	(7,649)	5,757
Other current assets	(70)	(9,723)	362
Other current liabilities	15,870	(7,808)	864
Net cash provided by operating activities	<u>205,370</u>	<u>306,710</u>	<u>188,676</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Expenditures for property, plant and equipment	(250,584)	(203,192)	(164,180)
Net costs of property, plant and equipment disposals	(7,940)	(10,443)	(8,214)
Decrease (increase) in restricted cash	6,019	(3,010)	(411)
Net cash used by investing activities	<u>(252,505)</u>	<u>(216,645)</u>	<u>(172,805)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Payment of dividends	(47,000)	(65,600)	(77,395)
Increase (decrease) in short-term borrowings	40,800	(14,600)	68,800
Issuances of long-term debt, net of issuance costs	298,379	—	174,445
Repayments of long-term debt	(247,000)	(20,000)	(175,000)
Excess tax benefits from equity-based payment arrangements	1,676	833	973
Net cash provided (used) by financing activities	<u>46,855</u>	<u>(99,367)</u>	<u>(8,177)</u>
Cash and cash equivalents (decrease) increase	<u>\$ (280)</u>	<u>\$ (9,302)</u>	<u>\$ 7,694</u>
<b>CASH AND CASH EQUIVALENTS:</b>			
End of year	\$ 2,819	\$ 3,099	\$ 12,401
Beginning of year	3,099	12,401	4,707
(Decrease) increase	<u>\$ (280)</u>	<u>\$ (9,302)</u>	<u>\$ 7,694</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>			
Cash paid (received) for:			
Interest	\$ 36,155	\$ 38,405	\$ 34,781
Income taxes	\$ (19,758)	\$ 54,427	\$ 54,293

See accompanying Notes to Consolidated Financial Statements.

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

	Year Ended September 30,		
	2016	2015	2014
<b>Common stock, without par value</b>			
Balance, beginning of year	\$ 60,259	\$ 60,259	\$ 60,259
Balance, end of year	<u>\$ 60,259</u>	<u>\$ 60,259</u>	<u>\$ 60,259</u>
<b>Retained earnings</b>			
Balance, beginning of year	\$ 372,143	\$ 316,688	\$ 269,977
Net income	97,373	121,055	124,106
Cash dividends — Common Stock	(47,000)	(65,600)	(77,395)
Balance, end of year	<u>\$ 422,516</u>	<u>\$ 372,143</u>	<u>\$ 316,688</u>
<b>Additional paid-in capital</b>			
Balance, beginning of year	\$ 471,904	\$ 471,071	\$ 470,098
Excess tax benefits on equity-based compensation	1,676	833	973
Balance, end of year	<u>\$ 473,580</u>	<u>\$ 471,904</u>	<u>\$ 471,071</u>
<b>Accumulated other comprehensive income (loss)</b>			
Balance, beginning of year	\$ (13,686)	\$ (8,181)	\$ (8,720)
Net losses on derivative instruments	(16,942)	(4,105)	—
Reclassifications of net losses on derivative instruments	1,568	1,565	1,567
Benefit plans, principally actuarial losses	(3,197)	(3,482)	(1,413)
Reclassifications of benefit plans actuarial losses and net prior service credits	639	517	385
Balance, end of year	<u>\$ (31,618)</u>	<u>\$ (13,686)</u>	<u>\$ (8,181)</u>
<b>Total UGI Utilities, Inc. stockholder's equity</b>	<u><u>\$ 924,737</u></u>	<u><u>\$ 890,620</u></u>	<u><u>\$ 839,837</u></u>

See accompanying Notes to Consolidated Financial Statements.

**UGI UTILITIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Thousands of dollars, except per share amounts)**

## 1. NATURE OF OPERATIONS

UGI Utilities, Inc. (“UGI Utilities”), a wholly owned subsidiary of UGI Corporation (“UGI”), and UGI Utilities’ wholly owned subsidiaries UGI Penn Natural Gas, Inc. (“PNG”) and UGI Central Penn Gas, Inc. (“CPG”), own and operate natural gas distribution utilities in eastern, northeastern and central Pennsylvania and in a portion of one Maryland county. UGI Utilities also owns and operates an electric distribution utility in northeastern Pennsylvania (“Electric Utility”). UGI Utilities’ natural gas distribution utility is referred to as “UGI Gas.” UGI Gas, PNG and CPG are collectively referred to as “Gas Utility.” Gas Utility is subject to regulation by the Pennsylvania Public Utility Commission (“PUC”) and, with respect to a small service territory in one Maryland county, the Maryland Public Service Commission, and Electric Utility is subject to regulation by the PUC. Gas Utility and Electric Utility are collectively referred to as “Utilities.” Prior to June 1, 2015, PNG also had a heating, ventilation and air-conditioning service business which operated principally in the PNG service territory (“PNG HVAC Business”). The assets of the PNG HVAC Business principally comprising customer contracts were sold on June 1, 2015.

The term “UGI Utilities” is used sometimes as an abbreviated reference to UGI Utilities, Inc., or to UGI Utilities, Inc. and its subsidiaries, including PNG and CPG.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

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

Certain prior-year amounts have been reclassified to conform to the current-year presentation.

### Principles of Consolidation

Our consolidated financial statements include the accounts of UGI Utilities and its subsidiaries (collectively, “we” or “the Company”). We eliminate intercompany accounts when we consolidate.

### Effects of Regulation

UGI Utilities accounts for the financial effects of regulation in accordance with the Financial Accounting Standards Board’s (“FASB’s”) guidance in Accounting Standards Codification (“ASC”) 980, “Regulated Operations.” In accordance with this guidance, incurred costs and estimated future expenditures that would otherwise be charged to expense are capitalized and recorded as regulatory assets when it is probable that the incurred costs or estimated future expenditures will be recovered in rates in the future. Similarly, we recognize regulatory liabilities when it is probable that regulators will require customer refunds through future rates or when revenue is collected from customers for expenditures that have not yet been incurred. Regulatory assets and liabilities are classified as current if, upon initial recognition, the entire amount related to that item will be recovered or refunded within a year of the balance sheet date. Generally, regulatory assets and regulatory liabilities are amortized into expense and income over the periods authorized by the regulator. For additional information regarding the effects of rate regulation on our utility operations, see Note 4.

### Fair Value Measurements

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

**UGI UTILITIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Thousands of dollars, except per share amounts)**

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

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

- Level 1 — Quoted prices (unadjusted) in active markets for identical assets and liabilities that we have the ability to access at the measurement date.
- Level 2 — Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable for the asset or liability, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived from observable market data by correlation or other means.
- Level 3 — Unobservable inputs for the asset or liability including situations where there is little, if any, market activity for the asset or liability.

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

#### **Derivative Instruments**

Derivative instruments are reported in the Consolidated Balance Sheets at their fair values, unless the derivative instruments qualify for the normal purchase and normal sale (“NPNS”) exception under GAAP and such exception has been elected. The accounting for changes in fair value depends upon the purpose of the derivative instrument and whether it is subject to regulatory ratemaking mechanisms or is designated and qualifies for hedge accounting.

Gains and losses on substantially all of the derivative instruments used by UGI Utilities (for which NPNS has not been elected) to hedge commodity prices are included in regulatory assets and liabilities in accordance with GAAP regarding accounting for rate-regulated entities. Certain of our derivative instruments are designated and qualify as cash flow hedges. For cash flow hedges, changes in the fair value of the derivative financial instruments are recorded in accumulated other comprehensive income (loss) (“AOCI”), to the extent effective at offsetting changes in the hedged item, until earnings are affected by the hedged item. We discontinue cash flow hedge accounting if the 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.

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 14.

#### **Revenue Recognition**

UGI Utilities’ regulated revenues are recognized as natural gas and electricity are delivered and include estimated amounts for distribution service rendered and commodities delivered but not billed at the end of each month. We reflect the impact of Gas Utility and Electric Utility rate increases or decreases at the time they become effective. Nonregulated revenues are recognized as services are performed or products are delivered.

We present revenue-related taxes collected on behalf of customers and remitted to taxing authorities, principally sales and use taxes, on a net basis. Electric Utility gross receipts taxes are included in total revenues in accordance with regulatory practice.

**UGI UTILITIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Thousands of dollars, except per share amounts)**

**Accounts Receivable**

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

**Income Taxes**

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

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

We join with UGI and its subsidiaries in filing a consolidated federal income tax return. We are charged or credited for our share of current taxes resulting from the effects of our transactions in the UGI consolidated federal income tax return including giving effect to intercompany transactions. The result of this allocation is consistent with income taxes calculated on a separate return basis. We record interest on tax deficiencies and income tax penalties in income taxes on the Consolidated Statements of Income.

**Cash and Cash Equivalents**

All highly liquid investments with maturities of three months or less when purchased are classified as cash equivalents.

**Restricted Cash**

Restricted cash represents those cash balances in our commodity futures brokerage accounts that are restricted from withdrawal.

**Inventories**

Our inventories are stated at the lower of cost or net realizable value. We determine cost using an average cost method for substantially all of our inventory.

**Property, Plant and Equipment and Related Depreciation**

We record property, plant and equipment at original cost. The amounts assigned to property, plant and equipment of acquired businesses are based upon estimated fair value at date of acquisition.

We record depreciation expense for Utilities' plant and equipment on a straight-line basis over the estimated average remaining lives of the various classes of its depreciable property. The composite annual rate for depreciable property at our Gas Utility was 2.2% in Fiscal 2016, 2.2% in Fiscal 2015 and 2.3% in Fiscal 2014. The composite annual rate for depreciable property at our Electric Utility was 2.5% in Fiscal 2016, 2.5% in Fiscal 2015 and 2.5% in Fiscal 2014. When Utilities retires depreciable utility plant and equipment, we charge the original cost to accumulated depreciation for financial accounting purposes. Costs incurred to retire utility plant and equipment, net of salvage, are recorded in regulatory assets and amortized over 5 years, consistent with the recovery period approved by the PUC.

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

No depreciation expense is included in cost of sales in the Consolidated Statements of Income.

**UGI UTILITIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Thousands of dollars, except per share amounts)**

**Goodwill**

Our goodwill is the result of Gas Utility business acquisitions. We do not amortize goodwill, but test it at least annually for impairment at the reporting unit level. A reporting unit is the operating segment, or a business one level below the operating segment (a component) if discrete financial information is prepared and regularly reviewed by segment management. Components are aggregated as a single reporting unit if they have similar economic characteristics. A reporting unit with goodwill is required to perform an impairment test annually or whenever events or circumstances indicate that the value of goodwill may be impaired. During the fourth quarter of Fiscal 2016, the Company changed the measurement date for performing its annual goodwill impairment test from September 30 to July 31. This voluntary change in accounting principle, applied prospectively, is preferable as it aligns the annual goodwill impairment test date more closely with the Company's internal budgeting process and did not delay, accelerate or avoid an impairment of the Company's goodwill.

We are required to recognize an impairment charge under GAAP if the carrying amount of a reporting unit exceeds its fair value and the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill. From time to time, we may assess qualitative factors to determine whether it is more likely than not that the fair value of such reporting unit is less than its carrying amount. From time to time, we may bypass the qualitative assessment and perform the first step of the two-step quantitative assessment by comparing the fair values of the reporting units with their carrying amounts, including goodwill. We determine the fair value of our Gas Utility generally based on a weighting of income and market approaches. For purposes of the income approach, fair value is determined based upon the present value of the reporting unit's estimated future cash flows, including an estimate of the reporting unit's terminal value based upon these cash flows, discounted at appropriate risk-adjusted rates. We use our internal forecasts to estimate future cash flows which may include estimates of long-term future growth rates based upon our most recent reviews of the long-term outlook for the reporting unit. Cash flow estimates used to establish fair values under our income approach involve management judgments based on a broad range of information and historical results. In addition, external economic and competitive conditions can influence future performance. For purposes of the market approach, we use valuation multiples for companies comparable to our reporting unit. The market approach requires judgment to determine the appropriate valuation multiple. Under certain circumstances, the Company may perform a qualitative approach to determine if it is more likely than not that the carrying value of a reporting unit is greater than its fair value. No provisions for goodwill impairments were recorded during Fiscal 2016, Fiscal 2015 or Fiscal 2014.

**Impairment of Long-Lived Assets**

We evaluate long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. We evaluate recoverability based upon undiscounted future cash flows expected to be generated by such assets. No provisions for impairments were recorded during Fiscal 2016, Fiscal 2015 or Fiscal 2014.

**Employee Retirement Plans**

We use a market-related value of plan assets and an expected long-term rate of return to determine the expected return on assets of our pension and other postretirement plans. The market-related value of plan assets, other than equity investments, is based upon fair values. The market-related value of equity investments is calculated by rolling forward the prior-year's market-related value with contributions, disbursements and the expected return on plan assets. One third of the difference between the expected and the actual value is then added to or subtracted from the expected value to determine the new market-related value (see Note 9).

**Equity-Based Compensation**

All of our equity-based compensation, principally comprising UGI stock options and grants of UGI stock-based equity instruments ("Units"), is measured at fair value on the grant date, date of modification or end of the period, as applicable. Compensation expense is recognized on a straight-line basis over the requisite service period. Depending upon the settlement terms of the awards, equity-based compensation costs are measured based upon the fair value of the award on the date of grant or the fair value of the award as of the end of each reporting period. We expect to adopt new accounting guidance that simplifies and clarifies certain aspects of the accounting for and presentation of share-based payments during the first quarter of Fiscal 2017 (see Note 3).

For additional information on our equity-based compensation plans and related disclosures, see Note 11.

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**Environmental Matters**

We are subject to environmental laws and regulations intended to mitigate or remove the effects of past operations and improve or maintain the quality of the environment. These laws and regulations require the removal or remedy of the effect on the environment of the disposal or release of certain specified hazardous substances at current or former operating sites.

Environmental reserves are accrued when assessments indicate that it is probable that a liability has been incurred and an amount can reasonably be estimated. Amounts recorded as environmental liabilities on the balance sheets represent our best estimate of costs expected to be incurred or, if no best estimate can be made, the minimum liability associated with a range of expected environmental investigation and remediation costs. Our estimated liability for environmental contamination is reduced to reflect anticipated participation of other responsible parties but is not reduced for possible recovery from insurance carriers. In those instances for which the amount and timing of cash payments associated with environmental investigation and cleanup are reliably determinable, we discount such liabilities to reflect the time value of money. We intend to pursue recovery of incurred costs through all appropriate means, including regulatory relief. UGI Gas, CPG and PNG receive ratemaking recognition of environmental investigation and remediation costs associated with their environmental sites. This ratemaking recognition balances the accumulated difference between historical costs and rate recoveries with an estimate of future costs associated with the sites. For further information, see Note 12.

**3. ACCOUNTING CHANGES****Adoption of New Accounting Standard**

**Presentation of Deferred Taxes.** During the first quarter of Fiscal 2016, the Company adopted new accounting guidance regarding the classification of deferred taxes. The new guidance amends existing guidance to require that deferred income tax liabilities and assets be classified as noncurrent in a classified balance sheet, and eliminates the prior guidance which required an entity to separate deferred tax liabilities and assets into a current amount and a noncurrent amount in a classified balance sheet. As required, we applied this guidance prospectively and, accordingly, balance sheets prior to Fiscal 2016 have not been reclassified.

**Debt Issuance Costs.** During the fourth quarter of Fiscal 2016, the Company adopted new accounting guidance regarding the classification of debt issuance costs. This new guidance amends existing guidance to require the presentation of debt issuance costs in the balance sheet as a direct deduction from the carrying amount of the related debt liability instead of a deferred charge. As required by the new guidance, prior period amounts have been reclassified. As of September 30, 2016 and 2015, the Company has reflected \$3,559 and \$2,194 of such costs as a reduction to long-term debt, including current maturities, on the Consolidated Balance Sheets.

**Accounting Standards Not Yet Adopted**

**Cash Flow Classification.** In August 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-15, "Classification of Certain Cash Receipts and Cash Payments." This ASU provides guidance on the classification of certain cash receipts and payments in the statement of cash flows. The amendments in this ASU are effective for interim and annual periods beginning after December 15, 2017 (Fiscal 2019). Early adoption is permitted. The Company expects to adopt the new guidance in Fiscal 2017. The adoption of the new guidance is not expected to have a material impact on the Company's financial statements.

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

**Employee Share-Based Payments.** In March 2016, the FASB issued ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting." This ASU simplifies several aspects of the accounting for employee share-based payment transactions including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. Among other things, excess tax benefits and tax deficiencies associated with share-based awards will be recognized as income tax benefit or expense in the income statement and the tax effects of exercised or vested awards will be treated as discrete items in the reporting period in which they occur. The Company expects to adopt the new guidance in the first quarter of Fiscal 2017. The amendment most likely to impact the Company, principally those requiring recognition of excess tax benefits and tax deficiencies in the income statement, will be applied prospectively. Based upon the number of share-based payment

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awards currently outstanding, we do not believe that the adoption of the new guidance will have a material impact on our net income.

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

**Revenue Recognition.** In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." The guidance provided under this ASU, as amended, supersedes the revenue recognition requirements in Accounting Standards Codification ("ASC") No. 605, "Revenue Recognition," and most industry-specific guidance included in the ASC. The standard requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance is effective for the Company for interim and annual periods beginning after December 15, 2017 (Fiscal 2019) and allows for either full retrospective adoption or modified retrospective adoption. We have not yet selected a transition method and are currently evaluating the impact of adopting this guidance on our consolidated financial statements.

#### 4. REGULATORY ASSETS AND LIABILITIES AND REGULATORY MATTERS

The following regulatory assets and liabilities associated with Utilities are included in our accompanying Consolidated Balance Sheets at September 30:

	2016	2015
<b>Regulatory assets:</b>		
Income taxes recoverable	\$ 115,643	\$ 115,946
Underfunded pension and postretirement plans	183,129	140,762
Environmental costs (a)	59,397	19,983
Removal costs, net	27,956	21,223
Other	9,016	6,294
Total regulatory assets	<u>\$ 395,141</u>	<u>\$ 304,208</u>
<b>Regulatory liabilities (b):</b>		
Postretirement benefits overcollections	\$ 17,519	\$ 19,975
Deferred fuel and power refunds	22,299	36,638
State income tax benefits — distribution system repairs	15,086	13,266
Other	665	1,125
Total regulatory liabilities	<u>\$ 55,569</u>	<u>\$ 71,004</u>

(a) Balance at September 30, 2016, includes amounts associated with UGI Gas' Consent Order and Agreement with the Pennsylvania Department of Environmental Protection (see Note 12).

(b) Regulatory liabilities, other than deferred fuel and power refunds, are recorded in other current and noncurrent liabilities in the Consolidated Balance Sheets.

Other than removal costs, UGI Utilities does not recover a rate of return on the regulatory assets included in the table above.

**Income taxes recoverable.** This regulatory asset is the result of recording deferred tax liabilities pertaining to temporary tax differences principally as a result of the pass through to ratepayers of the tax benefit on accelerated tax depreciation for state income tax purposes, and the flow through of accelerated tax depreciation for federal income tax purposes for certain years prior to 1981. These deferred taxes have been reduced by deferred tax assets pertaining to utility deferred investment tax credits. UGI Utilities has recorded regulatory income tax assets related to these deferred tax liabilities representing future revenues recoverable through the ratemaking process over the average remaining depreciable lives of the associated property ranging from 1 to approximately 65 years.



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***Underfunded pension and other postretirement plans.*** This regulatory asset represents the portion of net actuarial losses and prior service cost associated with pension and other postretirement benefits which are probable of being recovered through future rates based upon established regulatory practices. These regulatory assets are adjusted annually or more frequently under certain circumstances when the funded status of the plans is recorded in accordance with GAAP. These costs are amortized over the average remaining future service lives of plan participants.

***Environmental costs.*** Environmental costs principally represent estimated probable future environmental remediation and investigation costs that UGI Gas, CPG and PNG expect to incur, primarily at Manufactured Gas Plant (“MGP”) sites in Pennsylvania, in conjunction with remediation consent orders and agreements with the Pennsylvania Department of Environmental Protection. Pursuant to base rate orders, UGI Gas, PNG and CPG receive ratemaking recognition of estimated environmental investigation and remediation costs associated with their environmental sites. This ratemaking recognition balances the accumulated difference between historical costs and rate recoveries with an estimate of future costs associated with the sites. At September 30, 2016, the period over which UGI Gas, PNG and CPG expect to recover these costs will depend upon future remediation activity. For additional information on environmental costs, see Note 12.

***Removal costs, net.*** This regulatory asset represents costs incurred, net of salvage, associated with the retirement of depreciable utility plant. Consistent with prior ratemaking treatment, UGI Utilities expects to recover these costs over 5 years.

***Postretirement benefit overcollections.*** This regulatory liability represents the difference between amounts recovered through rates by UGI Gas and Electric Utility and actual costs incurred in accordance with accounting for postretirement benefits. With respect to UGI Gas, these overcollections will be refunded to customers over a ten-year period beginning October 19, 2016, the date UGI Gas’ Joint Petition pursuant to its January 19, 2016 base rate filing became effective (see “UGI Gas Base Rate Filing” below). With respect to Electric Utility, the difference between the amounts recovered through rates and the actual costs incurred in accordance with accounting for postretirement benefits is being deferred for future rate refund to customers.

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

Gas Utility uses derivative instruments to reduce volatility in the cost of gas it purchases for firm- residential, commercial and industrial (“retail core-market”) customers. Realized and unrealized gains or losses on natural gas derivative instruments are included in deferred fuel costs or refunds. Net unrealized gains (losses) on such contracts at September 30, 2016 and 2015, were \$4,263 and \$(3,262), respectively.

Electric Utility enters into forward electricity purchase contracts to meet a substantial portion of its electricity supply needs. At September 30, 2016 and 2015, substantially all Electric Utility forward electricity purchase contracts were subject to the NPNS exception (see Note 14).

In order to reduce volatility associated with a substantial portion of its electric transmission congestion costs, Electric Utility obtains financial transmission rights (“FTRs”). FTRs are derivative instruments that entitle the holder to receive compensation for electricity transmission congestion charges when there is insufficient electricity transmission capacity on the electric transmission grid. Because Electric Utility is entitled to fully recover its DS costs, realized and unrealized gains or losses on FTRs are included in deferred fuel and power costs or deferred fuel and power refunds. Unrealized gains or losses on FTRs at September 30, 2016 and 2015, were not material.

***State income tax benefits — distribution system repairs.*** This regulatory liability represents Pennsylvania state income tax benefits, net of federal benefit, resulting from the deduction for income tax purposes of repair and maintenance costs associated with Gas Utility or Electric Utility assets which are capitalized for regulatory and GAAP reporting. The tax benefits associated with these repair and maintenance deductions will be reflected as a reduction to income tax expense over the remaining tax lives of the related book assets.

***Other.*** Other regulatory assets and liabilities comprise a number of deferred items including, among others, a portion of preliminary stage information technology costs, energy efficiency conservation costs and rate case expenses. At September 30, 2016, UGI Utilities expects to recover these costs over periods of approximately 1 to 20 years.

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**Other Regulatory Matters**

**Preliminary Stage Information Technology Costs.** During the second quarter of Fiscal 2016, we determined that certain preliminary project stage costs associated with an ongoing information technology project at UGI Utilities were probable of future recovery in rates in accordance with GAAP related to regulated entities. As a result, during the second quarter of Fiscal 2016, we capitalized \$5,830 of such project costs (\$5,375 of which had been expensed prior to Fiscal 2016) and recorded associated increases to utility property, plant and equipment (\$2,755) and regulatory assets (\$3,075). Subsequent to this determination, we continue to capitalize such preliminary stage project costs in accordance with GAAP related to regulated entities.

**UGI Gas Base Rate Filing.** On January 19, 2016, UGI Utilities filed a rate request with the PUC to increase UGI Gas's annual base operating revenues for residential, commercial and industrial customers by \$58,600. The increased revenues would fund ongoing system improvements and operations necessary to maintain safe and reliable natural gas service. On June 30, 2016, a Joint Petition for Approval of Settlement of all issues providing for a \$27,000 UGI Gas annual base distribution rate increase, to be effective October 19, 2016, was filed with the PUC ("Joint Petition"). On October 14, 2016, the PUC approved the Joint Petition with a minor modification which had no effect on the \$27,000 base distribution rate increase. The increase became effective on October 19, 2016.

**Distribution System Improvement Charge.** On April 14, 2012, legislation became effective enabling gas and electric utilities in Pennsylvania, under certain circumstances, to recover the cost of eligible capital investment in distribution system infrastructure improvement projects between base rate cases. The charge enabled by the legislation is known as a distribution system improvement charge ("DSIC"). The primary benefit to a company from a DSIC charge is the elimination of regulatory lag, or delayed rate recognition, that occurs under traditional ratemaking relating to qualifying capital expenditures. To be eligible for a DSIC, a utility must have filed a general rate filing within five years of its petition seeking permission to include a DSIC in its tariff, and not exceed certain earnings tests. Absent PUC permission, the DSIC is capped at five percent of the amount billed to customers. PNG and CPG received PUC approval on a DSIC tariff, initially set at zero, in 2014. PNG and CPG began charging a DSIC at a rate other than zero, beginning April 1, 2015 and April 1, 2016, respectively. In March 2016, PNG and CPG filed petitions, seeking approval to increase the maximum allowable DSIC from five percent to ten percent of billed distribution revenues. To date, no action has been taken by the PUC on either of these petitions. The Company cannot predict the timing or outcome of these petitions. On November 9, 2016, UGI Gas received PUC approval to establish a DSIC tariff mechanism effective January 1, 2017. Revenue collected pursuant to the mechanism will be subject to refund and recoupment based on the PUC's final resolution of certain matters set aside for hearing before an administrative law judge. To commence recovery of revenue under the mechanism, UGI Gas must first place into service a threshold level of DSIC-eligible plant agreed upon in the settlement of its recent base rate case. Achievement of that threshold is not likely to occur prior to September 30, 2017.

**5. INVENTORIES**

Inventories comprise the following at September 30:

	2016	2015
Gas Utility natural gas	\$ 29,223	\$ 37,510
Materials, supplies and other	13,117	14,206
<b>Total inventories</b>	<b>\$ 42,340</b>	<b>\$ 51,716</b>

At September 30, 2016, UGI Utilities was a party to three principal storage contract administrative agreements ("SCAAs") having terms of three years. One of the SCAAs was with Energy Services, LLC ("Energy Services"), a second-tier, wholly owned subsidiary of UGI (see Note 18), and two of the SCAAs were with a non-affiliate. Pursuant to 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.

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The carrying value of gas storage inventories released under the SCAAs at September 30, 2016 and 2015, comprising 8.1 billion cubic feet (“bcf”) and 9.0 bcf of natural gas, were \$18,773 and \$22,694, respectively. At September 30, 2016 and 2015, UGI Utilities held a total of \$19,100 and \$17,700, respectively, of security deposits received from its SCAA counterparties. These amounts are included in other current liabilities on the Consolidated Balance Sheets.

For additional information related to the SCAAs with Energy Services, see Note 18.

## 6. PROPERTY, PLANT AND EQUIPMENT

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

	2016	2015
Distribution	\$ 2,634,191	\$ 2,458,080
Transmission	93,454	90,036
General and other, including construction in process	271,270	205,383
Total property, plant and equipment	<u>\$ 2,998,915</u>	<u>\$ 2,753,499</u>

## 7. DEBT

Long-term debt comprises the following at September 30:

	2016	2015
Senior Notes:		
4.12%, due September 2046	\$ 200,000	\$ —
5.75%, due September 2016	—	175,000
4.98%, due March 2044	175,000	175,000
2.95%, due June 2026	100,000	—
6.21%, due September 2036	100,000	100,000
Medium-Term Notes:		
7.37%, due October 2015	—	22,000
5.64%, due December 2015	—	50,000
6.17%, due June 2017	20,000	20,000
7.25%, due November 2017	20,000	20,000
5.67%, due January 2018	20,000	20,000
6.50%, due August 2033	20,000	20,000
6.13%, due October 2034	20,000	20,000
Total long-term debt	<u>675,000</u>	<u>622,000</u>
Less: unamortized debt issuance costs (a)	(3,559)	(2,194)
Less: current maturities	(19,986)	(246,893)
Total long-term debt due after one year	<u>\$ 651,455</u>	<u>\$ 372,913</u>

(a) Prior-year amounts reflect the retrospective impact from the adoption of new accounting guidance regarding the classification of debt issuance costs (see Note 3).

Principal payments on long-term debt during the next five fiscal years is as follows: \$20,000 is due in Fiscal 2017; \$40,000 is due in Fiscal 2018; \$0 is due in Fiscal 2019; \$0 is due in Fiscal 2020; and \$0 is due in Fiscal 2021.

In April 2016, UGI Utilities entered into a Note Purchase Agreement (the “2016 Note Purchase Agreement”) with a consortium of lenders. Pursuant to the 2016 Note Purchase Agreement, UGI Utilities issued \$100,000 aggregate principal amount of 2.95% Senior Notes due June 2026 and \$200,000 aggregate principal amount of 4.12% Senior Notes due September 2046 in June 2016 and September 2016, respectively. In October 2016, UGI Utilities issued \$100,000 aggregate principal amount of 4.12% Senior Notes due in October 2046 pursuant to the 2016 Note Purchase Agreement. The net proceeds of the issuance of these senior notes were used 1) to repay UGI Utilities’ maturing 5.75% Senior Notes, 7.37% Medium-term notes and 5.64% Medium-term notes;

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2) to provide additional financing for UGI Utilities' infrastructure replacement and betterment capital program and the information technology initiatives; and 3) for general corporate purposes. The Utilities Senior Notes are unsecured and rank equally with UGI Utilities' existing outstanding senior debt.

UGI Utilities has an unsecured credit agreement (the "Credit Agreement") with a group of banks providing for borrowings of up to \$300,000 (including a \$100,000 sublimit for letters of credit) which expires in March 2020. Under the Credit Agreement, UGI Utilities may borrow at various prevailing market interest rates, including LIBOR and the banks' prime rate, plus a margin. The margin on such borrowings ranges from 0.0% to 1.75% and is based upon the credit ratings of certain indebtedness of UGI Utilities. UGI Utilities had borrowings outstanding under the credit agreements, which we classify as short-term borrowings on the Consolidated Balance Sheets, totaling \$112,500 and \$71,700 at September 30, 2016 and 2015, respectively. The weighted-average interest rates on the credit agreement borrowings at September 30, 2016 and 2015 were 1.42% and 1.07%, respectively. Issued and outstanding letters of credit, which reduce available borrowings under the credit agreements, totaled \$2,009 and \$2,000 at September 30, 2016 and 2015, respectively.

**Restrictive Covenants.** Certain of UGI Utilities 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. These Senior Notes also contain restrictive and financial covenants including a requirement that UGI Utilities not exceed a ratio of Consolidated Debt to Consolidated Total Capital, as defined, of 0.65 to 1.00.

The UGI Utilities Credit Agreement requires UGI Utilities not to exceed a ratio of Consolidated Debt to Consolidated Total Capital, as defined.

## 8. INCOME TAXES

The provisions for income taxes consist of the following:

	2016	2015	2014
<b>Current expense (benefit):</b>			
Federal	\$ (17,845)	\$ 34,990	\$ 38,786
State	6,805	15,138	11,449
Total current (benefit) expense	(11,040)	50,128	50,235
<b>Deferred expense (benefit):</b>			
Federal	71,005	28,877	29,208
State	6,262	815	4,717
Investment tax credit amortization	(329)	(336)	(337)
<b>Total income tax expense</b>	<b>\$ 65,898</b>	<b>\$ 79,484</b>	<b>\$ 83,823</b>

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

	2016	2015	2014
U.S. federal statutory tax rate	35.0%	35.0%	35.0%
Difference in tax rate due to:			
State income taxes, net of federal	5.2	5.1	5.1
Other, net	0.2	(0.5)	0.2
<b>Effective tax rate</b>	<b>40.4%</b>	<b>39.6%</b>	<b>40.3%</b>

Pennsylvania utility ratemaking practice permits the flow through to ratepayers of state tax benefits resulting from accelerated tax depreciation. For Fiscal 2016, Fiscal 2015 and Fiscal 2014, the beneficial effects of state tax flow through of accelerated depreciation reduced tax expense by \$1,344, \$1,539 and \$1,976, respectively.

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

	2016	2015
Excess book basis over tax basis of property, plant and equipment	\$ 491,038	\$ 431,480
Goodwill	45,070	40,552
Derivative financial instruments	948	—
Regulatory assets	149,660	117,420
Other	2,910	2,573
Gross deferred tax liabilities	<u>689,626</u>	<u>592,025</u>
Pension plan liabilities	(74,129)	(54,444)
Allowance for doubtful accounts	(1,637)	(2,809)
Deferred investment tax credits	(1,356)	(1,493)
Employee-related expenses	(5,247)	(5,637)
Regulatory liabilities	(16,798)	(23,958)
Environmental liabilities	(22,757)	(6,014)
Derivative financial instruments	—	(3,501)
Other	(17,473)	(6,367)
Gross deferred tax assets	<u>(139,397)</u>	<u>(104,223)</u>
Net deferred tax liabilities	<u>\$ 550,229</u>	<u>\$ 487,802</u>

We join with UGI and its subsidiaries in filing a consolidated federal income tax return. We are charged or credited for our share of current taxes resulting from the effects of our transactions in the UGI consolidated federal income tax return including giving effect to intercompany transactions. UGI's federal income tax returns are settled through the tax year 2012.

We file separate company income tax returns in various other states but are subject to state income tax principally in Pennsylvania. Pennsylvania income tax returns are generally subject to examination for a period of three years after the filing of the respective returns.

During Fiscal 2016, Fiscal 2015 and Fiscal 2014, interest expense of \$204, \$0 and \$39, respectively, was recognized in income taxes in the Consolidated Statements of Income.

As of September 30, 2016, we have unrecognized income tax benefits totaling \$2,055 including related accrued interest of \$204. If these unrecognized tax benefits were subsequently recognized, \$711 would be recorded as a benefit to income taxes on the Consolidated Statement of Income and, therefore, would impact the reported effective tax rate. Generally, a net reduction in unrecognized tax benefits could occur because of the expiration of the statute of limitations in certain jurisdictions or as a result of settlements with tax authorities. There is no material change expected in unrecognized tax benefits and related interest in the next twelve months.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows:

	2016	2015	2014
Unrecognized tax benefits - beginning of year	\$ —	\$ —	\$ 1,087
Additions for tax positions of prior years	2,055	—	—
Additions for tax positions of the current year	—	—	—
Settlements with tax authorities	—	—	(1,087)
Unrecognized tax benefits - end of year	<u>\$ 2,055</u>	<u>\$ —</u>	<u>\$ —</u>

## 9. EMPLOYEE RETIREMENT PLANS

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

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health care benefits to certain retirees and postretirement life insurance benefits to nearly all active and retired employees (“Other Postretirement Plans”).

The following table provides a reconciliation of the projected benefit obligations (“PBOs”) of the Pension Plan, the accumulated benefit obligations (“ABOs”) of the Other Postretirement Plans, plan assets and the funded status of the Pension Plan and Other Postretirement Plans as of September 30, 2016 and 2015. ABO is the present value of benefits earned to date with benefits based upon current compensation levels. PBO is ABO increased to reflect future compensation.

	Pension Benefits		Other Postretirement Benefits	
	2016	2015	2016	2015
<b>Change in benefit obligations:</b>				
Benefit obligations — beginning of year	\$ 563,621	\$ 539,725	\$ 10,676	\$ 11,136
Service cost	7,772	7,863	198	220
Interest cost	25,733	24,656	483	511
Actuarial loss (gain)	72,418	14,667	1,117	(835)
Benefits paid	(24,100)	(23,290)	(399)	(356)
Benefit obligations — end of year	<u>\$ 645,444</u>	<u>\$ 563,621</u>	<u>\$ 12,075</u>	<u>\$ 10,676</u>
<b>Change in plan assets:</b>				
Fair value of plan assets — beginning of year	\$ 430,789	\$ 442,465	\$ 12,523	\$ 12,848
Actual gain (loss) on assets	46,874	483	1,347	(95)
Employer contributions	9,869	11,131	98	126
Benefits paid	(24,100)	(23,290)	(253)	(356)
Fair value of plan assets — end of year	<u>\$ 463,432</u>	<u>\$ 430,789</u>	<u>\$ 13,715</u>	<u>\$ 12,523</u>
<b>Funded status of the plans — end of year</b>	<u>\$ (182,012)</u>	<u>\$ (132,832)</u>	<u>\$ 1,640</u>	<u>\$ 1,847</u>
<b>Assets (liabilities) recorded in the balance sheet:</b>				
Assets in excess of liabilities — included in other noncurrent assets	\$ —	\$ —	\$ 4,139	\$ 4,011
Unfunded liabilities — included in other noncurrent liabilities	(182,012)	(132,832)	(2,499)	(2,164)
Net amount recognized	<u>\$ (182,012)</u>	<u>\$ (132,832)</u>	<u>\$ 1,640</u>	<u>\$ 1,847</u>
<b>Amounts recorded in stockholder’s equity (pre-tax):</b>				
Prior service cost (credit)	\$ 138	\$ 178	\$ (35)	\$ (48)
Net actuarial loss (gain)	19,866	15,757	(1)	(158)
Total	<u>\$ 20,004</u>	<u>\$ 15,935</u>	<u>\$ (36)</u>	<u>\$ (206)</u>
<b>Amounts recorded in regulatory assets and liabilities (pre-tax):</b>				
Prior service cost (credit)	\$ 1,262	\$ 1,570	\$ (2,247)	\$ (2,890)
Net actuarial loss	180,964	138,440	2,425	2,289
Total	<u>\$ 182,226</u>	<u>\$ 140,010</u>	<u>\$ 178</u>	<u>\$ (601)</u>

In Fiscal 2017, we estimate that we will amortize approximately \$16,500 of net actuarial losses, primarily associated with Pension Plan, and \$500 of prior service credits from stockholder’s equity and regulatory assets.

Actuarial assumptions are described below. The discount rate assumption was determined by selecting a hypothetical portfolio of high quality corporate bonds appropriate to provide for the projected benefit payments of the Company’s postretirement plans. The discount rate was then developed as the single rate that equates the market value of the bonds purchased to the discounted value of the benefit payments. The expected rate of return on assets assumption is based on current and expected asset allocations as well as historical and expected returns on various categories of plan assets as further described below.

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Weighted-average assumptions:	Pension Benefits			Other Postretirement Benefits		
	2016	2015	2014	2016	2015	2014
Discount rate - benefit obligations	3.80%	4.60%	4.60%	3.80%	4.70%	4.60%
Discount rate - benefit cost	4.60%	4.60%	5.20%	4.70%	4.60%	5.10% - 5.40%
Expected return on plan assets	7.55%	7.75%	7.75%	5.00%	5.00%	5.00%
Rate of increase in salary levels	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%

The ABOs for the Pension Plan were \$601,255 and \$523,704 as of September 30, 2016 and 2015, respectively. Included in the end of year Pension Plan PBOs above are \$63,847 at September 30, 2016, and \$57,595 at September 30, 2015, relating to employees of UGI and certain of its other subsidiaries. Included in the end of year Other Postretirement Plans ABOs above are \$951 at September 30, 2016, and \$863 at September 30, 2015, relating to employees of UGI and certain of its other subsidiaries.

Net periodic pension and other postretirement benefit costs relating to the Company's employees include the following components:

	Pension Benefits			Other Postretirement Benefits		
	2016	2015	2014	2016	2015	2014
Service cost	\$ 6,927	\$ 6,962	\$ 6,492	\$ 183	\$ 202	\$ 162
Interest cost	23,270	22,511	22,885	465	479	488
Expected return on assets	(28,668)	(28,898)	(26,599)	(596)	(612)	(557)
Amortization of:						
Prior service cost (benefit)	348	348	348	(641)	(641)	(641)
Actuarial loss	9,571	8,793	6,642	98	122	116
Net benefit cost (income)	11,448	9,716	9,768	(491)	(450)	(432)
Change in associated regulatory liabilities	—	—	—	971	3,740	3,704
Net benefit cost after change in regulatory liabilities	\$ 11,448	\$ 9,716	\$ 9,768	\$ 480	\$ 3,290	\$ 3,272

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, smallcap common stocks and UGI Corporation Common Stock. It is our general policy to fund amounts for Pension Plan benefits equal to at least the minimum contribution required by ERISA. From time to time we may, at our discretion, contribute additional amounts. During Fiscal 2016, Fiscal 2015 and Fiscal 2014, we made contributions to the Pension Plan of \$9,869, \$11,131 and \$19,227, respectively. The minimum required contributions in Fiscal 2017 are not expected to be material.

UGI Utilities has established a Voluntary Employees' Beneficiary Association ("VEBA") trust to pay retiree health care and life insurance benefits by depositing into the VEBA the annual amount of postretirement benefits costs, if any, determined under GAAP. The difference between such amount and the amounts included in UGI Gas' and Electric Utility's rates is deferred for future recovery from, or refund to, ratepayers. The required contributions to the VEBA during Fiscal 2017, if any, are not expected to be material.

Expected payments for pension and other postretirement welfare benefits are as follows:

	Pension Benefits	Other Postretirement Benefits
Fiscal 2017	\$ 25,980	\$ 588
Fiscal 2018	27,254	577
Fiscal 2019	28,555	575
Fiscal 2020	29,902	561
Fiscal 2021	31,168	545
Fiscal 2021 - 2025	174,070	2,719

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The assumed health care cost trend rates at September 30 are as follows:

	2016	2015
Health care cost trend rate assumed for next year	7.25%	7.5%
Rate to which the cost trend rate is assumed to decline (ultimate trend rate)	5.0%	5.0%
Fiscal year that the rate reaches the ultimate trend rate	2026	2026

A one percentage point change in these assumed health care cost trend rates would not have had a material impact on Fiscal 2016 other postretirement benefit cost or the September 30, 2016, other postretirement benefit ABO.

We also sponsor unfunded and non-qualified supplemental executive defined benefit retirement income plans. At September 30, 2016 and 2015, the PBOs of these plans were \$3,628 and \$2,835, respectively. We recorded expense for these plans of \$353 in Fiscal 2016, \$445 in Fiscal 2015 and \$372 in Fiscal 2014.

**Pension Plan and VEBA Assets.** The assets of the Pension Plan and the VEBA are held in trust. The investment policies and asset allocation strategies for the assets in these trusts are determined by an investment committee comprising officers of UGI and UGI Utilities. The overall investment objective of the Pension Plan and the VEBA is to achieve the best long-term rates of return within prudent and reasonable levels of risk. To achieve the stated objective, investments are made principally in publicly traded, diversified equity and fixed income mutual funds and, to a much lesser extent, smallcap common stocks and UGI Common Stock.

The targets, target ranges and actual allocations for the Pension Plan and VEBA trust assets at September 30 are as follows:

	Actual		Target Asset Allocation	Permitted Range
	2016	2015		
<b>Pension Plan:</b>				
Equity investments:				
Domestic	54.1%	56.2%	52.5%	40.0% - 65.0%
International	10.2%	10.2%	12.5%	7.5% - 17.5%
Total	64.3%	66.4%	65.0%	60.0% - 70.0%
Fixed income funds & cash equivalents	35.7%	33.6%	35.0%	30.0% - 40.0%
Total	100.0%	100.0%	100.0%	
<b>VEBA:</b>				
Domestic equity investments	69.9%	67.4%	65.0%	60.0% - 70.0%
Fixed income funds & cash equivalents	30.1%	32.6%	35.0%	30.0% - 40.0%
Total	100.0%	100.0%	100.0%	

Domestic equity investments include investments in large-cap mutual funds indexed to the S&P 500 and actively managed mid- and small-cap mutual funds, and a separately managed account comprising small-cap common stocks. Investments in international equity mutual funds seek to track performance of companies primarily in developed markets. The fixed income investments comprise investments designed to match the performance and duration of the Barclays U.S. Aggregate Index. According to statute, the aggregate holdings of all qualifying employer securities may not exceed 10% of the fair value of trust assets at the time of purchase. UGI Common Stock represented 8% and 10.1% of Pension Plan assets at September 30, 2016 and 2015, respectively.



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The fair values of the Pension Plan and VEBA trust assets are derived from quoted market prices as substantially all of these instruments have active markets. Cash equivalents are valued at the fund's unit net asset value as reported by the trustee. The fair values of the U.S. Pension Plan and VEBA trust assets by asset class and level within the fair value hierarchy, as described in Note 2, as of September 30, 2016 and 2015 are as follows:

	Pension Plan			
	Level 1	Level 2	Level 3	Total
<b>September 30, 2016:</b>				
Domestic equity investments:				
S&P 500 Index equity mutual funds	\$ 158,906	\$ —	\$ —	\$ 158,906
Small and midcap equity mutual funds	43,170	—	—	43,170
Smallcap common stocks	11,414	—	—	11,414
UGI Corporation Common Stock	37,013	—	—	37,013
Total domestic equity investments	250,503	—	—	250,503
International index equity mutual funds	47,324	—	—	47,324
Fixed income investments:				
Bond index mutual funds	147,794	—	—	147,794
Cash equivalents	—	17,811	—	17,811
Total fixed income investments	147,794	17,811	—	165,605
Total	\$ 445,621	\$ 17,811	\$ —	\$ 463,432
<b>September 30, 2015:</b>				
Equity investments:				
S&P 500 Index equity mutual funds	\$ 147,266	\$ —	\$ —	\$ 147,266
Small and midcap equity mutual funds	40,625	—	—	40,625
Smallcap common stocks	10,727	—	—	10,727
UGI Corporation Common Stock	43,419	—	—	43,419
Total domestic equity investments	242,037	—	—	242,037
International index equity mutual funds	43,906	—	—	43,906
Fixed income investments:				
Bond index mutual funds	140,776	—	—	140,776
Cash equivalents	—	4,070	—	4,070
Total fixed income investments	140,776	4,070	—	144,846
Total	\$ 426,719	\$ 4,070	\$ —	\$ 430,789
<b>VEBA</b>				
	Level 1	Level 2	Level 3	Total
<b>September 30, 2016:</b>				
S&P 500 Index equity mutual fund	\$ 9,583	\$ —	\$ —	\$ 9,583
Bond index mutual fund	4,019	—	—	4,019
Cash equivalents	—	113	—	113
Total	\$ 13,602	\$ 113	\$ —	\$ 13,715
<b>September 30, 2015:</b>				
S&P 500 Index equity mutual fund	\$ 8,434	\$ —	\$ —	\$ 8,434
Bond index mutual fund	3,832	—	—	3,832
Cash equivalents	—	257	—	257
Total	\$ 12,266	\$ 257	\$ —	\$ 12,523

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The expected long-term rates of return on Pension Plan and VEBA trust assets have been developed using a best estimate of expected returns, volatilities and correlations for each asset class. The estimates are based on historical capital market performance data and future expectations provided by independent consultants. Future expectations are determined by using simulations that provide a wide range of scenarios of future market performance. The market conditions in these simulations consider the long-term relationships between equities and fixed income as well as current market conditions at the start of the simulation. The expected rate begins with a risk-free rate of return with other factors being added such as inflation, duration, credit spreads and equity risk premiums. The rates of return derived from this process are applied to our target asset allocation to develop a reasonable return assumption.

**Defined Contribution Plan.** We sponsor a 401(k) savings plan for eligible employees (“Utilities Savings Plan”). Generally, participants in the Utilities Savings Plan may contribute a portion of their compensation on a before-tax and after-tax basis. The Utilities Savings Plan provides for employer matching contributions. Those employees hired after December 31, 2008, who are not eligible to participate in the Pension Plan, receive employer matching contributions at a higher rate. The cost of benefits under the Utilities Savings Plan totaled \$2,409 in Fiscal 2016, \$2,162 in Fiscal 2015 and \$1,916 in Fiscal 2014. We also sponsor a nonqualified supplemental defined contribution executive retirement plan. This plan generally provides supplemental benefits to certain executives that would otherwise be provided under retirement plans but are prohibited due to limitations imposed by the Internal Revenue Code. Costs associated with this plan were not material in Fiscal 2016, Fiscal 2015 or Fiscal 2014.

#### **10. SERIES PREFERRED STOCK**

We have 2,000,000 shares of Series Preferred Stock authorized for issuance, including both series subject to and series not subject to mandatory redemption. We had no shares of Series Preferred Stock outstanding at September 30, 2016 or 2015.

#### **11. EQUITY-BASED COMPENSATION**

Under UGI Corporation’s 2013 Omnibus Incentive Compensation Plan (the “2013 OICP”) and prior UGI equity compensation plans, certain key employees of UGI Utilities may be granted stock options to acquire shares of UGI Common Stock, stock appreciation rights (“SARs”), UGI Units (comprising “Stock Units” and “UGI Performance Units”) and other equity-based awards. The exercise price for UGI stock options may not be less than the fair market value on the grant date. Awards granted under the 2013 OICP and the prior plans may vest immediately or ratably over a period of years (generally three-year periods), and stock options for UGI Common Stock can be exercised no later than ten years from the grant date. In addition, the 2013 OICP and the prior UGI equity compensation plans provide that awards of UGI Units may also provide for the crediting of dividend equivalents to participants’ accounts. Except in the event of retirement, death or disability, each grant, unless paid, will terminate when the participant ceases to be employed. There are certain change of control and retirement eligibility conditions that, if met, generally result in accelerated vesting or elimination of further service requirements.

UGI Stock Unit and UGI Performance Unit awards entitle the grantee to shares of UGI Common Stock or cash once the service condition is met and, with respect to UGI Performance Unit awards, subject to market performance conditions. UGI Performance Unit grant recipients are awarded a target number of Performance Units. With respect to Performance Units awards, the actual number of UGI shares actually issued (or their cash equivalent) at the end of the performance period and the actual amount of dividend equivalents paid, may range from 0% to 200% of the target award based on UGI’s Total Shareholder Return (“TSR”) percentile rank relative to the Russell Midcap Utility Index, excluding telecommunication companies (“UGI comparator group”). Dividend equivalents are paid in cash only on UGI Performance Units that eventually vest.

We use a Black-Scholes option-pricing model to estimate the fair value of UGI stock options. We use a Monte Carlo valuation approach to estimate the fair value of UGI Performance Unit awards. We recorded total net pre-tax equity-based compensation expense associated with both UGI Units and UGI stock options of \$1,924 (\$1,126 after-tax) during Fiscal 2016; \$1,847 (\$1,081 after-tax) during Fiscal 2015; and \$1,912 (\$1,119 after-tax) during Fiscal 2014.

As of September 30, 2016, there was \$862 of unrecognized compensation cost related to non-vested UGI stock options that is expected to be recognized over a weighted-average period of 1.9 years. As of September 30, 2016, there was a total of \$1,104 of unrecognized compensation expense associated with 57,783 UGI Unit awards that is expected to be recognized over a weighted

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average period of 1.8 years. At September 30, 2016 and 2015, total liabilities of \$1,304 and \$1,182, respectively, associated with UGI Unit awards are reflected in other current liabilities and other noncurrent liabilities on the Consolidated Balance Sheets.

The following table summarizes UGI Unit award activity for Fiscal 2016:

	Total		Vested		Non-Vested	
	Number of UGI Units	Weighted Average Grant Date Fair Value (per Unit)	Number of UGI Units	Weighted Average Grant Date Fair Value (per Unit)	Number of UGI Units	Weighted Average Grant Date Fair Value (per Unit)
September 30, 2015	60,583	\$ 32.01	15,358	\$ 29.46	45,225	\$ 32.88
Granted	21,900	\$ 33.30	1,083	\$ 32.97	20,817	\$ 33.32
Vested	—	\$ —	15,724	\$ 26.92	(15,724)	\$ 26.92
Forfeitures & transfers	(2,851)	\$ 36.53	—	\$ —	(2,851)	\$ 36.53
Unit awards paid	(21,849)	\$ 25.51	(21,849)	\$ 25.51	—	\$ —
September 30, 2016	57,783	\$ 34.66	10,316	\$ 34.31	47,467	\$ 34.74

## 12. COMMITMENTS AND CONTINGENCIES

### Commitments

We lease various buildings and vehicles, computer and office equipment and other facilities under operating leases. Certain of our leases contain renewal and purchase options and also contain escalation clauses. Our aggregate rental expense for such leases was \$7,669 in Fiscal 2016, \$7,956 in Fiscal 2015 and \$6,803 in Fiscal 2014.

Minimum future payments under operating leases that have initial or remaining noncancelable terms in excess of one year for the fiscal years ending September 30 are as follows: 2017— \$5,984; 2018 — \$5,016; 2019 — \$3,048; 2020 — \$1,314; 2021 — \$560; after 2021 — \$209.

Gas Utility has gas supply agreements with producers and marketers with terms not exceeding 16 months. Gas Utility also has agreements for firm pipeline transportation, natural gas storage and peaking service which Gas Utility may terminate at various dates through Fiscal 2030. Gas Utility's costs associated with transportation and storage service agreements are included in its annual PGC filings with the PUC and are recoverable through PGC rates. In addition, Gas Utility has short-term gas supply agreements which permit it to purchase certain of its gas supply needs on a firm or interruptible basis at spot-market prices.

Electric Utility purchases its electricity needs under contracts with various suppliers and on the spot market. Contracts with producers for energy needs expire at various dates through Fiscal 2017.

Future contractual cash obligations under Gas Utility and Electric Utility supply, storage and service agreements existing at September 30, 2016, for fiscal years ending September 30 are as follows: 2017 — \$205,548; 2018 — \$142,208; 2019 — \$120,142; 2020 — \$80,443; 2021 — \$54,430; after 2021 — \$134,978.

### Contingencies

#### *Environmental Matters*

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 Gas and Electric Utility. UGI Utilities also has two acquired subsidiaries (CPG and PNG) which have similar histories of owning, and in some cases operating, MGPs in Pennsylvania.

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UGI Utilities and its subsidiaries have entered into agreements with the DEP to address the remediation of former MGPs in Pennsylvania. CPG is party to a Consent Order and Agreement (“CPG-COA”) with the DEP requiring CPG to perform a specified level of activities associated with environmental investigation and remediation work at certain properties in Pennsylvania on which MGP related facilities were operated (“CPG MGP Properties”) and to plug a minimum number of non-producing natural gas wells per year. In addition, PNG is a party to a Multi-Site Remediation Consent Order and Agreement (“PNG-COA”) with the DEP. The PNG-COA requires PNG to perform annually a specified level of activities associated with environmental investigation and remediation work at certain properties on which MGP-related facilities were operated (“PNG MGP Properties”). Under these agreements, required environmental expenditures relating to the CPG MGP Properties and the PNG MGP Properties are capped at \$1,800 and \$1,100, respectively, in any calendar year. The CPG-COA is scheduled to terminate at the end of 2018. The PNG-COA terminates in 2019 but may be terminated by either party effective at the end of any two-year period beginning with the original effective date in March 2004. At September 30, 2016 and 2015, our accrued liabilities for estimated environmental investigation and remediation costs related to the CPG-COA and the PNG-COA totaled \$11,326 and \$13,758, respectively. CPG and PNG have recorded associated regulatory assets for these costs because recovery of these costs from customers is probable.

In May 2016, UGI Gas executed a Consent Order and Agreement (“UGI Gas-COA”) with the DEP with an effective date of October 1, 2016. The UGI Gas-COA will terminate in September 2031 if not extended by the parties. The UGI Gas-COA requires UGI Gas to perform a specified level of activities associated with environmental investigation and remediation work at certain properties in Pennsylvania on which MGP related facilities were operated (“UGI Gas MGP Properties”). Under this agreement, required environmental expenditures related to the UGI Gas MGP Properties are capped at \$2,500 in any calendar year. At September 30, 2016, our accrued liabilities for estimated environmental investigation and remediation costs related to the UGI Gas-COA totaled \$43,737. UGI Gas has recorded an associated regulatory asset for these costs because recovery of these costs from customers is probable (See Note 4).

UGI Utilities does not expect its costs for investigation and remediation of hazardous substances at Pennsylvania MGP sites to be material to its results of operations because UGI Gas, CPG and PNG receive ratemaking recognition of estimated environmental investigation and remediation costs associated with their environmental sites. This ratemaking recognition balances 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 its former subsidiaries. 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 former subsidiaries 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 September 30, 2016, neither the undiscounted nor the accrued liability for environmental investigation and cleanup costs for UGI Utilities MGP sites outside of Pennsylvania was material.

There are 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 position, results of operations or cash flows.

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**13. 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 described in Note 2, as of September 30, 2016 and 2015:

	Asset (Liability)			Total
	Level 1	Level 2	Level 3	
<b>September 30, 2016</b>				
Derivative instruments:				
Assets:				
Commodity contracts	\$ 4,506	\$ 4	\$ —	\$ 4,510
Liabilities:				
Commodity contracts	\$ (263)	\$ (294)	\$ —	\$ (557)
<b>September 30, 2015</b>				
Derivative instruments:				
Assets:				
Commodity contracts	\$ 934	\$ 373	\$ —	\$ 1,307
Liabilities:				
Commodity contracts	\$ (4,560)	\$ (1,388)	\$ —	\$ (5,948)
Interest rate contracts	\$ —	\$ (7,016)	\$ —	\$ (7,016)

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 and electricity forward contracts, which are designated as Level 2, are generally based upon recent market transactions and related market indicators. There were no transfers between Level 1 and Level 2 during the periods presented.

**Other Financial Instruments**

The carrying amounts of other financial instruments included in current assets and current liabilities (except for current maturities of long-term debt) approximate their fair values because of their short-term nature. The carrying amount and estimated fair value of our long-term debt (including current maturities but excluding unamortized debt issuance costs) at September 30, 2016, were \$675,000 and \$770,781, respectively. The carrying amount and estimated fair value of our long-term debt (including current maturities but excluding unamortized debt issuance costs) at September 30, 2015, were \$622,000 and \$681,415, respectively. We estimate the fair value of long-term debt by using current market rates and by discounting future cash flows using rates available for similar types of debt (Level 2).

**14. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES**

We are exposed to certain market risks associated with 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 of the prudently incurred costs of natural gas it sells to retail core-market customers, including the cost of financial instruments used to hedge purchased gas costs. As permitted and agreed to by

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the PUC pursuant to Gas Utility's annual PGC filings, Gas Utility currently uses New York Mercantile Exchange ("NYMEX") natural gas futures and option contracts to reduce commodity price volatility associated with a portion of the natural gas it purchases for its retail core-market customers. At September 30, 2016 and 2015, the volumes of natural gas associated with Gas Utility's unsettled NYMEX natural gas futures and option contracts totaled 18.4 million dekatherms and 18.9 million dekatherms, respectively. At September 30, 2016, the maximum period over which Gas Utility is economically hedging natural gas market price risk is 12 months. Gains and losses on natural gas futures contracts and any gains on natural gas option contracts are recorded in regulatory assets or liabilities on the 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 4).

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 September 30, 2016 and 2015, a majority of such contracts were subject to the NPNS exception under GAAP.

In order to reduce volatility associated with a substantial portion of its electricity transmission congestion costs, Electric Utility obtains FTRs through an annual allocation process. Gains and losses on Electric Utility FTRs are recorded in regulatory assets or liabilities in accordance with GAAP because it is probable such gains or losses will be recoverable from, or refundable to customers through the DS mechanism (see Note 4). At September 30, 2016 and 2015, the total volumes associated with FTRs totaled 58.3 million kilowatt hours and 277.1 million kilowatt hours, respectively. At September 30, 2016, the maximum period over which we are economically hedging electricity congestion is 8 months.

In order to reduce operating expense volatility, UGI Utilities from time to time enters into NYMEX gasoline futures contracts for a portion of gasoline volumes expected to be used in the operation of its vehicles and equipment. At September 30, 2016 and 2015, the gasoline volumes were not material.

*Interest Rate Risk*

Our long-term debt typically is issued at fixed rates of interest. As these long-term debt issues mature, we typically refinance such debt with new debt having interest rates reflecting then-current market conditions. In order to reduce market rate risk on the underlying benchmark rate of interest associated with near- to medium-term forecasted issuances of fixed-rate debt, from time to time we enter into interest rate protection agreements ("IRPAs"). We account for IRPAs as cash flow hedges. On March 31, 2016, concurrent with the pricing of the Senior Notes to be issued under the 2016 Note Purchase Agreement, UGI Utilities settled all of its then-existing IRPA contracts associated with such debt at a loss of \$35,975. Because these IRPA contracts qualified for and were designated as cash flow hedges, the loss recognized in connection with the settled IRPAs has been recorded in AOCI and will be recognized in interest expense as the associated future interest expense impacts earnings. See Note 7 for additional information on the 2016 Note Purchase Agreement. At September 30, 2016, we had no unsettled IRPAs. At September 30, 2015, the total notional amount of our debt associated with unsettled IRPA contracts was \$250,000.

At September 30, 2016, the amount of net losses associated with IRPAs expected to be reclassified into earnings during the next twelve months is \$3,426.

*Derivative Instrument Credit Risk*

Our commodity exchange-traded futures contracts generally require cash deposits in margin accounts. At September 30, 2016 and 2015, restricted cash in brokerage accounts totaled \$583 and \$6,602, respectively.

*Offsetting Derivative Assets and Liabilities*

Derivative assets and liabilities are presented net by counterparty on our 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.

**UGI UTILITIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Thousands of dollars, except per share amounts)

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 our Consolidated Balance Sheets with our derivative counterparties are not included in the table below but could reduce our net exposure to such counterparties because such balances are subject to master netting or similar arrangements.

*Fair Value of Derivative Instruments*

The following table presents the Company's derivative assets and liabilities, as well as the effects of offsetting, as of September 30, 2016 and 2015:

	2016	2015
<b>Derivative assets:</b>		
Derivatives subject to PGC and DS mechanisms:		
Commodity contracts	\$ 4,472	\$ 1,307
Derivatives not subject to PGC and DS mechanisms:		
Commodity contracts	38	—
Total derivative assets - gross	4,510	1,307
Gross amounts offset in the balance sheet	(247)	(373)
Total derivative assets - net	<u>\$ 4,263</u>	<u>\$ 934</u>
<b>Derivative liabilities:</b>		
Derivatives designated as hedging instruments:		
Interest rate contracts	\$ —	\$ (7,016)
Derivatives subject to PGC and DS mechanisms:		
Commodity contracts	(499)	(5,584)
Derivatives not subject to PGC and DS mechanisms:		
Commodity contracts	(58)	(364)
Total derivative liabilities - gross	(557)	(12,964)
Gross amounts offset in the balance sheet	247	373
Total derivative liabilities - net	<u>\$ (310)</u>	<u>\$ (12,591)</u>

**UGI UTILITIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Thousands of dollars, except per share amounts)

*Effect of Derivative Instruments*

The following table provides information on the effects of derivative instruments not subject to ratemaking mechanisms on the Consolidated Statements of Income and changes in AOCI for Fiscal 2016, Fiscal 2015 and Fiscal 2014:

	Loss Recognized in AOCI			Loss Reclassified from AOCI into Income			Location of Loss Reclassified from AOCI into Income
	2016	2015	2014	2016	2015	2014	
<b>Cash Flow Hedges:</b>							
Interest rate contracts	\$ (28,958)	\$ (7,016)	\$ —	\$ (2,680)	\$ (2,674)	\$ (2,679)	Interest expense
	Loss Recognized in Income						Location of Loss Recognized in Income
	2016	2015	2014				
<b>Derivatives Not Subject to PGC and DS Mechanisms:</b>							
Gasoline contracts	\$ (88)	\$ (761)	\$ —				Operating and administrative expenses/ other operating income, net

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 normal purchase and normal sale exception accounting under GAAP because they provide for the delivery of products or services in quantities that are expected to be used in the normal course of operating our business and the price in the contract is based on an underlying that is directly associated with the price of the product or service being purchased or sold.

**15. ACCUMULATED OTHER COMPREHENSIVE INCOME**

Other comprehensive income (loss) principally reflects losses on IRPAs qualifying as cash flow hedges and actuarial gains and losses on postretirement benefit plans, net of reclassifications to net income.



**UGI UTILITIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Thousands of dollars, except per share amounts)

Changes in AOCI, net of tax, during Fiscal 2016, Fiscal 2015 and Fiscal 2014 are as follows:

	Postretirement Benefit Plans	Derivative Instruments Net Losses	Total
AOCI - September 30, 2013	\$ (5,283)	\$ (3,437)	\$ (8,720)
Reclassifications of benefit plans actuarial losses and net prior service credits	385	—	385
Reclassifications of net losses on IRPAs	—	1,567	1,567
Benefit plans, principally actuarial losses	(1,413)	—	(1,413)
AOCI - September 30, 2014	\$ (6,311)	\$ (1,870)	\$ (8,181)
Reclassifications of benefit plans actuarial losses and net prior service credits	517	—	517
Reclassifications of net losses on IRPAs	—	1,565	1,565
Net losses on IRPAs	—	(4,105)	(4,105)
Benefit plans, principally actuarial losses	(3,482)	—	(3,482)
AOCI - September 30, 2015	\$ (9,276)	\$ (4,410)	\$ (13,686)
Reclassifications of benefit plans actuarial losses and net prior service credits	639	—	639
Reclassifications of net losses on IRPAs	—	1,568	1,568
Net losses on IRPAs	—	(16,942)	(16,942)
Benefit plans, principally actuarial losses	(3,197)	—	(3,197)
AOCI - September 30, 2016	\$ (11,834)	\$ (19,784)	\$ (31,618)

Reclassifications of net losses on IRPAs are reflected in interest expense on the Consolidated Statements of Income.

## 16. 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, northeastern and central Pennsylvania. Electric Utility derives its revenues principally from the sale and distribution of electricity in two northeastern Pennsylvania counties. The PNG HVAC Business, prior to its sale in June 2015, did not meet the quantitative thresholds for separate segment reporting under GAAP relating to business segment reporting and has been included in "Other" below.

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

No single customer represents more than ten percent of our consolidated revenues and there are no significant intersegment transactions. In addition, all of our reportable segments' revenues are derived from sources within the United States, and all of our reportable segments' long-lived assets are located in the United States.

**UGI UTILITIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Thousands of dollars, except per share amounts)

Financial information by business segment follows:

	Total	Gas Utility	Electric Utility	Other
<b>2016</b>				
Revenues	\$ 768,484	\$ 677,387	\$ 91,097	
Cost of sales	\$ 289,786	\$ 239,163	\$ 50,623	
Depreciation and amortization	\$ 67,303	\$ 62,451	\$ 4,852	
Operating income	\$ 200,901	\$ 189,412	\$ 11,489	
Interest expense	\$ 37,630	\$ 35,786	\$ 1,844	
Income before income taxes	\$ 163,271	\$ 153,626	\$ 9,645	
Total assets	\$ 2,743,091	\$ 2,570,297	\$ 172,794	
Goodwill	\$ 182,145	\$ 182,145	\$ —	
Capital expenditures	\$ 262,503	\$ 251,261	\$ 11,242	
<b>2015</b>				
Revenues	\$ 1,041,581	\$ 933,080	\$ 107,577	\$ 924
Cost of sales	\$ 510,784	\$ 448,617	\$ 62,167	\$ —
Depreciation and amortization	\$ 63,590	\$ 58,974	\$ 4,616	\$ —
Operating income	\$ 241,667	\$ 226,485	\$ 14,153	\$ 1,029
Interest expense	\$ 41,128	\$ 39,112	\$ 2,016	\$ —
Income before income taxes	\$ 200,539	\$ 187,373	\$ 12,137	\$ 1,029
Total assets	\$ 2,505,984	\$ 2,360,156	\$ 145,828	\$ —
Goodwill	\$ 182,145	\$ 182,145	\$ —	\$ —
Capital expenditures	\$ 197,684	\$ 189,671	\$ 8,013	\$ —
<b>2014</b>				
Revenues	\$ 1,086,889	\$ 977,333	\$ 108,072	\$ 1,484
Cost of sales	\$ 562,942	\$ 496,762	\$ 66,180	\$ —
Depreciation and amortization	\$ 59,219	\$ 54,816	\$ 4,403	\$ —
Operating income	\$ 246,400	\$ 236,219	\$ 9,668	\$ 513
Interest expense	\$ 38,471	\$ 36,602	\$ 1,869	\$ —
Income before income taxes	\$ 207,929	\$ 199,617	\$ 7,799	\$ 513
Total assets	\$ 2,352,143	\$ 2,211,618	\$ 140,525	\$ —
Goodwill	\$ 182,145	\$ 182,145	\$ —	\$ —
Capital expenditures	\$ 164,180	\$ 156,425	\$ 7,755	\$ —

**17. OTHER OPERATING (EXPENSE) INCOME, NET**

Other operating (expense) income, net, comprises the following:

	2016	2015	2014
Non-tariff service income	\$ 2,633	\$ 4,760	\$ 2,670
Environmental matters	(2,918)	1,152	297
Construction service income	—	2,175	—
Sale of HVAC Business	—	1,065	—
PGC interest on over (under) collection	(1,740)	(606)	1,388
Other, net	25	323	4
Total other operating (expense) income, net	<u>\$ (2,000)</u>	<u>\$ 8,869</u>	<u>\$ 4,359</u>

**UGI UTILITIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Thousands of dollars, except per share amounts)**

**18. RELATED PARTY TRANSACTIONS**

UGI provides certain financial and administrative services to UGI Utilities. UGI bills UGI Utilities monthly for all direct expenses incurred by UGI on behalf of UGI Utilities and an allocated share of indirect corporate expenses incurred or paid with respect to services provided to UGI Utilities. The allocation of indirect UGI corporate expenses to UGI Utilities utilizes a weighted, three-component formula comprising revenues, operating expenses and net assets employed and considers UGI Utilities' relative percentage of such items to the total of such items for all UGI operating subsidiaries for which general and administrative services are provided. Management believes that this allocation method is reasonable and equitable to UGI Utilities and this allocation method has been accepted by the PUC in past rate case proceedings and management audits as a reasonable method of allocating such expenses. These billed expenses are classified as operating and administrative expenses - related parties in the Consolidated Statements of Income. In addition, UGI Utilities provides limited administrative services to UGI and certain of UGI's subsidiaries under PUC affiliated interest agreements. Amounts billed to these entities by UGI Utilities for all periods presented were not material.

From time to time, UGI Utilities is a party to SCAAs with Energy Services which have terms of up to three years. At September 30, 2016, UGI Utilities was a party to one SCAA 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. Energy Services, in turn, provides a firm delivery service and makes certain payments to UGI Utilities for its various obligations under the SCAAs. During Fiscal 2016, Fiscal 2015 and Fiscal 2014, these payments were not material. UGI Utilities incurred costs associated with Energy Services' SCAAs totaling \$12,739, \$16,849 and \$38,299 in Fiscal 2016, Fiscal 2015 and Fiscal 2014, 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 Consolidated Balance Sheets, were \$8,100 and \$10,700 at September 30, 2016 and 2015, respectively.

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) on its balance sheet under the caption inventories. The carrying values of these gas storage inventories at September 30, 2016 and 2015, comprising approximately 4.6 bcf and 5.0 bcf of natural gas, were \$11,148 and \$12,889, 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 Fiscal 2016, Fiscal 2015 and Fiscal 2014 totaled \$63,331, \$47,794 and \$35,810, respectively.

From time to time, the Company sells natural gas or pipeline capacity to Energy Services. During Fiscal 2016, Fiscal 2015 and Fiscal 2014, revenues associated with sales to Energy Services totaled \$30,743, \$79,182 and \$109,913, respectively. Also from time to time, the Company purchases natural gas, pipeline capacity and electricity from Energy Services (in addition to those transactions already described above) and purchases a firm storage service from UGI Storage Company, a subsidiary of Energy Services, under one-year agreements. During Fiscal 2016, Fiscal 2015 and Fiscal 2014, such purchases totaled \$35,067, \$85,383 and \$128,076, respectively.

**UGI UTILITIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Thousands of dollars, except per share amounts)

**19. QUARTERLY DATA (unaudited)**

The following quarterly information includes all adjustments (consisting only of normal recurring adjustments) which we consider necessary for a fair presentation of such information. Quarterly results fluctuate because of the seasonal nature of the Company's businesses.

	December 31,		March 31,		June 30,		September 30,	
	2015	2014	2016	2015	2016	2015	2016	2015
Revenues	\$ 197,982	\$ 287,306	\$ 322,047	\$ 500,573	\$ 140,283	\$ 143,490	\$ 108,172	\$ 110,212
Operating income	\$ 48,296	\$ 75,640	\$ 114,481	\$ 142,699	\$ 29,815	\$ 20,184	\$ 8,309	\$ 3,144
Net income (loss)	\$ 23,351	\$ 38,839	\$ 63,294	\$ 79,589	\$ 12,603	\$ 7,307	\$ (1,875)	\$ (4,680)

## UGI UTILITIES, INC. AND SUBSIDIARIES

## SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS

(Thousands of dollars)

	Balance at beginning of year	Charged to costs and expenses	Other	Balance at end of year
<b>September 30, 2016</b>				
Reserves deducted from assets in the consolidated balance sheet:				
Allowance for doubtful accounts	<u>\$ 5,599</u>	\$ 7,760	\$ (9,413) <sup>(1)</sup>	<u>\$ 3,946</u>
<b>September 30, 2015</b>				
Reserves deducted from assets in the consolidated balance sheet:				
Allowance for doubtful accounts	<u>\$ 6,992</u>	\$ 13,498	\$ (14,891) <sup>(1)</sup>	<u>\$ 5,599</u>
<b>September 30, 2014</b>				
Reserves deducted from assets in the consolidated balance sheet:				
Allowance for doubtful accounts	<u>\$ 5,519</u>	\$ 13,149	\$ (11,676) <sup>(1)</sup>	<u>\$ 6,992</u>

(1) Uncollectible accounts written off, net of recoveries

**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>
10.19	Gas Supply and Delivery Service Agreement between UGI Utilities, Inc. and UGI Energy Services, LLC, effective November 1, 2015.
12.1	Computation of Ratio of Earnings to Fixed Charges
23.1	Consent of Ernst & Young LLP.
23.2	Consent of PricewaterhouseCoopers LLP.
31.1	Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act
31.2	Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act
32	Certification by the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act
101.INS	XBRL Instance
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Labels Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

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

	Year Ended September 30,				
	2016	2015	2014	2013	2012
<b>Earnings:</b>					
Earnings before income taxes	\$ 163,271	\$ 200,539	\$ 207,929	\$ 171,010	\$ 142,971
Interest expense	37,285	40,400	37,897	38,578	41,599
Amortization of debt discount and expense	345	728	575	731	814
Estimated interest component of rental expense	2,512	2,728	2,398	2,090	2,121
	<u>\$ 203,413</u>	<u>\$ 244,395</u>	<u>\$ 248,799</u>	<u>\$ 212,409</u>	<u>\$ 187,505</u>
<b>Fixed Charges:</b>					
Interest expense	\$ 37,285	\$ 40,400	\$ 37,897	\$ 38,578	\$ 41,599
Amortization of debt discount and expense	345	728	575	731	814
Allowance for funds used during construction (capitalized interest)	602	407	227	286	10
Estimated interest component of rental expense	2,512	2,728	2,398	2,090	2,121
	<u>\$ 40,744</u>	<u>\$ 44,263</u>	<u>\$ 41,097</u>	<u>\$ 41,685</u>	<u>\$ 44,544</u>
Ratio of earnings to fixed charges	<u>4.99</u>	<u>5.52</u>	<u>6.05</u>	<u>5.10</u>	<u>4.21</u>

**EXHIBIT 31.1****CERTIFICATION**

I, Robert F. Beard, certify that:

1. I have reviewed this annual report on Form 10-K 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: November 22, 2016

/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 annual report on Form 10-K 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: November 22, 2016

/s/ Daniel J. Platt

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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 annual report on Form 10-K for the period ended September 30, 2016 (the "Form 10-K") 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-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

\* \* \*

CHIEF EXECUTIVE OFFICER

/s/ Robert F. Beard

\_\_\_\_\_  
Robert F. Beard

Date: November 22, 2016

CHIEF FINANCIAL OFFICER

/s/ Daniel J. Platt

\_\_\_\_\_  
Daniel J. Platt

Date: November 22, 2016

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**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 June 30, 2016

OR

■ **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  
(State or other jurisdiction of  
incorporation or organization)

23-1174060  
(I.R.S. Employer  
Identification No.)

UGI UTILITIES, INC.  
2525 N. 12th Street, Suite 360  
Reading, PA  
(Address of principal executive offices)

19612

(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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

At July 31, 2016, 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.

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**UGI UTILITIES, INC. AND SUBSIDIARIES****TABLE OF CONTENTS**

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## UGI UTILITIES, INC. AND SUBSIDIARIES

## PART I FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

(Thousands of dollars)

	June 30, 2016	September 30, 2015	June 30, 2015
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 82,449	\$ 3,099	\$ 16,522
Restricted cash	212	6,602	3,683
Accounts receivable (less allowances for doubtful accounts of \$7,921, \$5,599 and \$12,534, respectively)	59,301	55,659	89,340
Accounts receivable — related parties	638	1,271	2,039
Accrued utility revenues	10,099	12,051	7,716
Inventories	27,009	51,716	33,376
Deferred income taxes	—	24,694	29,904
Income taxes receivable	—	10,026	—
Regulatory assets	3,263	4,105	2,763
Derivative instruments	5,384	934	1,285
Prepaid expenses & other current assets	33,724	23,903	13,551
Total current assets	222,079	194,060	200,179
Property, plant and equipment, at cost (less accumulated depreciation and amortization of \$961,006, \$929,130 and \$918,311, respectively)	1,945,539	1,824,369	1,781,668
Goodwill	182,145	182,145	182,145
Regulatory assets	342,037	300,103	251,479
Derivative instruments	109	—	111
Other assets	7,989	7,501	7,623
Total assets	<u>\$ 2,699,898</u>	<u>\$ 2,508,178</u>	<u>\$ 2,423,205</u>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>			
Current liabilities:			
Current maturities of long-term debt	\$ 20,000	\$ 247,000	\$ 72,000
Short-term borrowings	130,000	71,700	2,700
Accounts payable	50,665	58,135	44,687
Accounts payable — related parties	5,838	4,430	5,477
Regulatory liability — deferred fuel and power refunds	34,432	36,638	45,564
Derivative instruments	507	12,591	4,412
Other current liabilities	113,011	103,265	151,760
Total current liabilities	354,453	533,759	326,600
Long-term debt	630,000	375,000	550,000
Deferred income taxes	545,614	512,497	478,108
Deferred investment tax credits	3,348	3,597	3,681
Pension and postretirement benefit obligations	128,932	135,003	91,804
Other noncurrent liabilities	98,652	57,702	50,752
Total liabilities	1,760,999	1,617,558	1,500,945
Commitments and contingencies (Note 7)			
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	473,295	471,904	471,796
Retained earnings	434,391	372,143	396,823
Accumulated other comprehensive loss	(29,046)	(13,686)	(6,618)
Total common stockholder's equity	938,899	890,620	922,260
Total liabilities and stockholder's equity	<u>\$ 2,699,898</u>	<u>\$ 2,508,178</u>	<u>\$ 2,423,205</u>

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 June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
Revenues	\$ 140,283	\$ 143,490	\$ 660,312	\$ 931,369
Costs and expenses:				
Cost of sales — gas, fuel and purchased power (excluding depreciation shown below)	44,415	53,691	257,288	475,079
Operating and administrative expenses	43,254	51,393	136,406	156,858
Operating and administrative expenses — related parties	2,811	2,647	8,789	9,567
Taxes other than income taxes	3,970	3,706	12,187	12,613
Depreciation	15,877	14,985	47,850	44,300
Amortization	673	928	2,431	2,682
Other operating (income) loss, net	(532)	(4,044)	2,769	(8,253)
	110,468	123,306	467,720	692,846
Operating income	29,815	20,184	192,592	238,523
Interest expense	9,158	9,985	27,922	31,245
Income before income taxes	20,657	10,199	164,670	207,278
Income taxes	8,054	2,892	65,422	81,543
Net income	\$ 12,603	\$ 7,307	\$ 99,248	\$ 125,735

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		Nine Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Net income	\$ 12,603	\$ 7,307	\$ 99,248	\$ 125,735
Other comprehensive (loss) income:				
Net losses on derivative instruments (net of tax of \$0, \$0, \$12,016 and \$0, respectively)	—	—	(16,943)	—
Reclassifications of net losses on derivative instruments (net of tax of \$(253), \$(277), \$(782) and \$(833), respectively)	357	392	1,103	1,175
Benefit plans reclassifications of actuarial losses and prior service costs (net of tax of \$(113), \$(92), \$(340) and \$(275), respectively)	160	128	480	388
Other comprehensive income (loss)	517	520	(15,360)	1,563
Comprehensive income	\$ 13,120	\$ 7,827	\$ 83,888	\$ 127,298

See accompanying notes to condensed consolidated financial statements.

## UGI UTILITIES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(Thousands of dollars)

	Nine Months Ended June 30,	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 99,248	\$ 125,735
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	50,281	46,982
Deferred income tax expense (benefit)	66,136	(10,417)
Provision for uncollectible accounts	6,716	10,997
Settlement of interest rate protection agreements	(35,975)	—
Other, net	954	526
Net change in:		
Accounts receivable and accrued utility revenues	(9,864)	(27,817)
Inventories	24,707	61,843
Deferred fuel and power costs, net of changes in unsettled derivatives	(11,587)	59,397
Accounts payable	(6,062)	(14,884)
Other current assets	(7,833)	631
Other current liabilities	17,763	47,939
Net cash provided by operating activities	194,484	300,932
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Expenditures for property, plant and equipment	(163,967)	(141,884)
Net costs of property, plant and equipment disposals	(7,664)	(6,358)
Decrease (increase) in restricted cash	6,390	(91)
Net cash used by investing activities	(165,241)	(148,333)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment of dividends	(37,000)	(45,600)
Issuances of long-term debt	99,415	—
Repayments of long-term debt	(72,000)	(20,000)
Increase (decrease) in short-term borrowings	58,300	(83,600)
Other	1,392	722
Net cash provided (used) by financing activities	50,107	(148,478)
Cash and cash equivalents increase	\$ 79,350	\$ 4,121
<b>CASH AND CASH EQUIVALENTS</b>		
End of period	\$ 82,449	\$ 16,522
Beginning of period	3,099	12,401
Increase	\$ 79,350	\$ 4,121

See accompanying notes to condensed consolidated financial statements.



**UGI UTILITIES, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements**

(unaudited)

(Thousands of dollars)

**Note 1 — Nature of Operations**

UGI Utilities, Inc. (“UGI Utilities”), a wholly owned subsidiary of UGI Corporation (“UGI”), and UGI Utilities’ wholly owned subsidiaries UGI Penn Natural Gas, Inc. (“PNG”) and UGI Central Penn Gas, Inc. (“CPG”), own and operate natural gas distribution utilities in eastern, northeastern and central Pennsylvania and in a portion of one Maryland county. UGI Utilities also owns and operates an electric distribution utility in northeastern Pennsylvania (“Electric Utility”). UGI Utilities’ natural gas distribution utility is referred to as “UGI Gas.” UGI Gas, PNG and CPG are collectively referred to as “Gas Utility.” Gas Utility is subject to regulation by the Pennsylvania Public Utility Commission (“PUC”) and, with respect to a small service territory in one Maryland county, the Maryland Public Service Commission, and Electric Utility is subject to regulation by the PUC. Gas Utility and Electric Utility are collectively referred to as “Utilities.” Prior to June 1, 2015, PNG also had a heating, ventilation and air-conditioning service business which operated principally in the PNG service territory (“PNG HVAC Business”). The assets of the PNG HVAC Business principally comprising customer contracts were sold on June 1, 2015.

The term “UGI Utilities” is used sometimes as an abbreviated reference to UGI Utilities, Inc., or to UGI Utilities, Inc. and its subsidiaries, including PNG and CPG.

**Note 2 — Summary of Significant Accounting Policies**

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

The accompanying condensed consolidated financial statements are unaudited and have been prepared in accordance with the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”). They include all adjustments that we consider necessary for a fair statement of the results for the interim periods presented. Such adjustments consisted only of normal recurring items unless otherwise disclosed. The September 30, 2015, condensed consolidated balance sheet data was derived from audited financial statements but do not include all disclosures required by accounting principles generally accepted in the United States of America (“GAAP”).

These financial statements should be read in conjunction with the financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015 (“the Company’s 2015 Annual Report”). Due to the seasonal nature of our businesses, the results of operations for interim periods are not necessarily indicative of the results to be expected for a full year.

**Derivative Instruments**

Derivative instruments are reported in the Condensed Consolidated Balance Sheets at their fair values, unless the derivative instruments qualify for the normal purchase and normal sale (“NPNS”) exception under GAAP and such exception has been elected. The accounting for changes in fair value depends upon the purpose of the derivative instrument and whether it is subject to regulatory ratemaking mechanisms or is designated and qualifies for hedge accounting.

Gains and losses on substantially all of the derivative instruments used by Gas Utility and Electric Utility (for which NPNS has not been elected) to hedge commodity prices are included in regulatory assets and liabilities in accordance with GAAP regarding accounting for rate-regulated entities. Certain of our derivative instruments are designated and qualify as cash flow hedges. For cash flow hedges, changes in the fair value of the derivative financial instruments are recorded in accumulated other comprehensive income (loss) (“AOCI”), to the extent effective at offsetting changes in the hedged item, until earnings are affected by the hedged item. We discontinue cash flow hedge accounting if the 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.

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 10.

## UGI UTILITIES, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(unaudited)

(Thousands of dollars)

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

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

**Note 3 — Accounting Changes****Adoption of New Accounting Standard**

**Presentation of Deferred Taxes.** During the first quarter of Fiscal 2016, the Company adopted new accounting guidance regarding the classification of deferred taxes. The new guidance amends existing guidance to require that deferred income tax liabilities and assets be classified as noncurrent in a classified balance sheet, and eliminates the prior guidance which required an entity to separate deferred tax liabilities and assets into a current amount and a noncurrent amount in a classified balance sheet. We applied this guidance prospectively and, as such, the September 30, 2015 and June 30, 2015 Condensed Consolidated Balance Sheets included herein have not been adjusted.

**Accounting Standards Not Yet Adopted**

**Share-Based Payments.** In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-09, "Improvements to Employee Share-Based Payment Accounting." This ASU simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The amendments in this ASU are effective for interim and annual periods beginning after December 15, 2016 (Fiscal 2018). Early adoption is permitted. The Company is in the process of assessing the impact on its financial statements from the adoption of the new guidance.

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

**Debt Issuance Costs.** In April 2015, the FASB issued ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs." This ASU amends existing guidance to require the presentation of debt issuance costs in the balance sheet as a direct deduction from the carrying amount of the related debt liability instead of a deferred charge. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2015 (Fiscal 2017). Early adoption is permitted. Entities will apply the new guidance retrospectively to all periods presented. The Company expects to adopt the new guidance effective September 30, 2016. The adoption of the new guidance is not expected to have a material impact on the Company's financial statements.

**Revenue Recognition.** In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." The guidance provided under this ASU, as amended, supersedes the revenue recognition requirements in Accounting Standards Codification ("ASC") No. 605, "Revenue Recognition," and most industry-specific guidance included in the ASC. The standard requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance is effective for the Company for interim and annual periods beginning after December 15, 2017 (Fiscal 2019) and allows for either full retrospective adoption or modified retrospective adoption. We have not yet selected a transition method and are currently evaluating the impact of adopting this guidance on our consolidated financial statements.

## UGI UTILITIES, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(unaudited)

(Thousands of dollars)

Note 4 — Inventories

Inventories comprise the following:

	June 30, 2016	September 30, 2015	June 30, 2015
Gas Utility natural gas	\$ 13,561	\$ 37,510	\$ 19,205
Materials, supplies and other	13,448	14,206	14,171
Total inventories	<u>\$ 27,009</u>	<u>\$ 51,716</u>	<u>\$ 33,376</u>

At June 30, 2016, UGI Utilities was a party to two principal storage contract administrative agreements (“SCAAs”) having terms of three years. One of the SCAAs was with UGI Energy Services, LLC (“Energy Services”), a second-tier, wholly owned subsidiary of UGI (see Note 12) and one of the SCAAs was with a non-affiliate. Pursuant to 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 value of gas storage inventories released under the SCAAs at June 30, 2016, September 30, 2015 and June 30, 2015, comprising 4.6 billion cubic feet (“bcf”), 9.0 bcf and 4.5 bcf of natural gas, was \$8,390, \$22,694 and \$11,337, respectively. At June 30, 2016, September 30, 2015 and June 30, 2015, UGI Utilities held a total of \$15,100, \$17,700 and \$17,700, respectively, of security deposits 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 12.

## UGI UTILITIES, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(unaudited)

(Thousands of dollars)

Note 5 — 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 2015 Annual Report. UGI Utilities currently does not recover a rate of return on its regulatory assets. The following regulatory assets and liabilities associated with Gas Utility and Electric Utility are included in our accompanying Condensed Consolidated Balance Sheets:

	June 30, 2016	September 30, 2015	June 30, 2015
<b>Regulatory assets:</b>			
Income taxes recoverable	\$ 119,604	\$ 115,946	\$ 111,807
Underfunded pension and postretirement plans	133,356	140,762	103,250
Environmental costs (a)	60,716	19,983	14,441
Removal costs, net	22,444	21,223	19,635
Other	9,180	6,294	5,109
<b>Total regulatory assets</b>	<b>\$ 345,300</b>	<b>\$ 304,208</b>	<b>\$ 254,242</b>
<b>Regulatory liabilities:</b>			
Postretirement benefits	\$ 19,671	\$ 19,975	\$ 19,687
Deferred fuel and power refunds	34,432	36,638	45,564
State tax benefits — distribution system repairs	14,604	13,266	10,894
Other	1,149	1,125	1,377
<b>Total regulatory liabilities (b)</b>	<b>\$ 69,856</b>	<b>\$ 71,004</b>	<b>\$ 77,522</b>

- (a) Environmental costs at June 30, 2016, include amounts probable of recovery recorded in conjunction with UGI Gas' Consent Order and Agreement with the Pennsylvania Department of Environmental Protection (see Note 7).
- (b) Regulatory liabilities, other than deferred fuel and power refunds, are recorded in other current and other noncurrent liabilities in the Condensed Consolidated Balance Sheets.

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

Gas Utility uses derivative instruments to reduce volatility in the cost of gas it purchases for firm- residential, commercial and industrial ("retail core-market") customers. Realized and unrealized gains or losses on natural gas derivative instruments are included in deferred fuel costs or refunds. Net unrealized gains (losses) on such contracts at June 30, 2016, September 30, 2015, and June 30, 2015, were \$5,483, \$(3,262) and \$(729), respectively.

Electric Utility enters into forward electricity purchase contracts to meet a substantial portion of its electricity supply needs. For contracts entered into prior to March 1, 2015, we did not elect the NPNS exception under GAAP, and as a result, we recognize the fair value of these contracts on the balance sheet with an associated adjustment to regulatory assets or liabilities because Electric Utility is entitled to fully recover its DS costs. At September 30, 2015, and June 30, 2015, the fair values of Electric Utility's electricity supply contracts not subject to NPNS were (losses) of \$(533) and \$(1,428), respectively. These amounts are reflected in current derivative instrument liabilities on the Condensed Consolidated Balance Sheets with equal and offsetting amounts reflected in deferred fuel and power refunds in the table above. At June 30, 2016, all Electric Utility forward electricity purchase contracts were subject to the NPNS exception (see Note 10).

In order to reduce volatility associated with a substantial portion of its electric transmission congestion costs, Electric Utility obtains financial transmission rights ("FTRs"). FTRs are derivative instruments that entitle the holder to receive compensation for electricity transmission congestion charges when there is insufficient electricity transmission capacity on the electric transmission

**UGI UTILITIES, INC. AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**

(unaudited)

(Thousands of dollars)

grid. Because Electric Utility is entitled to fully recover its DS costs, realized and unrealized gains or losses on FTRs are included in deferred fuel and power costs or deferred fuel and power refunds. Unrealized gains or losses on FTRs at June 30, 2016, September 30, 2015, and June 30, 2015, were not material.

***Preliminary Stage Information Technology Costs.*** During the second quarter of Fiscal 2016, we determined that certain preliminary project stage costs associated with an ongoing information technology project at UGI Utilities were probable of future recovery in rates in accordance with GAAP related to regulated entities. As a result, during the second quarter of Fiscal 2016, we capitalized \$5,830 of such project costs (\$5,375 of which had been expensed prior to Fiscal 2016) and recorded associated increases to utility property, plant and equipment (\$2,755) and regulatory assets (\$3,075). Subsequently, we continue to capitalize such preliminary stage project costs in accordance with GAAP related to regulated entities.

***UGI Gas Base Rate Filing.*** On January 19, 2016, UGI Utilities filed a rate request with the PUC to increase UGI Gas's annual base operating revenues for residential, commercial and industrial customers by \$58,600. The increased revenues would fund ongoing system improvements and operations necessary to maintain safe and reliable natural gas service. UGI Utilities requested that the new gas rates become effective March 19, 2016. The PUC entered an Order dated February 11, 2016, suspending the effective date for the rate increase to no later than October 19, 2016, to allow for investigation and public hearings. On June 30, 2016, a Joint Petition for Approval of Settlement of all issues supported by all active parties was filed with the PUC. Under the terms of the Joint Petition, UGI Utilities will be permitted, effective October 19, 2016, to increase UGI Gas' annual base distribution rates by \$27,000. The Joint Petition is subject to receipt of a recommended decision by a PUC administrative law judge and an order of the PUC approving the settlement. The Company cannot predict the ultimate outcome of the rate case review process.

***Distribution System Improvement Charge.*** On April 14, 2012, legislation became effective enabling gas and electric utilities in Pennsylvania, under certain circumstances, to recover the cost of eligible capital investment in distribution system infrastructure improvement projects between base rate cases. The charge enabled by the legislation is known as a distribution system improvement charge ("DSIC"). The primary benefit to a company from a DSIC charge is the elimination of regulatory lag, or delayed rate recognition, that occurs under traditional ratemaking relating to qualifying capital expenditures. To be eligible for a DSIC, a utility must have filed a general rate filing within five years of its petition seeking permission to include a DSIC in its tariff, and not exceed certain earnings tests. Absent PUC permission, the DSIC is capped at five percent of the amount billed to customers. PNG and CPG received PUC approval on a DSIC tariff, initially set at zero, in 2014, while UGI Gas had not had a general rate filing within the required time period to be eligible. PNG and CPG began charging a DSIC at a rate other than zero beginning on April 1, 2015 and April 1, 2016, respectively. In March 2016, PNG and CPG filed petitions, seeking approval to increase the maximum allowable DSIC from five percent to ten percent of billed distribution revenues. Also in March 2016, UGI Gas sought PUC approval to initiate a DSIC effective November 2017. To date, no action has been taken by the PUC on any of these petitions. The Company cannot predict the timing or outcome of these petitions. The impact of the DSIC charge at PNG and CPG did not have a material effect on Gas Utility results of operations.

**Note 6 — Debt**

In April 2016, UGI Utilities entered into a Note Purchase Agreement (the "2016 Note Purchase Agreement") which provides for the private placement of (1) \$100,000 aggregate principal amount of 2.95% Senior Notes due June 30, 2026; (2) \$200,000 aggregate principal amount of 4.12% Senior Notes due September 30, 2046; and (3) \$100,000 aggregate principal amount of 4.12% Senior Notes due October 31, 2046 (collectively, the "Senior Notes"). On June 30 2016, UGI Utilities issued \$100,000 aggregate principal amount of 2.95% Senior Notes pursuant to the 2016 Note Purchase Agreement. The net proceeds from the issuance of the 2.95% Senior Notes were used to repay short-term borrowings under UGI Utilities' Credit Agreement in early July 2016. The 4.12% Senior Notes due September 30, 2046 and the 4.12% Senior Notes due October 31, 2046 are expected to be issued in September 2016 and October 2016, respectively. The Senior Notes are unsecured and rank equally with UGI Utilities' existing outstanding senior debt. UGI Utilities expects to use the net proceeds from the issuance of the 4.12% Senior Notes to repay UGI Utilities' currently outstanding \$175,000 principal amount of 5.75% Senior Notes due September 30, 2016 and for general corporate purposes. Because UGI Utilities has the intent and ability to refinance the 5.75% Senior Notes on a long-term basis, the 5.75% Senior Notes have been classified as long-term debt on the June 30, 2016, Condensed Consolidated Balance Sheet. The 2016 Note Purchase Agreement contains restrictive and financial covenants including a requirement that UGI Utilities not exceed a ratio of Consolidated Debt to Consolidated Total Capital, as defined, of 0.65 to 1.00.

**UGI UTILITIES, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements**

(unaudited)

(Thousands of dollars)

**Note 7 — Commitments and Contingencies****Contingencies*****Environmental Matters***

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

UGI Utilities and its subsidiaries have entered into agreements with the Pennsylvania Department of Environmental Protection (“DEP”) to address the remediation of former MGPs in Pennsylvania. CPG is party to a Consent Order and Agreement (“CPG-COA”) with the DEP requiring CPG to perform a specified level of activities associated with environmental investigation and remediation work at certain properties in Pennsylvania on which MGP related facilities were operated (“CPG MGP Properties”) and to plug a minimum number of non-producing natural gas wells per year. In addition, PNG is a party to a Multi-Site Remediation Consent Order and Agreement (“PNG-COA”) with the DEP. The PNG-COA requires PNG to perform annually a specified level of activities associated with environmental investigation and remediation work at certain properties on which MGP-related facilities were operated (“PNG MGP Properties”). Under these agreements, environmental expenditures relating to the CPG MGP Properties and the PNG MGP Properties are capped at \$1,750 and \$1,100, respectively, in any calendar year. The CPG-COA is scheduled to terminate at the end of 2018. The PNG-COA terminates in 2019 but may be terminated by either party effective at the end of any two-year period beginning with the original effective date in March 2004. At June 30, 2016 and 2015, our accrued liabilities for environmental investigation and remediation costs related to the CPG-COA and the PNG-COA totaled \$12,247 and \$9,595, respectively. CPG and PNG have recorded associated regulatory assets for these costs because recovery of these costs from customers is probable (see Note 5).

In May 2016, UGI Gas executed a Consent Order and Agreement (“UGI Gas-COA”) with the DEP with an effective date of October 1, 2016. The UGI Gas-COA will terminate in September 2031 if not extended by the parties. The UGI Gas-COA requires UGI Gas to perform a specified level of activities associated with environmental investigation and remediation work at certain properties in Pennsylvania on which MGP related facilities were operated (“UGI Gas MGP Properties”). Under this agreement, required environmental expenditures related to the UGI Gas MGP Properties are capped at \$2,500 in any calendar year. At June 30, 2016, our estimated accrued liabilities for environmental investigation and remediation costs related to the UGI Gas-COA totaled \$43,759. UGI Gas has recorded associated regulatory assets for these costs because recovery of these costs from customers is probable (See Note 5).

UGI Utilities does not expect its costs for investigation and remediation of hazardous substances at Pennsylvania MGP sites to be material to its results of operations because (1) UGI Gas is currently permitted to include in rates, through future base rate proceedings, a five-year average of such prudently incurred remediation costs, and (2) CPG and PNG receive ratemaking recognition of estimated environmental investigation and remediation costs associated with their environmental sites. This ratemaking recognition balances the accumulated difference between historical costs and rate recoveries with an estimate of future costs associated with the sites. UGI Gas has proposed a similar environmental cost tracking mechanism that will address the costs incurred under the UGI Gas-COA.

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 its former subsidiaries. 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 former subsidiaries 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 June 30, 2016, neither the undiscounted nor the accrued

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liability for environmental investigation and cleanup costs for UGI Gas MGP sites outside of Pennsylvania was material for UGI Utilities.

There are 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 position, results of operations or cash flows.

**Note 8 — Defined Benefit Pension and Other Postretirement Plans**

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

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

Three Months Ended June 30,	Pension Benefits		Other Postretirement Benefits	
	2016	2015	2016	2015
Service cost	\$ 1,731	\$ 1,741	\$ 46	\$ 48
Interest cost	5,818	5,628	116	119
Expected return on assets	(7,167)	(7,225)	(149)	(153)
Amortization of:				
Prior service cost (benefit)	87	87	(160)	(160)
Actuarial loss	2,393	2,199	24	32
Net benefit cost (income)	2,862	2,430	(123)	(114)
Change in associated regulatory liabilities	—	—	878	938
Net benefit cost after change in regulatory liabilities	\$ 2,862	\$ 2,430	\$ 755	\$ 824

Nine Months Ended June 30,	Pension Benefits		Other Postretirement Benefits	
	2016	2015	2016	2015
Service cost	\$ 5,195	\$ 5,222	\$ 137	\$ 145
Interest cost	17,453	16,883	349	356
Expected return on assets	(21,502)	(21,674)	(447)	(459)
Amortization of:				
Prior service cost (benefit)	261	261	(480)	(480)
Actuarial loss	7,179	6,595	73	95
Net benefit cost (income)	8,586	7,287	(368)	(343)
Change in associated regulatory liabilities	—	—	2,632	2,813
Net benefit cost after change in regulatory liabilities	\$ 8,586	\$ 7,287	\$ 2,264	\$ 2,470

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, smallcap common stocks and 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. During the nine months ended June 30, 2016 and 2015, the Company made contributions to the Pension Plan of \$7,402 and \$8,348, respectively. The Company expects to make additional discretionary cash contributions of approximately \$2,500 to the Pension Plan during the remainder of Fiscal 2016.

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

## UGI UTILITIES, INC. AND SUBSIDIARIES

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future recovery from, or refund to, ratepayers. There were no required contributions to the VEBA during the nine months ended June 30, 2016 and 2015.

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 9 — 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 June 30, 2016, September 30, 2015 and June 30, 2015:

	Asset (Liability)			Total
	Level 1	Level 2	Level 3	
<b>June 30, 2016:</b>				
Assets:				
Commodity contracts	\$ 5,715	\$ 3	\$ —	\$ 5,718
Liabilities:				
Commodity contracts	\$ (341)	\$ (391)	\$ —	\$ (732)
<b>September 30, 2015:</b>				
Assets:				
Commodity contracts	\$ 934	\$ 373	\$ —	\$ 1,307
Liabilities:				
Commodity contracts	\$ (4,560)	\$ (1,388)	\$ —	\$ (5,948)
Interest rate contracts	\$ —	\$ (7,016)	\$ —	\$ (7,016)
<b>June 30, 2015:</b>				
Assets:				
Commodity contracts	\$ 1,510	\$ 469	\$ —	\$ 1,979
Liabilities:				
Commodity contracts	\$ (2,390)	\$ (2,605)	\$ —	\$ (4,995)

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 and electricity forward contracts, which are designated as Level 2, are generally based upon recent market transactions and related market indicators. There were no transfers between Level 1 and Level 2 during the periods presented.

**Other Financial Instruments**

The carrying amounts of other financial instruments included in current assets and current liabilities (except for current maturities of long-term debt) approximate their fair values because of their short-term nature. The carrying amount and estimated fair value of our long-term debt (including current maturities) at June 30, 2016, were \$650,000 and \$747,588, respectively. The carrying amount and estimated fair value of our long-term debt (including current maturities) at June 30, 2015, were \$622,000 and \$683,521, respectively. We estimate the fair value of long-term debt by using current market rates and by discounting future cash flows using rates available for similar types of debt (Level 2).



## UGI UTILITIES, INC. AND SUBSIDIARIES

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**Note 10 — Derivative Instruments and Hedging Activities**

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

**Commodity Price Risk**

Gas Utility's tariffs contain clauses that permit recovery of all of the prudently incurred costs of natural gas it sells to retail core-market customers, including the cost of financial instruments used to hedge purchased gas costs. As permitted and agreed to by the PUC pursuant to Gas Utility's annual PGC filings, Gas Utility currently uses New York Mercantile Exchange ("NYMEX") natural gas futures and option contracts to reduce commodity price volatility associated with a portion of the natural gas it purchases for its retail core-market customers. At June 30, 2016 and 2015, the volumes of natural gas associated with Gas Utility's unsettled NYMEX natural gas futures and option contracts totaled 13.4 million dekatherms and 13.1 million dekatherms, respectively. At June 30, 2016, the maximum period over which Gas Utility is economically hedging natural gas market price risk is 15 months. Gains and losses on natural gas futures contracts and any gains on 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 5).

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. For such contracts entered into prior to March 1, 2015, Electric Utility chose not to elect the NPNS exception under GAAP and the fair values of these contracts are reflected in current derivative instrument liabilities on the accompanying Condensed Consolidated Balance Sheets. Associated gains and losses on these forward contracts are recorded in regulatory assets and liabilities on the Condensed Consolidated Balance Sheets in accordance with GAAP because it is probable such gains or losses will be recoverable from, or refundable to, customers through the DS mechanism (see Note 5). Effective with Electric Utility forward electricity purchase contracts entered into beginning March 1, 2015, Electric Utility has elected the NPNS exception under GAAP and, as a result, the fair values of such contracts are not recognized on the balance sheet. At June 30, 2016, all of our Electric Utility's forward electricity purchase contracts were subject to the NPNS exception. At June 30, 2015, the volumes of Electric Utility's forward purchase contracts for which NPNS had not been elected was 494.5 million kilowatt hours.

In order to reduce volatility associated with a substantial portion of its electricity transmission congestion costs, Electric Utility obtains FTRs through an annual allocation process. Gains and losses on Electric Utility FTRs are recorded in regulatory assets or liabilities in accordance with GAAP because it is probable such gains or losses will be recoverable from, or refundable to, customers through the DS mechanism (see Note 5). At June 30, 2016 and 2015, the total volumes associated with FTRs totaled 80.6 million kilowatt hours and 381.6 million kilowatt hours, respectively. At June 30, 2016, the maximum period over which we are economically hedging electricity congestion is 11 months.

In order to reduce operating expense volatility, UGI Utilities from time to time enters into NYMEX gasoline futures contracts for a portion of gasoline volumes expected to be used in the operation of its vehicles and equipment.

**Interest Rate Risk**

Our long-term debt typically is issued at fixed rates of interest. As these long-term debt issues mature, we typically refinance such debt with new debt having interest rates reflecting then-current market conditions. In order to reduce market rate risk on the underlying benchmark rate of interest associated with near- to medium-term forecasted issuances of fixed-rate debt, from time to time we enter into interest rate protection agreements ("IRPAs"). We account for IRPAs as cash flow hedges. On March 31, 2016, concurrent with the pricing of the Senior Notes to be issued under the 2016 Note Purchase Agreement, UGI Utilities settled all of

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its then-existing IRPA contracts associated with such debt at a loss of \$35,975. Because these IRPA contracts qualified for and were designated as cash flow hedges, the loss recognized in connection with the settled IRPAs has been recorded in AOCI and will be recognized in interest expense as the associated future interest expense impacts earnings. See Note 6 for additional information on the 2016 Note Purchase Agreement. As of June 30, 2016 and 2015, we had no unsettled IRPAs. At June 30, 2016, the amount of net losses associated with IRPAs expected to be reclassified into earnings during the next twelve months is \$3,320.

**Derivative Instrument Credit Risk**

Our commodity exchange-traded futures contracts generally require cash deposits in margin accounts. At June 30, 2016 and 2015, restricted cash in brokerage accounts totaled \$212 and \$3,683, 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.

## UGI UTILITIES, INC. AND SUBSIDIARIES

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**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 June 30, 2016 and 2015:

	June 30, 2016	June 30, 2015
<b>Derivative assets:</b>		
Derivatives subject to PGC and DS mechanisms:		
Commodity contracts	\$ 5,718	\$ 1,943
Derivatives not subject to PGC and DS mechanisms:		
Commodity contracts	—	36
Total derivative assets - gross	5,718	1,979
Gross amounts offset in the balance sheet	(225)	(583)
Total derivative assets - net	<u>\$ 5,493</u>	<u>\$ 1,396</u>
<b>Derivative liabilities:</b>		
Derivatives subject to PGC and DS mechanisms:		
Commodity contracts	\$ (593)	\$ (4,807)
Derivatives not subject to PGC and DS mechanisms:		
Commodity contracts	(139)	(188)
Total derivative liabilities - gross	(732)	(4,995)
Gross amounts offset in the balance sheet	225	583
Total derivative liabilities - net	<u>\$ (507)</u>	<u>\$ (4,412)</u>

## UGI UTILITIES, INC. AND SUBSIDIARIES

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**Effect of Derivative Instruments**

The following table provides information on the effects of derivative instruments not subject to ratemaking mechanisms on the Condensed Consolidated Statements of Income and changes in AOCI for the three and nine months ended June 30, 2016 and 2015:

Three Months Ended June 30,	Loss Recognized in AOCI		Loss Reclassified from AOCI into Income		Location of Loss Reclassified from AOCI into Income
	2016	2015	2016	2015	
<b>Cash Flow Hedges:</b>					
Interest rate contracts	\$ —	\$ —	\$ (610)	\$ (669)	Interest expense
Three Months Ended June 30,	Gain Recognized in Income		Location of Gain Recognized in Income		
	2016	2015			
<b>Derivatives Not Subject to PGC and DS Mechanisms:</b>					
Gasoline contracts	\$ 27	\$ 111	Operating expenses/ other operating income, net		
Nine Months Ended June 30,	Loss Recognized in AOCI		Loss Reclassified from AOCI into Income		Location of Loss Reclassified from AOCI into Income
	2016	2015	2016	2015	
<b>Cash Flow Hedges:</b>					
Interest rate contracts	\$ (28,959)	\$ —	\$ (1,885)	\$ (2,008)	Interest expense
Nine Months Ended June 30,	Loss Recognized in Income		Location of Loss Recognized in Income		
	2016	2015			
<b>Derivatives Not Subject to PGC and DS Mechanisms:</b>					
Gasoline contracts	\$ (93)	\$ (415)	Operating expenses/ other operating income, net		

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 normal purchase and normal sale exception accounting under GAAP because they provide for the delivery of products or services in quantities that are expected to be used in the normal course of operating our business and the price in the contract is based on an underlying that is directly associated with the price of the product or service being purchased or sold.

## UGI UTILITIES, INC. AND SUBSIDIARIES

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Note 11 — Accumulated Other Comprehensive Income

The tables below present changes in AOCI, net of tax, during the three and nine months ended June 30, 2016 and 2015:

	Postretirement Benefit Plans	Derivative Instruments	Total
<b>Three Months Ended June 30, 2016</b>			
AOCI - March 31, 2016	\$ (8,956)	\$ (20,607)	\$ (29,563)
Reclassifications of benefit plan actuarial losses and prior service cost	160	—	160
Reclassifications of net losses on IRPAs	—	357	357
AOCI - June 30, 2016	<u>\$ (8,796)</u>	<u>\$ (20,250)</u>	<u>\$ (29,046)</u>
<b>Three Months Ended June 30, 2015</b>			
AOCI - March 31, 2015	\$ (6,051)	\$ (1,087)	\$ (7,138)
Reclassifications of benefit plan actuarial losses and prior service cost	128	—	128
Reclassifications of net losses on IRPAs	—	392	392
AOCI - June 30, 2015	<u>\$ (5,923)</u>	<u>\$ (695)</u>	<u>\$ (6,618)</u>
	Postretirement Benefit Plans	Derivative Instruments	Total
<b>Nine Months Ended June 30, 2016</b>			
AOCI - September 30, 2015	\$ (9,276)	\$ (4,410)	\$ (13,686)
Net losses on IRPAs	—	(16,943)	(16,943)
Reclassifications of benefit plan actuarial losses and prior service costs	480	—	480
Reclassifications of net losses on IRPAs	—	1,103	1,103
AOCI - June 30, 2016	<u>\$ (8,796)</u>	<u>\$ (20,250)</u>	<u>\$ (29,046)</u>
<b>Nine Months Ended June 30, 2015</b>			
AOCI - September 30, 2014	\$ (6,311)	\$ (1,870)	\$ (8,181)
Reclassifications of benefit plan actuarial losses and prior service costs	388	—	388
Reclassifications of net losses on IRPAs	—	1,175	1,175
AOCI - June 30, 2015	<u>\$ (5,923)</u>	<u>\$ (695)</u>	<u>\$ (6,618)</u>

Note 12 — Related Party Transactions

UGI provides certain financial and administrative services to UGI Utilities. UGI bills UGI Utilities monthly for all direct expenses incurred by UGI on behalf of UGI Utilities and an allocated share of indirect corporate expenses incurred or paid with respect to services provided to UGI Utilities. The allocation of indirect UGI corporate expenses to UGI Utilities utilizes a weighted, three-component formula comprising revenues, operating expenses and net assets employed and considers UGI Utilities' relative percentage of such items to the total of such items for all UGI operating subsidiaries for which general and administrative services are provided. Management believes that this allocation method is reasonable and equitable to UGI Utilities and this allocation method has been accepted by the PUC in past rate case proceedings and management audits as a reasonable method of allocating such expenses. These billed expenses are classified as operating and administrative expenses - related parties on the Condensed Consolidated Statements of Income. In addition, UGI Utilities provides limited administrative services to UGI and certain of UGI's subsidiaries under PUC affiliated interest agreements. Amounts billed to these entities by UGI Utilities for all periods presented were not material.

From time to time, UGI Utilities is a party to SCAAs with Energy Services which have terms of up to three years. Under the SCAAs, UGI Utilities has, among other things, released certain storage and transportation contracts (subject to recall for operational purposes) to Energy Services for the terms of the SCAAs. UGI Utilities also transferred certain associated storage inventories upon the commencement of the SCAAs, receives a transfer of storage inventories at the end of the SCAAs, and makes payments

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associated with refilling storage inventories during the term of the SCAAs. Energy Services, in turn, provides a firm delivery service and makes certain payments to UGI Utilities for its various obligations under the SCAAs. UGI Utilities incurred costs associated with Energy Services' SCAAs totaling \$4,358 and \$6,387 during the three and nine months ended June 30, 2016, respectively, and \$5,691 and \$10,898 during the three and nine months ended June 30, 2015, 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, were \$8,100, \$10,700, and \$10,700 as of June 30, 2016, September 30, 2015 and June 30, 2015, respectively.

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) on its balance sheet under the caption inventories. The carrying value of these gas storage inventories at June 30, 2016, September 30, 2015 and June 30, 2015, comprising approximately 2.7 bcf, 5.0 bcf and 2.6 bcf of natural gas, were \$5,100, \$12,889 and \$6,809, 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 and nine months ended June 30, 2016, totaled \$2,138 and \$61,193, respectively. During the three and nine months ended June 30, 2015, such transactions totaled \$2,380 and \$45,413, respectively.

From time to time, the Company sells natural gas or pipeline capacity to Energy Services. During the three and nine months ended June 30, 2016, revenues associated with such sales to Energy Services totaled \$4,514 and \$26,134, respectively. During the three and nine months ended June 30, 2015, revenues associated with such sales to Energy Services totaled \$9,129 and \$71,546, respectively. Also from time to time, the Company purchases natural gas, pipeline capacity and electricity from Energy Services (in addition to those transactions already described above) and purchases a firm storage service from UGI Storage Company, a subsidiary of Energy Services, under one-year agreements. During the three and nine months ended June 30, 2016, such purchases totaled \$6,928 and \$30,032, respectively. During the three and nine months ended June 30, 2015, such purchases totaled \$8,431 and \$79,956, respectively.

**Note 13 — 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, northeastern and central Pennsylvania. Electric Utility derives its revenues principally from the sale and distribution of electricity in two northeastern Pennsylvania counties. The PNG HVAC Business, prior to its sale in June 2015, did not meet the quantitative thresholds for separate segment reporting under GAAP relating to business segment reporting and has been included in "Other" below.

The accounting policies of our reportable segments are the same as those described in Note 2 of the Company's 2015 Annual Report. We evaluate the performance of our Gas Utility and Electric Utility segments principally based upon their income before income taxes.

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Financial information by business segment follows:

**Three Months Ended June 30, 2016:**

	Total	Reportable Segments	
		Gas Utility	Electric Utility
Revenues	\$ 140,283	\$ 119,995	\$ 20,288
Cost of sales	\$ 44,415	\$ 33,715	\$ 10,700
Depreciation and amortization	\$ 16,550	\$ 15,339	\$ 1,211
Operating income	\$ 29,815	\$ 27,116	\$ 2,699
Interest expense	\$ 9,158	\$ 8,670	\$ 488
Income before income taxes	\$ 20,657	\$ 18,446	\$ 2,211
Capital expenditures (including the effects of accruals)	\$ 56,481	\$ 53,199	\$ 3,282

**Three Months Ended June 30, 2015:**

	Total	Reportable Segments		Other
		Gas Utility	Electric Utility	
Revenues	\$ 143,490	\$ 119,412	\$ 23,875	\$ 203
Cost of sales	\$ 53,691	\$ 41,352	\$ 12,339	\$ —
Depreciation and amortization	\$ 15,913	\$ 14,786	\$ 1,127	\$ —
Operating income	\$ 20,184	\$ 15,099	\$ 4,071	\$ 1,014
Interest expense	\$ 9,985	\$ 9,483	\$ 502	\$ —
Income before income taxes	\$ 10,199	\$ 5,616	\$ 3,569	\$ 1,014
Capital expenditures (including the effects of accruals)	\$ 43,315	\$ 41,324	\$ 1,991	\$ —

**Nine Months Ended June 30, 2016:**

	Total	Reportable Segments	
		Gas Utility	Electric Utility
Revenues	\$ 660,312	\$ 595,025	\$ 65,287
Cost of sales	\$ 257,288	\$ 221,646	\$ 35,642
Depreciation and amortization	\$ 50,281	\$ 46,665	\$ 3,616
Operating income	\$ 192,592	\$ 183,940	\$ 8,652
Interest expense	\$ 27,922	\$ 26,583	\$ 1,339
Income before income taxes	\$ 164,670	\$ 157,357	\$ 7,313
Capital expenditures (including the effects of accruals)	\$ 166,058	\$ 158,472	\$ 7,586

**As of June 30, 2016**

Total assets (at period end)	\$ 2,699,898	\$ 2,534,039	\$ 165,859
Goodwill (at period end)	\$ 182,145	\$ 182,145	\$ —

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**Nine Months Ended June 30, 2015:**

	Total	Reportable Segments		Other
		Gas Utility	Electric Utility	
Revenues	\$ 931,369	\$ 847,890	\$ 82,621	\$ 858
Cost of sales	\$ 475,079	\$ 426,715	\$ 48,364	\$ —
Depreciation and amortization	\$ 46,982	\$ 43,555	\$ 3,427	\$ —
Operating income	\$ 238,523	\$ 226,248	\$ 11,300	\$ 975
Interest expense	\$ 31,245	\$ 29,717	\$ 1,528	\$ —
Income before income taxes	\$ 207,278	\$ 196,531	\$ 9,772	\$ 975
Capital expenditures (including the effects of accruals)	\$ 139,624	\$ 134,018	\$ 5,606	\$ —

**As of June 30, 2015**

Total assets (at period end)	\$ 2,423,205	\$ 2,278,975	\$ 144,230	\$ —
Goodwill (at period end)	\$ 182,145	\$ 182,145	\$ —	\$ —



**UGI UTILITIES, INC. AND SUBSIDIARIES****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****Forward-Looking Statements**

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

A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. We believe that we have chosen these assumptions or bases in good faith and that they are reasonable. However, we caution you that actual results almost always vary from assumed facts or bases, and the differences between actual results and assumed facts or bases can be material, depending on the circumstances. When considering forward-looking statements, you should keep in mind the following important factors that could affect our future results and could cause those results to differ materially from those expressed in our forward-looking statements: (1) adverse weather conditions resulting in reduced demand; (2) price volatility and availability of oil, electricity and natural gas and the capacity to transport them to market areas; (3) changes in laws and regulations, including safety, tax, consumer protection 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) large customer, counterparty or supplier defaults; (11) increased uncollectible accounts expense; (12) liability for personal injury and property damage arising from explosions and other catastrophic events, including acts of terrorism, resulting from operating hazards and risks incidental to generating and distributing electricity and transporting, storing and distributing natural gas, including liability in excess of insurance coverage; (13) political, regulatory and economic conditions in the United States; (14) capital market conditions, including reduced access to capital markets and interest rate fluctuations; and (15) changes in commodity market prices resulting in significantly higher cash collateral requirements.

These factors, and those factors set forth in Item 1A. Risk Factors in the Company's 2015 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.

## UGI UTILITIES, INC. AND SUBSIDIARIES

**ANALYSIS OF RESULTS OF OPERATIONS**

The following analyses compare our results of operations for the three months ended June 30, 2016 (“2016 three-month period”) with the three months ended June 30, 2015 (“2015 three-month period”) and the nine months ended June 30, 2016 (“2016 nine-month period”) with the nine months ended June 30, 2015 (“2015 nine-month period”). Our analyses of results of operations should be read in conjunction with the segment information included in Note 13 to the condensed consolidated financial statements.

**2016 three-month period compared with 2015 three-month period**

Three Months Ended June 30, (Dollars in millions)	2016	2015	Increase (Decrease)	
<b>Gas Utility:</b>				
Revenues	\$ 120.0	\$ 119.4	\$ 0.6	0.5 %
Total margin (a)	\$ 86.3	\$ 78.1	\$ 8.2	10.5 %
Operating and administrative expenses	\$ 41.7	\$ 48.6	\$ (6.9)	(14.2)%
Operating income	\$ 27.1	\$ 15.1	\$ 12.0	79.5 %
Income before income taxes	\$ 18.4	\$ 5.6	\$ 12.8	228.6 %
System throughput — billions of cubic feet (“bcf”)				
Core market	10.3	8.9	1.4	15.7 %
Total	43.6	38.6	5.0	13.0 %
Heating degree days — % colder (warmer) than normal (b)	11.9%	(17.2)%	—	—
<b>Electric Utility:</b>				
Revenues	\$ 20.3	\$ 23.9	\$ (3.6)	(15.1)%
Total margin (a)	\$ 8.5	\$ 10.3	\$ (1.8)	(17.5)%
Operating and administrative expenses	\$ 4.4	\$ 5.1	\$ (0.7)	(13.7)%
Operating income	\$ 2.7	\$ 4.1	\$ (1.4)	(34.1)%
Income before income taxes	\$ 2.2	\$ 3.6	\$ (1.4)	(38.9)%
Distribution sales — millions of kilowatt-hours (“gwh”)	215.7	219.7	(4.0)	(1.8)%

- (a) Gas Utility’s total margin represents total revenues less total cost of sales. Electric Utility’s total margin represents total revenues less total cost of sales and revenue-related taxes, i.e. Electric Utility gross receipts taxes, of \$1.1 million and \$1.2 million during the three months ended June 30, 2016 and 2015, respectively. For financial statement purposes, revenue-related taxes are included in taxes other than income taxes in the Condensed Consolidated Statements of Income.
- (b) Deviation from average heating degree days for the 15-year period 2000-2014 based upon weather statistics provided by the National Oceanic and Atmospheric Administration for airports located within Gas Utility’s service territory.

Temperatures in Gas Utility’s service territory during the 2016 three-month period based upon heating degree days were 11.9% colder than normal and 38% colder than the 2015 three-month period. Core market volumes increased 1.4 bcf (15.7%) reflecting the effects of the colder spring weather. Total Gas Utility distribution system throughput increased 5.0 bcf (13.0%) principally reflecting higher large firm fixed-fee delivery service volumes and, to a lesser extent, the higher core market volumes. Gas Utility’s core market customers comprise firm- residential, commercial and industrial (“retail core-market”) customers who purchase their gas from Gas Utility and, to a lesser extent, residential and small commercial customers who purchase their gas from alternate suppliers. Electric Utility kilowatt-hour sales were slightly lower than in the prior-year three-month period.

UGI Utilities total revenues decreased principally reflecting lower Electric Utility revenues (\$3.6 million) while Gas Utility revenues were slightly higher than the prior-year three-month period. The lower 2016 three-month period Electric Utility revenues principally resulted from lower transmission revenues and, to a lesser extent, the effects of lower DS rates and slightly lower sales volumes. The slight increase in Gas Utility revenues principally reflects higher revenues from large firm delivery service customers (\$2.2 million) resulting from higher firm delivery service volumes, and an increase in core market revenues (\$0.3 million) partially offset by lower off-system sales revenues (\$2.2 million). The slight increase in Gas Utility core market revenues reflects the effects of the higher core market throughput (\$13.4 million) substantially offset by lower average PGC rates (\$13.1 million) associated with retail core-market revenues. Because Gas Utility and Electric Utility are subject to reconcilable PGC and DS recovery mechanisms, increases or decreases in the actual cost of gas or electricity associated with customers who purchase their gas or electricity from UGI Utilities impact revenues and cost of sales but have no direct effect on retail core-market margin (see Note

### UGI UTILITIES, INC. AND SUBSIDIARIES

5 to condensed consolidated financial statements). UGI Utilities cost of sales was \$44.4 million in the 2016 three-month period compared with \$53.7 million in the 2015 three-month period principally reflecting the combined effects of lower average Gas Utility PGC rates (\$5.7 million) and lower cost of sales associated with off-system sales (\$2.2 million). Electric Utility cost of sales in the 2016 three-month period was slightly lower primarily reflecting lower DS rates.

UGI Utilities 2016 three-month period total margin increased \$6.2 million principally reflecting higher Gas Utility total margin from core market customers (\$6.3 million) and slightly higher total margin from delivery service customers resulting from the higher throughput (\$1.6 million). Electric Utility margin decreased \$1.8 million principally reflecting lower transmission revenues and, to a much lesser extent, the slightly lower volume sales.

UGI Utilities operating income and income before income taxes increased \$9.6 million and \$10.4 million, respectively. The increases in operating income and income before income taxes during the 2016 three-month period principally reflect the previously mentioned increase in total margin (\$6.2 million) and a \$7.9 million decrease in operating and administrative expenses including lower distribution system (\$2.8 million) and customer account expenses (\$2.7 million). These benefits were partially offset by lower other operating income as the prior-year period included incremental income from construction services and the sale of PNG's heating, ventilation and air-conditioning business. The increase in income before income taxes also reflects lower interest expense principally due to lower average long-term debt outstanding.

#### *Interest Expense and Income Taxes*

Our interest expense in the 2016 three-month period decreased principally reflecting lower average long-term debt outstanding. Our effective income tax rate for the three months ended June 30, 2016 was comparable with the prior-year three-month period.

#### **2016 nine-month period compared with 2015 nine-month period**

Nine Months Ended June 30, (Dollars in millions)	2016	2015	Decrease	
<b>Gas Utility:</b>				
Revenues	\$ 595.0	\$ 847.9	\$ (252.9)	(29.8)%
Total margin (a)	\$ 373.4	\$ 421.2	\$ (47.8)	(11.3)%
Operating and administrative expenses	\$ 132.0	\$ 150.7	\$ (18.7)	(12.4)%
Operating income	\$ 183.9	\$ 226.2	\$ (42.3)	(18.7)%
Income before income taxes	\$ 157.4	\$ 196.5	\$ (39.1)	(19.9)%
<b>System throughput — billions of cubic feet ("bcf")</b>				
Core market	61.7	76.4	(14.7)	(19.2)%
Total	165.6	176.3	(10.7)	(6.1)%
Heating degree days — % (warmer) colder than normal (b)	(12.9)%	7.5%	—	—
<b>Electric Utility:</b>				
Revenues	\$ 65.3	\$ 82.6	\$ (17.3)	(20.9)%
Total margin (a)	\$ 26.2	\$ 29.8	\$ (3.6)	(12.1)%
Operating and administrative expenses	\$ 13.1	\$ 14.7	\$ (1.6)	(10.9)%
Operating income	\$ 8.7	\$ 11.3	\$ (2.6)	(23.0)%
Income before income taxes	\$ 7.3	\$ 9.8	\$ (2.5)	(25.5)%
Distribution sales — millions of kilowatt-hours ("gwh")	706.0	764.4	(58.4)	(7.6)%

(a) Gas Utility's total margin represents total revenues less total cost of sales. Electric Utility's total margin represents total revenues less total cost of sales and revenue-related taxes, i.e. Electric Utility gross receipts taxes, of \$3.5 million and \$4.4 million during the nine months ended June 30, 2016 and 2015, respectively. For financial statement purposes, revenue-related taxes are included in taxes other than income taxes on the Condensed Consolidated Statements of Income.

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

Temperatures in Gas Utility's service territory during the 2016 nine-month period based upon heating degree days were 12.9% warmer than normal and 18.0% warmer than the 2015 nine-month period. In particular, Gas Utility temperatures in the critical heating-season month of December were 37% warmer than normal. Core market volumes declined 14.7 bcf (19.2%) reflecting

**UGI UTILITIES, INC. AND SUBSIDIARIES**

the effects of the significantly warmer weather. Total Gas Utility distribution system throughput decreased 10.7 bcf (6.1%) principally reflecting the lower core market volumes partially offset by higher large firm delivery service volumes. Electric Utility kilowatt-hour sales were 7.6% lower than in the prior-year period principally reflecting the impact of the warmer weather on heating-related sales.

UGI Utilities revenues decreased principally reflecting a \$252.9 million decrease in Gas Utility revenues and lower Electric Utility revenues (\$17.3 million). The lower Gas Utility revenues principally reflect a decrease in core market revenues (\$200.0 million) and lower off-system sales revenues (\$50.9 million). The decrease in Gas Utility core market revenues reflects the effects of the lower core market throughput (\$129.0 million) and lower average PGC rates during the 2016 nine-month period (\$71.0 million). The lower Electric Utility revenues principally resulted from lower DS rates, lower sales volumes and lower transmission revenue in the 2016 nine-month period. UGI Utilities cost of sales was \$257.3 million in the 2016 nine-month period compared with \$475.1 million in the 2015 nine-month period principally reflecting the combined effects of the lower average Gas Utility PGC rates (\$155.5 million), lower cost of sales associated with off-system sales (\$50.9 million) and lower Gas Utility retail core-market volumes sold (\$14.6 million). Electric Utility cost of sales was lower reflecting lower volumes sold and lower DS rates.

UGI Utilities 2016 nine-month period total margin decreased \$52.4 million principally reflecting lower Gas Utility total margin from core market customers (\$44.5 million) and, to a much lesser extent, lower total margin from large firm delivery service customers. The decrease in Gas Utility core market margin reflects the lower core market throughput. Electric Utility total margin decreased \$3.6 million principally reflecting the lower volume sales as a result of the warmer nine-month period weather and lower transmission revenue.

UGI Utilities operating income and income before income taxes decreased \$45.9 million and \$42.6 million, respectively. The decreases in operating income and income before income taxes during the 2016 nine-month period principally reflects the decrease in total margin (\$52.4 million), higher depreciation expense (\$3.5 million) and lower other operating income which includes, among other things, higher environmental matters expense (\$3.9 million), higher interest on PGC overcollections and lower margin from off-system sales. UGI Utilities operating and administrative expenses were \$21.2 million lower primarily reflecting lower net preliminary development stage expenses associated with an information technology ("IT") project and, to a lesser extent, lower uncollectible accounts and system maintenance expenses. During the three months ended March 31, 2016, we determined that certain preliminary stage costs associated with the IT project were probable of future recovery in rates in accordance with GAAP related to rate regulated entities. As a result, during the three months ended March 31, 2016, we capitalized \$5.8 million of such costs including \$5.4 million of which had been expensed prior to Fiscal 2016 (and \$2.9 million of which had been expensed during the 2015 nine-month period) and recorded associated increases to utility plant and regulatory assets (See Note 5 to condensed consolidated financial statements). Income before income taxes also reflects lower interest expense principally due to lower average long-term debt outstanding.

***Interest Expense and Income Taxes***

Our interest expense in the 2016 nine-month period decreased principally reflecting lower average long-term debt outstanding. Our effective income tax rate for the nine months ended June 30, 2016 was comparable with the prior-year nine-month period.

**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 June 30, 2016, totaled \$82.4 million compared to \$3.1 million at September 30, 2015. The significantly higher cash and cash equivalents balance at June 30, 2016, includes a substantial portion of the net proceeds from the issuance of \$100 million of Senior Notes on June 30, 2016. These proceeds were used in early July 2016 to repay short-term borrowings (see below and Note 6 to condensed consolidated financial statements).

UGI Utilities' total debt outstanding at June 30, 2016, was \$780.0 million, which includes \$130.0 million of short-term borrowings, compared with total debt outstanding of \$693.7 million at September 30, 2015, which includes \$71.7 million of short-term borrowings. Total long-term debt outstanding at June 30, 2016, comprises \$550.0 million of Senior Notes and \$100.0 million of Medium-Term Notes.

At June 30, 2016, the higher cash and cash equivalents, and the higher short-term borrowings, reflects the issuance of the long-term debt in late June 2016 and the subsequent timing of the use of the proceeds to repay short-term borrowings (as further described below).

**UGI UTILITIES, INC. AND SUBSIDIARIES**

In April 2016, UGI Utilities entered into a Note Purchase Agreement (the “2016 Note Purchase Agreement”) which provides for the private placement of (1) \$100 million aggregate principal amount of 2.95% Senior Notes due June 30, 2026; (2) \$200 million aggregate principal amount of 4.12% Senior Notes due September 30, 2046; and (3) \$100 million aggregate principal amount of 4.12% Senior Notes due October 31, 2046 (collectively, the “Senior Notes”). On June 30 2016, UGI Utilities issued \$100 million aggregate principal amount of 2.95% Senior Notes pursuant to the 2016 Note Purchase Agreement. The net proceeds from the issuance of the 2.95% Senior Notes were used to repay short-term borrowings under UGI Utilities’ Credit Agreement in early July 2016. The 4.12% Senior Notes due September 30, 2046 and the 4.12% Senior Notes due October 31, 2046 are expected to be issued in September 2016 and October 2016, respectively. UGI Utilities expects to use the net proceeds from the issuance of the 4.12% Senior Notes to repay UGI Utilities’ currently outstanding \$175 million principal amount of 5.75% Senior Notes due September 30, 2016 and for general corporate purposes. Because UGI Utilities has the intent and ability to refinance the 5.75% Senior Notes on a long-term basis, the 5.75% Senior Notes have been classified as long-term debt on the June 30, 2016, Condensed Consolidated Balance Sheet. For further information on the 2016 Note Purchase Agreement, see Note 6 to condensed consolidated financial statements.

On March 31, 2016, concurrent with the pricing of the Senior Notes to be issued under the 2016 Note Purchase Agreement, UGI Utilities settled all of its then-existing IRPA contracts associated with such debt at a loss of \$36.0 million. Because these IRPA contracts qualified for and were designated as cash flow hedges, the loss recognized in connection with the settled IRPAs has been recorded in AOCI and will be recognized in interest expense as future interest expense impacts earnings.

UGI Utilities has an unsecured revolving credit agreement (the “UGI Utilities 2015 Credit Agreement”) with a group of banks providing for borrowings up to \$300 million (including a \$100 million sublimit for letters of credit). Borrowings under the UGI Utilities 2015 Credit Agreement are classified as short-term borrowings on the Condensed Consolidated Balance Sheets. During the 2016 and 2015 nine-month periods, average daily short-term borrowings under the UGI Utilities 2015 Credit Agreement and a predecessor agreement were \$171.6 million and \$73.6 million, respectively, and peak short-term borrowings totaled \$232.0 million and \$163.6 million, respectively. At June 30, 2016, UGI Utilities’ available borrowing capacity under the UGI Utilities 2015 Credit Agreement was \$168 million. 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 and inventories, is generally greatest.

During the 2016 nine-month period, UGI Utilities repaid \$72 million of maturing Medium-Term Notes. UGI Utilities used borrowings under the UGI Utilities 2015 Credit Agreement and existing cash balances to fund such repayments.

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 2015 Credit Agreement and the ability to refinance long-term debt as it matures to meet our anticipated contractual and projected cash commitments.

**Cash Flows**

**Operating activities.** Due to the seasonal nature of UGI Utilities’ businesses, cash flows from our operating activities are generally greatest during the second and third fiscal quarters when customers pay for natural gas and electricity consumed during the peak heating season months. Conversely, operating cash flows are generally at their lowest levels during the first and fourth fiscal quarters when the Company’s investment in working capital, principally accounts receivable and inventories, is generally greatest. UGI Utilities uses borrowings under the UGI Utilities 2015 Credit Agreement to manage seasonal cash flow needs.

Cash provided by operating activities was \$194.5 million in the 2016 nine-month period compared to \$300.9 million in the prior-year period. Cash flow from operating activities before changes in operating working capital was \$187.4 million in the 2016 nine-month period compared to \$173.8 million recorded in the prior-year period. The greater cash flow from operations before changes in operating working capital in the 2016 nine-month period principally reflects greater noncash charges for deferred income taxes in the current-year period partially offset by the previously mentioned \$36.0 million cash settlement of interest rate protection agreements and the effects of the lower operating results. Changes in operating working capital provided \$7.1 million of operating cash flow during the 2016 nine-month period compared to \$127.1 million of cash provided during the prior-year period. The lower cash from changes in working capital reflects net refunds of UGI Utilities purchased gas and electricity costs of \$11.6 million compared with net overcollections of such costs in the prior-year nine-month period of \$59.4 million. The lower net cash from changes in accounts receivable, accounts payable and inventories reflects, in large part, the impact on these items from lower natural gas costs and the lower volumes sold. Decreases in cash flow from changes in other current liabilities principally reflects lower cash flow from changes in accrued income taxes.

**Investing activities.** Cash used by investing activities was \$165.2 million in the 2016 nine-month period compared to \$148.3 million in the 2015 nine-month period. Total cash capital expenditures were \$164.0 million in the 2016 nine-month period compared

**UGI UTILITIES, INC. AND SUBSIDIARIES**

with \$141.9 million recorded in the prior-year period. The increase in cash capital expenditures during the 2016 nine-month period principally reflects higher Gas Utility replacement and betterment capital expenditures. Changes in restricted cash in futures brokerage accounts provided \$6.4 million of cash in the 2016 nine-month period compared with cash used of \$0.1 million in the prior-year period reflecting lower required cash deposits in commodity futures brokerage accounts.

**Financing activities.** Cash provided by financing activities was \$50.1 million in the 2016 nine-month period compared with cash used by financing activities of \$148.5 million in the 2015 nine-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. During the 2016 nine-month period there were net credit agreement borrowings of \$58.3 million compared with net credit agreement repayments of \$83.6 million during the prior-year period principally reflecting the impact of higher long-term debt repayments. During the 2016 nine-month period, UGI Utilities repaid \$72.0 million of maturing Medium-Term Notes. UGI Utilities used borrowings under the UGI Utilities 2015 Credit Agreement and existing cash balances to fund these repayments. As previously mentioned, UGI Utilities issued \$100 million of Senior Notes under the 2016 Note Purchase Agreement on June 30, 2016, and used substantially all of the net proceeds in early July 2016 (after the end of the quarter) to reduce short-term borrowings. Cash dividends in the 2016 nine-month period totaled \$37.0 million compared to cash dividends of \$45.6 million in the prior-year period.

**REGULATORY MATTERS**

**UGI Gas Base Rate Filing.** On January 19, 2016, UGI Utilities filed a rate request with the PUC to increase UGI Gas's annual base operating revenues for residential, commercial and industrial customers by \$58.6 million. The increased revenues would fund ongoing system improvements and operations necessary to maintain safe and reliable natural gas service. UGI Utilities requested that the new gas rates become effective March 19, 2016. The PUC entered an Order dated February 11, 2016, suspending the effective date for the rate increase to no later than October 19, 2016, to allow for investigation and public hearings. On June 30, 2016, a Joint Petition for Approval of Settlement of all issues supported by all active parties was filed with the PUC. Under the terms of the Joint Petition, UGI Utilities will be permitted, effective October 19, 2016, to increase UGI Gas' annual base distribution rates by \$27.0 million. The Joint Petition is subject to receipt of a recommended decision by a PUC administrative law judge and an order of the PUC approving the settlement. The Company cannot predict the ultimate outcome of the rate case review process.

**UGI Gas Consent Order and Agreement.** In May 2016, UGI Gas executed a Consent Order and Agreement ("UGI Gas-COA") with the DEP with an effective date of October 1, 2016. The UGI Gas-COA will terminate in September 2031 if not extended by the parties. The UGI Gas-COA requires UGI Gas to perform a specified level of activities associated with environmental investigation and remediation work at certain properties in Pennsylvania on which MGP related facilities were operated ("UGI Gas MGP Properties"). Under this agreement, required environmental expenditures related to the UGI Gas MGP Properties are capped at \$2.5 million in any calendar year. At June 30, 2016, our estimated accrued liabilities for environmental investigation and remediation costs related to the UGI Gas-COA totaled \$43.8 million. UGI Gas has recorded associated regulatory assets for these costs because recovery of these costs from customers is probable (See Note 7 to condensed consolidated financial statements).

**UGI UTILITIES, INC. AND SUBSIDIARIES****ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

**Commodity Price Risk**

Gas Utility's tariffs contain clauses that permit recovery of all of the prudently incurred costs of natural gas it sells to its 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 June 30, 2016, the fair values of our natural gas futures and option contracts were gains of \$5.5 million.

Electric Utility's DS tariffs contain clauses which permit recovery of all prudently incurred power costs, including the cost of financial instruments used to hedge electricity costs, through the application of DS rates. Because of this ratemaking mechanism, there is limited power cost risk, including the cost of FTRs and forward electricity purchase contracts, associated with our Electric Utility operations. At June 30, 2016, all of our Electric Utility's forward electricity purchase contracts were subject to the NPNS exception. At June 30, 2016, the fair values of FTRs were not material.

In addition, Gas Utility and Electric Utility from time to time enter into exchange-traded gasoline futures contracts for a portion of gasoline volumes expected to be used in their operations. These gasoline futures contracts are recorded at fair value with changes in fair value reflected in operating expenses and other income. The amount of unrealized losses on these contracts and associated volumes under contract at June 30, 2016 were not material.

At June 30, 2016, UGI Utilities had \$0.2 million of restricted cash in commodity brokerage accounts.

**Interest Rate Risk**

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 June 30, 2016.

**ITEM 4. CONTROLS AND PROCEDURES****(a) Evaluation of Disclosure Controls and Procedures**

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

**(b) Change in Internal Control over Financial Reporting**

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

## UGI UTILITIES, INC. AND SUBSIDIARIES

## PART II OTHER INFORMATION

## ITEM 1A. RISK FACTORS

In addition to the information presented in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing the Company. Other unknown or unpredictable factors could also have material adverse effects on future results.

## ITEM 6. EXHIBITS

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

<b>Exhibit No.</b>	<b>Exhibit</b>	<b>Registrant</b>	<b>Filing</b>	<b>Exhibit</b>
12.1	Computation of ratio of earnings to fixed charges			
31.1	Certification by the Chief Executive Officer relating to the Registrant’s Report on Form 10-Q for the quarter ended June 30, 2016, 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 June 30, 2016, 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 June 30, 2016, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.			
101.INS	XBRL Instance			
101.SCH	XBRL Taxonomy Extension Schema			
101.CAL	XBRL Taxonomy Extension Calculation Linkbase			
101.DEF	XBRL Taxonomy Extension Definition Linkbase			
101.LAB	XBRL Taxonomy Extension Labels Linkbase			
101.PRE	XBRL Taxonomy Extension Presentation Linkbase			



**UGI UTILITIES, INC. AND SUBSIDIARIES**

**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: August 5, 2016

By: /s/ Daniel J. Platt

\_\_\_\_\_  
Daniel J. Platt  
Vice President - Finance and  
Chief Financial Officer

Date: August 5, 2016

By: /s/ Megan Mattern

\_\_\_\_\_  
Megan Mattern  
Controller & Principal Accounting  
Officer

**UGI UTILITIES, INC. AND SUBSIDIARIES****EXHIBIT INDEX**

- 12.1 Computation of ratio of earnings to fixed charges.
- 31.1 Certification by the Chief Executive Officer relating to the Registrant's Report on Form 10-Q for the quarter ended June 30, 2016, 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 June 30, 2016, 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 June 30, 2016, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS XBRL Instance
- 101.SCH XBRL Taxonomy Extension Schema
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase
- 101.DEF XBRL Taxonomy Extension Definition Linkbase
- 101.LAB XBRL Taxonomy Extension Labels Linkbase
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase

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

	Nine Months Ended June 30,	Year Ended September 30,			
	2016	2015	2014	2013	2012
<b>Earnings:</b>					
Earnings before income taxes	\$ 164,670	\$ 200,539	\$ 207,929	\$ 171,010	\$ 142,971
Interest expense	27,686	40,400	37,897	38,578	41,599
Amortization of debt discount and expense	236	728	575	731	814
Estimated interest component of rental expense	1,953	2,728	2,398	2,090	2,121
	<u>\$ 194,545</u>	<u>\$ 244,395</u>	<u>\$ 248,799</u>	<u>\$ 212,409</u>	<u>\$ 187,505</u>
<b>Fixed Charges:</b>					
Interest expense	\$ 27,686	\$ 40,400	\$ 37,897	\$ 38,578	\$ 41,599
Amortization of debt discount and expense	236	728	575	731	814
Allowance for funds used during construction (capitalized interest)	333	407	227	286	10
Estimated interest component of rental expense	1,953	2,728	2,398	2,090	2,121
	<u>\$ 30,208</u>	<u>\$ 44,263</u>	<u>\$ 41,097</u>	<u>\$ 41,685</u>	<u>\$ 44,544</u>
Ratio of earnings to fixed charges	<u>6.44</u>	<u>5.52</u>	<u>6.05</u>	<u>5.10</u>	<u>4.21</u>

**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: August 5, 2016

/s/ Robert F. Beard

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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: August 5, 2016

/s/ Daniel J. Platt

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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 June 30, 2016 (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: August 5, 2016

Date: August 5, 2016

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended March 31, 2016

OR

■ **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  
(State or other jurisdiction of  
incorporation or organization)

23-1174060  
(I.R.S. Employer  
Identification No.)

UGI UTILITIES, INC.  
2525 N. 12th Street, Suite 360  
Reading, PA  
(Address of principal executive offices)

19612

(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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

At April 30, 2016, 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.

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**UGI UTILITIES, INC. AND SUBSIDIARIES****TABLE OF CONTENTS**

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## UGI UTILITIES, INC. AND SUBSIDIARIES

## PART I FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

(Thousands of dollars)

	March 31, 2016	September 30, 2015	March 31, 2015
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 26,406	\$ 3,099	\$ 16,040
Restricted cash	3,909	6,602	5,578
Accounts receivable (less allowances for doubtful accounts of \$8,232, \$5,599 and \$11,889, respectively)	102,125	55,659	183,046
Accounts receivable — related parties	1,271	1,271	2,709
Accrued utility revenues	24,052	12,051	42,056
Inventories	16,685	51,716	19,533
Deferred income taxes	—	24,694	25,168
Income taxes receivable	—	10,026	—
Regulatory assets	3,229	4,105	625
Derivative instruments	881	934	612
Prepaid expenses & other current assets	27,632	23,903	15,648
Total current assets	206,190	194,060	311,015
Property, plant and equipment, at cost (less accumulated depreciation and amortization of \$952,478, \$929,130 and \$911,289, respectively)	1,900,806	1,824,369	1,753,197
Goodwill	182,145	182,145	182,145
Regulatory assets	344,983	300,103	251,945
Other assets	7,463	7,501	7,741
Total assets	<u>\$ 2,641,587</u>	<u>\$ 2,508,178</u>	<u>\$ 2,506,043</u>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>			
Current liabilities:			
Current maturities of long-term debt	\$ —	\$ 247,000	\$ 92,000
Short-term borrowings	155,000	71,700	30,500
Accounts payable	42,681	58,135	54,612
Accounts payable — related parties	6,710	4,430	14,979
Regulatory liability — deferred fuel and power refunds	30,838	36,638	40,542
Derivative instruments	3,370	12,591	5,464
Other current liabilities	152,479	103,265	166,879
Total current liabilities	391,078	533,759	404,976
Long-term debt	550,000	375,000	550,000
Deferred income taxes	526,937	512,497	472,343
Deferred investment tax credits	3,429	3,597	3,765
Pension and postretirement benefit obligations	130,915	135,003	94,332
Derivative instruments	—	—	75
Other noncurrent liabilities	99,029	57,702	51,262
Total liabilities	1,701,388	1,617,558	1,576,753
Commitments and contingencies (Note 7)			
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	472,715	471,904	471,653
Retained earnings	436,788	372,143	404,516
Accumulated other comprehensive loss	(29,563)	(13,686)	(7,138)
Total common stockholder's equity	940,199	890,620	929,290
Total liabilities and stockholder's equity	<u>\$ 2,641,587</u>	<u>\$ 2,508,178</u>	<u>\$ 2,506,043</u>

See accompanying notes to condensed consolidated financial statements.

## UGI UTILITIES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

(Thousands of dollars)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2016	2015	2016	2015
Revenues	\$ 322,047	\$ 500,573	\$ 520,029	\$ 787,879
Costs and expenses:				
Cost of sales — gas, fuel and purchased power (excluding depreciation shown below)	137,434	278,336	212,873	421,388
Operating and administrative expenses	45,125	58,917	93,152	105,465
Operating and administrative expenses — related parties	3,798	4,138	5,978	6,920
Taxes other than income taxes	4,448	4,803	8,217	8,907
Depreciation	16,146	14,757	31,973	29,315
Amortization	884	887	1,758	1,754
Other operating (income) loss, net	(269)	(3,964)	3,301	(4,209)
	207,566	357,874	357,252	569,540
Operating income	114,481	142,699	162,777	218,339
Interest expense	9,270	10,611	18,764	21,260
Income before income taxes	105,211	132,088	144,013	197,079
Income taxes	41,917	52,499	57,368	78,651
Net income	\$ 63,294	\$ 79,589	\$ 86,645	\$ 118,428

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		Six Months Ended	
	March 31,		March 31,	
	2016	2015	2016	2015
Net income	\$ 63,294	\$ 79,589	\$ 86,645	\$ 118,428
Other comprehensive income (loss):				
Net losses on derivative instruments (net of tax of \$13,348, \$0, \$12,016 and \$0, respectively)	(18,820)	—	(16,943)	—
Reclassifications of net losses on derivative instruments (net of tax of \$(253), \$(278), \$(529) and \$(556), respectively)	356	392	746	783
Benefit plans reclassifications of actuarial losses and prior service costs (net of tax of \$(114), \$(92), \$(227) and \$(183), respectively)	160	129	320	260
Other comprehensive (loss) income	(18,304)	521	(15,877)	1,043
Comprehensive income	\$ 44,990	\$ 80,110	\$ 70,768	\$ 119,471

See accompanying notes to condensed consolidated financial statements.

## UGI UTILITIES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(Thousands of dollars)

	Six Months Ended	
	March 31,	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 86,645	\$ 118,428
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	33,731	31,069
Deferred income tax expense (benefit)	48,905	(13,888)
Provision for uncollectible accounts	5,572	8,979
Other, net	2,138	2,521
Net change in:		
Accounts receivable and accrued utility revenues	(66,130)	(154,515)
Inventories	35,031	75,686
Deferred fuel and power costs, net of changes in unsettled derivatives	(7,789)	55,760
Accounts payable	(3,882)	8,013
Other current assets	(2,529)	(921)
Other current liabilities	20,691	66,025
Net cash provided by operating activities	<u>152,383</u>	<u>197,157</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Expenditures for property, plant and equipment	(116,778)	(102,020)
Net costs of property, plant and equipment disposals	(5,101)	(3,694)
Decrease (increase) in restricted cash	2,693	(1,986)
Net cash used by investing activities	<u>(119,186)</u>	<u>(107,700)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment of dividends	(22,000)	(30,600)
Repayments of long-term debt	(72,000)	—
Increase (decrease) in short-term borrowings	83,300	(55,800)
Other	810	582
Net cash used by financing activities	<u>(9,890)</u>	<u>(85,818)</u>
Cash and cash equivalents increase	<u>\$ 23,307</u>	<u>\$ 3,639</u>
<b>CASH AND CASH EQUIVALENTS</b>		
End of period	\$ 26,406	\$ 16,040
Beginning of period	3,099	12,401
Increase	<u>\$ 23,307</u>	<u>\$ 3,639</u>

See accompanying notes to condensed consolidated financial statements.

**UGI UTILITIES, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements**

(unaudited)

(Thousands of dollars)

**Note 1 — Nature of Operations**

UGI Utilities, Inc. (“UGI Utilities”), a wholly owned subsidiary of UGI Corporation (“UGI”), and UGI Utilities’ wholly owned subsidiaries UGI Penn Natural Gas, Inc. (“PNG”) and UGI Central Penn Gas, Inc. (“CPG”), own and operate natural gas distribution utilities in eastern, northeastern and central Pennsylvania and in a portion of one Maryland county. UGI Utilities also owns and operates an electric distribution utility in northeastern Pennsylvania (“Electric Utility”). UGI Utilities’ natural gas distribution utility is referred to as “UGI Gas.” UGI Gas, PNG and CPG are collectively referred to as “Gas Utility.” Gas Utility is subject to regulation by the Pennsylvania Public Utility Commission (“PUC”) and, with respect to a small service territory in one Maryland county, the Maryland Public Service Commission, and Electric Utility is subject to regulation by the PUC. Gas Utility and Electric Utility are collectively referred to as “Utilities.” Prior to June 1, 2015, PNG also had a heating, ventilation and air-conditioning service business (“UGI Penn HVAC Services, Inc.”) which operated principally in the PNG service territory (“HVAC Business”). The assets of the HVAC business principally comprising customer contracts were sold on June 1, 2015.

The term “UGI Utilities” is used sometimes as an abbreviated reference to UGI Utilities, Inc., or to UGI Utilities, Inc. and its subsidiaries, including PNG and CPG.

**Note 2 — Summary of Significant Accounting Policies**

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

The accompanying condensed consolidated financial statements are unaudited and have been prepared in accordance with the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”). They include all adjustments that we consider necessary for a fair statement of the results for the interim periods presented. Such adjustments consisted only of normal recurring items unless otherwise disclosed. The September 30, 2015, condensed consolidated balance sheet data was derived from audited financial statements but do not include all disclosures required by accounting principles generally accepted in the United States of America (“GAAP”).

These financial statements should be read in conjunction with the financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015 (“the Company’s 2015 Annual Report”). Due to the seasonal nature of our businesses, the results of operations for interim periods are not necessarily indicative of the results to be expected for a full year.

**Derivative Instruments**

Derivative instruments are reported in the Condensed Consolidated Balance Sheets at their fair values, unless the derivative instruments qualify for the normal purchase and normal sale (“NPNS”) exception under GAAP and such exception has been elected. The accounting for changes in fair value depends upon the purpose of the derivative instrument and whether it is subject to regulatory ratemaking mechanisms or is designated and qualifies for hedge accounting.

Gains and losses on substantially all of the derivative instruments used by Gas Utility and Electric Utility (for which NPNS has not been elected) to hedge commodity prices are included in regulatory assets and liabilities in accordance with GAAP regarding accounting for rate-regulated entities. Certain of our derivative instruments are designated and qualify as cash flow hedges. For cash flow hedges, changes in the fair value of the derivative financial instruments are recorded in accumulated other comprehensive income (“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 the 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.

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 10.

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## UGI UTILITIES, INC. AND SUBSIDIARIES

**Notes to Condensed Consolidated Financial Statements**

(unaudited)

(Thousands of dollars)

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

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

**Note 3 — Accounting Changes****Adoption of New Accounting Standard**

**Presentation of Deferred Taxes.** During the first quarter of Fiscal 2016, the Company adopted new accounting guidance regarding the classification of deferred taxes. The new guidance amends existing guidance to require that deferred income tax liabilities and assets be classified as noncurrent in a classified balance sheet, and eliminates the prior guidance which required an entity to separate deferred tax liabilities and assets into a current amount and a noncurrent amount in a classified balance sheet. We applied this guidance prospectively and, as such, the September 30, 2015 and March 31, 2015 Condensed Consolidated Balance Sheets included herein have not been adjusted.

**Accounting Standards Not Yet Adopted**

**Share-Based Payments.** In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-09, "Improvements to Employee Share-Based Payment Accounting." This ASU simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The amendments in this ASU are effective for interim and annual periods beginning after December 15, 2016 (Fiscal 2018). Early adoption is permitted. The Company is in the process of assessing the impact on its financial statements from the adoption of the new guidance.

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

**Debt Issuance Costs.** In April 2015, the FASB issued ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs." This ASU amends existing guidance to require the presentation of debt issuance costs in the balance sheet as a direct deduction from the carrying amount of the related debt liability instead of a deferred charge. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2015 (Fiscal 2017). Early adoption is permitted. Entities will apply the new guidance retrospectively to all periods presented. The Company expects to adopt the new guidance effective September 30, 2016. The adoption of the new guidance is not expected to have a material impact on the Company's financial statements.

**Revenue Recognition.** In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." The guidance provided under this ASU, as amended, supersedes the revenue recognition requirements in Accounting Standards Codification ("ASC") No. 605, "Revenue Recognition," and most industry-specific guidance included in the ASC. The standard requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance is effective for the Company for interim and annual periods beginning after December 15, 2017 (Fiscal 2019) and allows for either full retrospective adoption or modified retrospective adoption. We have not yet selected a transition method and are currently evaluating the impact of adopting this guidance on our consolidated financial statements.

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## UGI UTILITIES, INC. AND SUBSIDIARIES

**Notes to Condensed Consolidated Financial Statements**

(unaudited)

(Thousands of dollars)

**Note 4 — Inventories**

Inventories comprise the following:

	March 31, 2016	September 30, 2015	March 31, 2015
Gas Utility natural gas	\$ 3,786	\$ 37,510	\$ 6,260
Materials, supplies and other	12,899	14,206	13,273
Total inventories	<u>\$ 16,685</u>	<u>\$ 51,716</u>	<u>\$ 19,533</u>

At March 31, 2016, UGI Utilities was a party to two principal storage contract administrative agreements (“SCAAs”) having terms of three years. One of the SCAAs was with UGI Energy Services, LLC (“Energy Services”), a second-tier, wholly owned subsidiary of UGI (see Note 12) and one of the SCAAs was with a non-affiliate. Pursuant to 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 value of gas storage inventories released under the SCAAs at March 31, 2016, September 30, 2015 and March 31, 2015, comprising 1.1 billion cubic feet (“bcf”), 9.0 bcf and 1.0 bcf of natural gas, was \$2,593, \$22,694 and \$4,082, respectively. At March 31, 2016, September 30, 2015 and March 31, 2015, UGI Utilities held a total of \$15,100, \$17,700 and \$17,700, respectively, of security deposits 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 12.

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**Note 5 — 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 2015 Annual Report. UGI Utilities currently does not recover a rate of return on its regulatory assets. The following regulatory assets and liabilities associated with Gas Utility and Electric Utility are included in our accompanying Condensed Consolidated Balance Sheets:

	March 31, 2016	September 30, 2015	March 31, 2015
<b>Regulatory assets:</b>			
Income taxes recoverable	\$ 118,160	\$ 115,946	\$ 111,441
Underfunded pension and postretirement plans	135,825	140,762	105,539
Environmental costs (a)	60,494	19,983	14,110
Removal costs, net	25,030	21,223	18,377
Other	8,703	6,294	3,103
<b>Total regulatory assets</b>	<b>\$ 348,212</b>	<b>\$ 304,208</b>	<b>\$ 252,570</b>
<b>Regulatory liabilities:</b>			
Postretirement benefits	\$ 19,307	\$ 19,975	\$ 19,323
Deferred fuel and power refunds	30,838	36,638	40,542
State tax benefits — distribution system repairs	14,158	13,266	10,621
Other	2,500	1,125	2,099
<b>Total regulatory liabilities (b)</b>	<b>\$ 66,803</b>	<b>\$ 71,004</b>	<b>\$ 72,585</b>

- (a) Environmental costs at March 31, 2016, include amounts probable of recovery recorded in conjunction with UGI Gas' Consent Order and Agreement with the Pennsylvania Department of Environmental Protection (see Note 7).
- (b) Regulatory liabilities, other than deferred fuel and power refunds, are recorded in other current and other noncurrent liabilities in the Condensed Consolidated Balance Sheets.

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

Gas Utility uses derivative instruments to reduce volatility in the cost of gas it purchases for firm- residential, commercial and industrial ("retail core-market") customers. Realized and unrealized gains or losses on natural gas derivative instruments are included in deferred fuel costs or refunds. Net unrealized (losses) on such contracts at March 31, 2016, September 30, 2015, and March 31, 2015, were \$(1,900), \$(3,262) and \$(3,381), respectively.

Electric Utility enters into forward electricity purchase contracts to meet a substantial portion of its electricity supply needs. Prior to March 1, 2015, we did not elect the NPNS exception under GAAP for these contracts. Therefore, we recognized the fair value of these contracts on the balance sheet with an associated adjustment to regulatory assets or liabilities because Electric Utility is entitled to fully recover its DS costs. At March 31, 2016, September 30, 2015, and March 31, 2015, the fair values of Electric Utility's electricity supply contracts were (losses) of \$(231), \$(533) and \$(1,168), respectively. These amounts are reflected in current and noncurrent derivative liabilities on the Condensed Consolidated Balance Sheets with equal and offsetting amounts reflected in deferred fuel and power costs and refunds in the table above. Effective with Electric Utility forward contracts entered into beginning March 1, 2015, Electric Utility has elected the NPNS exception under GAAP and, as a result, the fair values of such contracts are not recognized on the balance sheet (see Note 10).

In order to reduce volatility associated with a substantial portion of its electric transmission congestion costs, Electric Utility obtains financial transmission rights ("FTRs"). FTRs are derivative instruments that entitle the holder to receive compensation



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for electricity transmission congestion charges when there is insufficient electricity transmission capacity on the electric transmission grid. Because Electric Utility is entitled to fully recover its DS costs, realized and unrealized gains or losses on FTRs are included in deferred fuel and power costs or deferred fuel and power refunds. Unrealized gains or losses on FTRs at March 31, 2016, September 30, 2015, and March 31, 2015, were not material.

***Preliminary Stage Information Technology Costs.*** During the three months ended March 31, 2016, it was determined that certain preliminary project stage costs associated with an ongoing information technology project at UGI Utilities were probable of future recovery in rates in accordance with GAAP related to regulated entities. As a result, during the three months ended March 31, 2016, we capitalized \$5,830 of such project costs (\$5,734 of which had been expensed in prior periods) and recorded associated increases to utility property, plant and equipment (\$2,755) and regulatory assets (\$3,075).

***UGI Gas Base Rate Filing.*** On January 19, 2016, UGI Utilities filed a request with the PUC to increase UGI Gas base operating revenues for residential, commercial and industrial customers by \$58,600 annually. 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. UGI Utilities requested that the new gas rates become effective March 19, 2016. The PUC entered an Order dated February 11, 2016, suspending the effective date for the rate increase to allow for investigation and public hearings. Unless a settlement is reached sooner, this review process is expected to last approximately nine months from the date of filing; however, the Company cannot predict the timing or the ultimate outcome of the rate case review process.

***Distribution System Improvement Charge.*** On April 14, 2012, legislation became effective enabling gas and electric utilities in Pennsylvania, under certain circumstances, to recover the cost of eligible capital investment in distribution system infrastructure improvement projects between base rate cases. The charge enabled by the legislation is known as a distribution system improvement charge ("DSIC"). The primary benefit to a company from a DSIC charge is the elimination of regulatory lag, or delayed rate recognition, that occurs under traditional ratemaking relating to qualifying capital expenditures. To be eligible for a DSIC, a utility must have filed a general rate filing within five years of its petition seeking permission to include a DSIC in its tariff, and not exceed certain earnings tests. Absent PUC permission, the DSIC is capped at five percent of the amount billed to customers. PNG and CPG received PUC approval on a DSIC tariff, initially set at zero, in 2014, while UGI Gas has not had a general rate filing within the required time period to be eligible. PNG and CPG began charging a DSIC at a rate other than zero beginning on April 1, 2015 and April 1, 2016, respectively. In March 2016, PNG and CPG filed petitions, seeking approval to increase the maximum allowable DSIC from five percent to ten percent of billed distribution revenues. Also in March 2016, UGI Gas sought PUC approval to initiate a DSIC effective November 2017 after rates from the pending rate case become effective, along with a petition, seeking approval to increase the maximum allowable DSIC from five percent to ten percent of billed distribution revenues. To date, no action has been taken by the PUC on any of these petitions. The Company cannot predict the timing or outcome of these petitions. The impact of the DSIC charge at PNG and CPG did not have a material effect on Gas Utility results of operations.

**Note 6 — Debt**

In April 2016, UGI Utilities entered into a Note Purchase Agreement (the "2016 Note Purchase Agreement") which provides for the private placement of (1) \$100,000 aggregate principal amount of 2.95% Senior Notes due June 30, 2026; (2) \$200,000 aggregate principal amount of 4.12% Senior Notes due September 30, 2046; and (3) \$100,000 aggregate principal amount of 4.12% Senior Notes due October 31, 2046. These Senior Notes are expected to be issued in June 2016, September 2016 and October 2016, respectively. These Senior Notes, when issued, will be unsecured and will rank equally with UGI Utilities' existing outstanding senior debt. The Company expects to use the net proceeds from the issuance of the Senior Notes to refinance existing debt and for general corporate purposes. Because UGI Utilities intends to use a portion of the net proceeds from the issuance of \$200,000 Senior Notes in September 2016 to repay UGI Utilities' currently outstanding \$175,000 principal amount of 5.75% Senior Notes due September 30, 2016, the 5.75% Senior Notes have been classified as long-term on the March 31, 2016, Condensed Consolidated Balance Sheet.

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**Note 7 — Commitments and Contingencies****Contingencies*****Environmental Matters***

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

UGI Utilities and its subsidiaries have entered into agreements with the Pennsylvania Department of Environmental Protection (“DEP”) to address the remediation of former MGPs in Pennsylvania. CPG is party to a Consent Order and Agreement (“CPG-COA”) with the DEP requiring CPG to perform a specified level of activities associated with environmental investigation and remediation work at certain properties in Pennsylvania on which MGP related facilities were operated (“CPG MGP Properties”) and to plug a minimum number of non-producing natural gas wells per year. In addition, PNG is a party to a Multi-Site Remediation Consent Order and Agreement (“PNG-COA”) with the DEP. The PNG-COA requires PNG to perform annually a specified level of activities associated with environmental investigation and remediation work at certain properties on which MGP-related facilities were operated (“PNG MGP Properties”). Under these agreements, environmental expenditures relating to the CPG MGP Properties and the PNG MGP Properties are capped at \$1,800 and \$1,100, respectively, in any calendar year. The CPG-COA is scheduled to terminate at the end of 2018. The PNG-COA terminates in 2019 but may be terminated by either party effective at the end of any two-year period beginning with the original effective date in March 2004. At March 31, 2016 and 2015, our accrued liabilities for environmental investigation and remediation costs related to the CPG-COA and the PNG-COA totaled \$11,766 and \$9,610, respectively. CPG and PNG have recorded associated regulatory assets for these costs because recovery of these costs from customers is probable (see Note 5).

UGI Utilities’ UGI Gas division has negotiated a Consent Order and Agreement (“UGI Gas-COA”) with the DEP and is awaiting execution thereof. The UGI Gas-COA would be effective October 1, 2016 and would be scheduled to terminate in September 2031. The UGI Gas-COA would require UGI Gas to perform a specified level of activities associated with environmental investigation and remediation work at certain properties in Pennsylvania on which MGP related facilities were operated (“UGI Gas MGP Properties”). Under this agreement, required environmental expenditures related to the UGI Gas MGP Properties would be capped at \$2,500 in any calendar year. At March 31, 2016, our estimated accrued liabilities for environmental investigation and remediation costs related to the UGI Gas-COA totaled \$43,767. UGI Gas has recorded associated regulatory assets for these costs because recovery of these costs from customers is probable (See Note 5).

UGI Utilities does not expect its costs for investigation and remediation of hazardous substances at Pennsylvania MGP sites to be material to its results of operations because (1) UGI Gas is currently permitted to include in rates, through future base rate proceedings, a five-year average of such prudently incurred remediation costs, and (2) CPG and PNG receive ratemaking recognition of estimated environmental investigation and remediation costs associated with their environmental sites. This ratemaking recognition balances the accumulated difference between historical costs and rate recoveries with an estimate of future costs associated with the sites. UGI Gas has proposed a similar environmental cost tracking mechanism that will address the costs incurred under the UGI Gas-COA.

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 its former subsidiaries. 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 former subsidiaries of UGI Utilities if a court were to conclude that (1) the subsidiary’s separate corporate form should be disregarded, or (2) UGI Utilities should be considered to have been an operator because of its conduct with respect to its subsidiary’s MGP. At March 31, 2016, neither the undiscounted nor the accrued

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liability for environmental investigation and cleanup costs for UGI Gas MGP sites outside of Pennsylvania was material for UGI Utilities.

There are 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 position, results of operations or cash flows.

**Note 8 — Defined Benefit Pension and Other Postretirement Plans**

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

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

Three Months Ended March 31,	Pension Benefits		Other Postretirement Benefits	
	2016	2015	2016	2015
Service cost	\$ 1,732	\$ 1,740	\$ 45	\$ 49
Interest cost	5,818	5,628	117	118
Expected return on assets	(7,168)	(7,225)	(149)	(153)
Amortization of:				
Prior service cost (benefit)	87	87	(160)	(160)
Actuarial loss	2,393	2,198	25	31
Net benefit cost (income)	2,862	2,428	(122)	(115)
Change in associated regulatory liabilities	—	—	876	938
Net benefit cost after change in regulatory liabilities	\$ 2,862	\$ 2,428	\$ 754	\$ 823

Six Months Ended March 31,	Pension Benefits		Other Postretirement Benefits	
	2016	2015	2016	2015
Service cost	\$ 3,464	\$ 3,481	\$ 91	\$ 97
Interest cost	11,635	11,255	233	237
Expected return on assets	(14,335)	(14,449)	(298)	(306)
Amortization of:				
Prior service cost (benefit)	174	174	(320)	(320)
Actuarial loss	4,786	4,396	49	63
Net benefit cost (income)	5,724	4,857	(245)	(229)
Change in associated regulatory liabilities	—	—	1,754	1,875
Net benefit cost after change in regulatory liabilities	\$ 5,724	\$ 4,857	\$ 1,509	\$ 1,646

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, smallcap common stocks and 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. During the six months ended March 31, 2016 and 2015, the Company made contributions to the Pension Plan of \$4,934 and \$5,566, respectively. The Company expects to make additional discretionary cash contributions of approximately \$5,000 to the Pension Plan during the remainder of Fiscal 2016.

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

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future recovery from, or refund to, ratepayers. There were no required contributions to the VEBA during the six months ended March 31, 2016 and 2015.

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 9 — Fair Value Measurements****Derivative Instruments**

The following table presents on a gross basis our derivative assets and liabilities including both current and noncurrent portions, that are measured at fair value on a recurring basis within the fair value hierarchy, as of March 31, 2016, September 30, 2015 and March 31, 2015:

	Asset (Liability)			
	Level 1	Level 2	Level 3	Total
<b>March 31, 2016:</b>				
Assets:				
Commodity contracts	\$ 1,179	\$ —	\$ —	\$ 1,179
Liabilities:				
Commodity contracts	\$ (3,281)	\$ (387)	\$ —	\$ (3,668)
<b>September 30, 2015:</b>				
Assets:				
Commodity contracts	\$ 934	\$ 373	\$ —	\$ 1,307
Liabilities:				
Commodity contracts	\$ (4,560)	\$ (1,388)	\$ —	\$ (5,948)
Interest rate contracts	\$ —	\$ (7,016)	\$ —	\$ (7,016)
<b>March 31, 2015:</b>				
Assets:				
Commodity contracts	\$ 612	\$ 1	\$ —	\$ 613
Liabilities:				
Commodity contracts	\$ (4,366)	\$ (1,174)	\$ —	\$ (5,540)

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 and electricity forward contracts, which are designated as Level 2, are generally based upon recent market transactions and related market indicators. There were no transfers between Level 1 and Level 2 during the periods presented.

**Other Financial Instruments**

The carrying amounts of other financial instruments included in current assets and current liabilities (except for current maturities of long-term debt) approximate their fair values because of their short-term nature. The carrying amount and estimated fair value of our long-term debt (including current maturities) at March 31, 2016, were \$550,000 and \$637,016, respectively. The carrying amount and estimated fair value of our long-term debt (including current maturities) at March 31, 2015, were \$642,000 and \$740,729, respectively. We estimate the fair value of long-term debt by using current market rates and by discounting future cash flows using rates available for similar types of debt (Level 2).

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**Note 10 — Derivative Instruments and Hedging Activities**

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

**Commodity Price Risk**

Gas Utility's tariffs contain clauses that permit recovery of all of the prudently incurred costs of natural gas it sells to retail core-market customers, including the cost of financial instruments used to hedge purchased gas costs. As permitted and agreed to by the PUC pursuant to Gas Utility's annual PGC filings, Gas Utility currently uses New York Mercantile Exchange ("NYMEX") natural gas futures and option contracts to reduce commodity price volatility associated with a portion of the natural gas it purchases for its retail core-market customers. At March 31, 2016 and 2015, the volumes of natural gas associated with Gas Utility's unsettled NYMEX natural gas futures and option contracts totaled 10.0 million dekatherms and 9.7 million dekatherms, respectively. At March 31, 2016, the maximum period over which Gas Utility is economically hedging natural gas market price risk is 11 months. Gains and losses on natural gas futures contracts and any gains on 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 5).

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. For such contracts entered into prior to March 1, 2015, Electric Utility chose not to elect the NPNS exception under GAAP related to these derivative instruments and the fair values of these contracts are reflected in current and noncurrent derivative instrument liabilities on the accompanying Condensed Consolidated Balance Sheets. Associated gains and losses on these forward contracts are recorded in regulatory assets and liabilities on the Condensed Consolidated Balance Sheets in accordance with GAAP because it is probable such gains or losses will be recoverable from, or refundable to, customers through the DS mechanism (see Note 5). Effective with Electric Utility forward electricity purchase contracts entered into beginning March 1, 2015, Electric Utility has elected the NPNS exception under GAAP and, as a result, the fair values of such contracts are not recognized on the balance sheet. At March 31, 2016 and 2015, the volumes associated with Electric Utility's forward electricity purchase contracts for which NPNS has not been elected were 23.6 million kilowatt hours and 384.4 million kilowatt hours, respectively. At March 31, 2016, the maximum period over which these contracts extend is 8 months.

In order to reduce volatility associated with a substantial portion of its electricity transmission congestion costs, Electric Utility obtains FTRs through an annual allocation process. Gains and losses on Electric Utility FTRs are recorded in regulatory assets or liabilities in accordance with GAAP because it is probable such gains or losses will be recoverable from, or refundable to, customers through the DS mechanism (see Note 5). At March 31, 2016 and 2015, the total volumes associated with FTRs totaled 69.2 million kilowatt hours and 58.1 million kilowatt hours, respectively. At March 31, 2016, the maximum period over which we are economically hedging electricity congestion is 2 months.

In order to reduce operating expense volatility, UGI Utilities from time to time enters into NYMEX gasoline futures and swap contracts for a portion of gasoline volumes expected to be used in the operation of its vehicles and equipment.

**Interest Rate Risk**

Our long-term debt typically is issued at fixed rates of interest. As these long-term debt issues mature, we typically refinance such debt with new debt having interest rates reflecting then-current market conditions. In order to reduce market rate risk on the underlying benchmark rate of interest associated with near- to medium-term forecasted issuances of fixed-rate debt, from time to time we enter into interest rate protection agreements ("IRPAs"). We account for IRPAs as cash flow hedges. On March 31, 2016,

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concurrent with the pricing of the Senior Notes to be issued under the 2016 Note Purchase Agreement, UGI Utilities agreed to settle all of its then-existing IRPA contracts associated with such debt at a loss of \$35,975 (which amount was paid in early April 2016 and is included in other current liabilities on the March 31, 2016 Condensed Consolidated Balance Sheet). Because these IRPA contracts qualified for and were designated as cash flow hedges, the loss recognized in connection with the settled IRPAs has been recorded in AOCI and will be recognized in interest expense as the associated future interest expense impacts earnings. See Note 6 for additional information on the 2016 Note Purchase Agreement. As of March 31, 2016 and 2015, we had no unsettled IRPAs. At March 31, 2016, the amount of net losses associated with IRPAs expected to be reclassified into earnings during the next twelve months is \$3,073.

**Derivative Instrument Credit Risk**

Our commodity exchange-traded futures contracts generally require cash deposits in margin accounts. At March 31, 2016 and 2015, restricted cash in brokerage accounts totaled \$3,909 and \$5,578, 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.

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**Fair Value of Derivative Instruments**

The following table presents the Company's derivative assets and liabilities, as well as the effects of offsetting, as of March 31, 2016 and 2015:

	March 31, 2016	March 31, 2015
<b>Derivative assets:</b>		
Derivatives subject to PGC and DS mechanisms:		
Commodity contracts	\$ 1,179	\$ 613
Total derivative assets - gross	1,179	613
Gross amounts offset in the balance sheet	(298)	(1)
Total derivative assets - net	<u>\$ 881</u>	<u>\$ 612</u>
<b>Derivative liabilities:</b>		
Derivatives subject to PGC and DS mechanisms:		
Commodity contracts	\$ (3,466)	\$ (5,168)
Derivatives not subject to PGC and DS mechanisms:		
Commodity contracts	(202)	(372)
Total derivative liabilities - gross	(3,668)	(5,540)
Gross amounts offset in the balance sheet	298	1
Total derivative liabilities - net	<u>\$ (3,370)</u>	<u>\$ (5,539)</u>

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**Effect of Derivative Instruments**

The following table provides information on the effects of derivative instruments not subject to ratemaking mechanisms on the Condensed Consolidated Statements of Income and changes in AOCI for the three and six months ended March 31, 2016 and 2015:

Three Months Ended March 31,	Loss Recognized in AOCI		Loss Reclassified from AOCI into Income		Location of Loss Reclassified from AOCI into Income
	2016	2015	2016	2015	
<b>Cash Flow Hedges:</b>					
Interest rate contracts	\$ (32,168)	\$ —	\$ (609)	\$ (670)	Interest expense
Three Months Ended March 31,	Loss Recognized in Income		Location of Loss Recognized in Income		
	2016	2015			
<b>Derivatives Not Subject to PGC and DS Mechanisms:</b>					
Gasoline contracts	\$ (55)	\$ (4)	Operating expenses/ other operating income, net		
Six Months Ended March 31,	Loss Recognized in AOCI		Loss Reclassified from AOCI into Income		Location of Loss Reclassified from AOCI into Income
	2016	2015	2016	2015	
<b>Cash Flow Hedges:</b>					
Interest rate contracts	\$ (28,959)	\$ —	\$ (1,275)	\$ (1,339)	Interest expense
Six Months Ended March 31,	Loss Recognized in Income		Location of Loss Recognized in Income		
	2016	2015			
<b>Derivatives Not Subject to PGC and DS Mechanisms:</b>					
Gasoline contracts	\$ (120)	\$ (526)	Operating expenses/ other operating income, net		

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 normal purchase and normal sale exception accounting under GAAP because they provide for the delivery of products or services in quantities that are expected to be used in the normal course of operating our business and the price in the contract is based on an underlying that is directly associated with the price of the product or service being purchased or sold.



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**Note 11 — Accumulated Other Comprehensive Income**

The tables below present changes in AOCI, net of tax, during the three and six months ended March 31, 2016 and 2015:

	Postretirement Benefit Plans	Derivative Instruments	Total
<b>Three Months Ended March 31, 2016</b>			
AOCI - December 31, 2015	\$ (9,116)	\$ (2,143)	\$ (11,259)
Net losses on IRPAs	—	(18,820)	(18,820)
Reclassifications of benefit plan actuarial losses and prior service cost	160	—	160
Reclassifications of net losses on IRPAs	—	356	356
AOCI - March 31, 2016	<u>\$ (8,956)</u>	<u>\$ (20,607)</u>	<u>\$ (29,563)</u>
<b>Three Months Ended March 31, 2015</b>			
AOCI - December 31, 2014	\$ (6,180)	\$ (1,479)	\$ (7,659)
Reclassifications of benefit plan actuarial losses and prior service cost	129	—	129
Reclassifications of net losses on IRPAs	—	392	392
AOCI - March 31, 2015	<u>\$ (6,051)</u>	<u>\$ (1,087)</u>	<u>\$ (7,138)</u>
	Postretirement Benefit Plans	Derivative Instruments	Total
<b>Six Months Ended March 31, 2016</b>			
AOCI - September 30, 2015	\$ (9,276)	\$ (4,410)	\$ (13,686)
Net losses on IRPAs	—	(16,943)	(16,943)
Reclassifications of benefit plan actuarial losses and prior service costs	320	—	320
Reclassifications of net losses on IRPAs	—	746	746
AOCI - March 31, 2016	<u>\$ (8,956)</u>	<u>\$ (20,607)</u>	<u>\$ (29,563)</u>
<b>Six Months Ended March 31, 2015</b>			
AOCI - September 30, 2014	\$ (6,311)	\$ (1,870)	\$ (8,181)
Reclassifications of benefit plan actuarial losses and prior service costs	260	—	260
Reclassifications of net losses on IRPAs	—	783	783
AOCI - March 31, 2015	<u>\$ (6,051)</u>	<u>\$ (1,087)</u>	<u>\$ (7,138)</u>

**Note 12 — Related Party Transactions**

UGI provides certain financial and administrative services to UGI Utilities. UGI bills UGI Utilities monthly for all direct expenses incurred by UGI on behalf of UGI Utilities and an allocated share of indirect corporate expenses incurred or paid with respect to services provided to UGI Utilities. The allocation of indirect UGI corporate expenses to UGI Utilities utilizes a weighted, three-component formula comprising revenues, operating expenses and net assets employed and considers UGI Utilities' relative percentage of such items to the total of such items for all UGI operating subsidiaries for which general and administrative services are provided. Management believes that this allocation method is reasonable and equitable to UGI Utilities and this allocation method has been accepted by the PUC in past rate case proceedings and management audits as a reasonable method of allocating such expenses. These billed expenses are classified as operating and administrative expenses - related parties on the Condensed Consolidated Statements of Income. In addition, UGI Utilities provides limited administrative services to UGI and certain of UGI's subsidiaries under PUC affiliated interest agreements. Amounts billed to these entities by UGI Utilities for all periods presented were not material.

From time to time, UGI Utilities is a party to SCAAs with Energy Services which have terms of up to three years. Under the SCAAs, UGI Utilities has, among other things, released certain storage and transportation contracts (subject to recall for operational purposes) to Energy Services for the terms of the SCAAs. UGI Utilities also transferred certain associated storage inventories

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(unaudited)

(Thousands of dollars)

upon the commencement of the SCAAs, receives a transfer of storage inventories at the end of the SCAAs, and makes payments associated with refilling storage inventories during the term of the SCAAs. Energy Services, in turn, provides a firm delivery service and makes certain payments to UGI Utilities for its various obligations under the SCAAs. UGI Utilities incurred costs associated with Energy Services' SCAAs totaling \$159 and \$2,029 during the three and six months ended March 31, 2016, respectively, and \$251 and \$5,207 during the three and six months ended March 31, 2015, respectively. In conjunction with the SCAAs, UGI Utilities received security deposits from Energy Services. The amount of such security deposits, which are included in other current liabilities on the Condensed Consolidated Balance Sheets, was \$8,100, \$10,700, and \$10,700 as of March 31, 2016, September 30, 2015 and March 31, 2015, respectively.

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) on its balance sheet under the caption inventories. The carrying value of these gas storage inventories at March 31, 2016, September 30, 2015 and March 31, 2015, comprising approximately 0.9 bcf, 5.0 bcf and 0.9 bcf of natural gas, were \$2,074, \$12,889 and \$3,391, 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 and six months ended March 31, 2016 totaled \$31,691 and \$59,055, respectively. During the three and six months ended March 31, 2015 such transactions totaled \$19,286 and \$43,033, respectively.

From time to time, the Company sells natural gas or pipeline capacity to Energy Services. During the three and six months ended March 31, 2016, revenues associated with such sales to Energy Services totaled \$12,854 and \$21,620, respectively. During the three and six months ended March 31, 2015, revenues associated with such sales to Energy Services totaled \$46,227 and \$62,417, respectively. Also from time to time, the Company purchases natural gas, pipeline capacity and electricity from Energy Services (in addition to those transactions already described above) and purchases a firm storage service from UGI Storage Company, a subsidiary of Energy Services, under one-year agreements. During the three and six months ended March 31, 2016, such purchases totaled \$14,912 and \$23,104, respectively. During the three and six months ended March 31, 2015, such purchases totaled \$49,750 and \$71,525, respectively.

**Note 13 — 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, northeastern and central Pennsylvania. Electric Utility derives its revenues principally from the sale and distribution of electricity in two northeastern Pennsylvania counties. The HVAC Business, prior to its sale in June 2015, did not meet the quantitative thresholds for separate segment reporting under GAAP relating to business segment reporting and has been included in "Other" below.

The accounting policies of our reportable segments are the same as those described in Note 2 of the Company's 2015 Annual Report. We evaluate the performance of our Gas Utility and Electric Utility segments principally based upon their income before income taxes.

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## UGI UTILITIES, INC. AND SUBSIDIARIES

**Notes to Condensed Consolidated Financial Statements**

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Financial information by business segment follows:

**Three Months Ended March 31, 2016:**

	Total	Reportable Segments	
		Gas Utility	Electric Utility
Revenues	\$ 322,047	\$ 298,088	\$ 23,959
Cost of sales	\$ 137,434	\$ 123,702	\$ 13,732
Depreciation and amortization	\$ 17,030	\$ 15,822	\$ 1,208
Operating income	\$ 114,481	\$ 111,004	\$ 3,477
Interest expense	\$ 9,270	\$ 8,847	\$ 423
Income before income taxes	\$ 105,211	\$ 102,157	\$ 3,054
Capital expenditures (including the effects of accruals)	\$ 48,113	\$ 46,003	\$ 2,110

**Three Months Ended March 31, 2015:**

	Total	Reportable Segments		
		Gas Utility	Electric Utility	Other
Revenues	\$ 500,573	\$ 468,000	\$ 32,323	\$ 250
Cost of sales	\$ 278,336	\$ 258,155	\$ 20,181	\$ —
Depreciation and amortization	\$ 15,644	\$ 14,489	\$ 1,155	\$ —
Operating income (loss)	\$ 142,699	\$ 139,303	\$ 3,510	\$ (114)
Interest expense	\$ 10,611	\$ 10,104	\$ 507	\$ —
Income (loss) before income taxes	\$ 132,088	\$ 129,199	\$ 3,003	\$ (114)
Capital expenditures (including the effects of accruals)	\$ 41,280	\$ 39,202	\$ 2,078	\$ —

**Six Months Ended March 31, 2016:**

	Total	Reportable Segments	
		Gas Utility	Electric Utility
Revenues	\$ 520,029	\$ 475,030	\$ 44,999
Cost of sales	\$ 212,873	\$ 187,931	\$ 24,942
Depreciation and amortization	\$ 33,731	\$ 31,326	\$ 2,405
Operating income	\$ 162,777	\$ 156,824	\$ 5,953
Interest expense	\$ 18,764	\$ 17,913	\$ 851
Income before income taxes	\$ 144,013	\$ 138,911	\$ 5,102
Capital expenditures (including the effects of accruals)	\$ 109,577	\$ 105,273	\$ 4,304

**As of March 31, 2016**

Total assets (at period end)	\$ 2,641,587	\$ 2,488,191	\$ 153,396
Goodwill (at period end)	\$ 182,145	\$ 182,145	\$ —

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## UGI UTILITIES, INC. AND SUBSIDIARIES

**Notes to Condensed Consolidated Financial Statements**

(unaudited)

(Thousands of dollars)

**Six Months Ended March 31, 2015:**

	Total	Reportable Segments		Other
		Gas Utility	Electric Utility	
Revenues	\$ 787,879	\$ 728,478	\$ 58,746	\$ 655
Cost of sales	\$ 421,388	\$ 385,363	\$ 36,025	\$ —
Depreciation and amortization	\$ 31,069	\$ 28,769	\$ 2,300	\$ —
Operating income	\$ 218,339	\$ 211,149	\$ 7,229	\$ (39)
Interest expense	\$ 21,260	\$ 20,234	\$ 1,026	\$ —
Income before income taxes	\$ 197,079	\$ 190,915	\$ 6,203	\$ (39)
Capital expenditures (including the effects of accruals)	\$ 96,309	\$ 92,694	\$ 3,615	\$ —

**As of March 31, 2015**

Total assets (at period end)	\$ 2,506,043	\$ 2,359,060	\$ 146,983	\$ —
Goodwill (at period end)	\$ 182,145	\$ 182,145	\$ —	\$ —

**UGI UTILITIES, INC. AND SUBSIDIARIES****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****Forward-Looking Statements**

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

A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. We believe that we have chosen these assumptions or bases in good faith and that they are reasonable. However, we caution you that actual results almost always vary from assumed facts or bases, and the differences between actual results and assumed facts or bases can be material, depending on the circumstances. When considering forward-looking statements, you should keep in mind the following important factors that could affect our future results and could cause those results to differ materially from those expressed in our forward-looking statements: (1) adverse weather conditions resulting in reduced demand; (2) price volatility and availability of oil, electricity and natural gas and the capacity to transport them to market areas; (3) changes in laws and regulations, including safety, tax, consumer protection 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) large customer, counterparty or supplier defaults; (11) increased uncollectible accounts expense; (12) liability for personal injury and property damage arising from explosions and other catastrophic events, including acts of terrorism, resulting from operating hazards and risks incidental to generating and distributing electricity and transporting, storing and distributing natural gas, including liability in excess of insurance coverage; (13) political, regulatory and economic conditions in the United States; (14) capital market conditions, including reduced access to capital markets and interest rate fluctuations; and (15) changes in commodity market prices resulting in significantly higher cash collateral requirements.

These factors, and those factors set forth in Item 1A. Risk Factors in the Company's 2015 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.

## UGI UTILITIES, INC. AND SUBSIDIARIES

**ANALYSIS OF RESULTS OF OPERATIONS**

The following analyses compare our results of operations for the three months ended March 31, 2016 (“2016 three-month period”) with the three months ended March 31, 2015 (“2015 three-month period”) and the six months ended March 31, 2016 (“2016 six-month period”) with the six months ended March 31, 2015 (“2015 six-month period”). Our analyses of results of operations should be read in conjunction with the segment information included in Note 13 to the condensed consolidated financial statements.

**2016 three-month period compared with 2015 three-month period**

Three Months Ended March 31,	2016	2015	Increase (Decrease)	
(Dollars in millions)				
<b>Gas Utility:</b>				
Revenues	\$ 298.1	\$ 468.0	\$ (169.9)	(36.3)%
Total margin (a)	\$ 174.4	\$ 209.8	\$ (35.4)	(16.9)%
Operating and administrative expenses	\$ 45.0	\$ 57.1	\$ (12.1)	(21.2)%
Operating income	\$ 111.0	\$ 139.3	\$ (28.3)	(20.3)%
Income before income taxes	\$ 102.2	\$ 129.2	\$ (27.0)	(20.9)%
System throughput — billions of cubic feet (“bcf”)				
Core market	34.0	44.3	(10.3)	(23.3)%
Total	72.1	81.0	(8.9)	(11.0)%
Heating degree days — % (warmer) colder than normal (b)	(9.7)%	20.4%	—	—
<b>Electric Utility:</b>				
Revenues	\$ 24.0	\$ 32.3	\$ (8.3)	(25.7)%
Total margin (a)	\$ 8.9	\$ 10.4	\$ (1.5)	(14.4)%
Operating and administrative expenses	\$ 3.9	\$ 5.6	\$ (1.7)	(30.4)%
Operating income	\$ 3.5	\$ 3.5	\$ —	— %
Income before income taxes	\$ 3.1	\$ 3.0	\$ 0.1	3.3 %
Distribution sales — millions of kilowatt-hours (“gwh”)	265.2	299.9	(34.7)	(11.6)%

- (a) Gas Utility’s total margin represents total revenues less total cost of sales. Electric Utility’s total margin represents total revenues less total cost of sales and revenue-related taxes, i.e. Electric Utility gross receipts taxes, of \$1.3 million and \$1.7 million during the three months ended March 31, 2016 and 2015, respectively. For financial statement purposes, revenue-related taxes are included in taxes other than income taxes in the Condensed Consolidated Statements of Income.
- (b) Deviation from average heating degree days for the 15-year period 2000-2014 based upon weather statistics provided by the National Oceanic and Atmospheric Administration for airports located within Gas Utility’s service territory.

**Gas Utility**

Temperatures in Gas Utility’s service territory during the 2016 three-month period based upon heating degree days were 9.7% warmer than normal and 23.6% warmer than the 2015 three-month period. Core market volumes declined 10.3 bcf (23.3%) reflecting the effects of the significantly warmer weather. Total Gas Utility distribution system throughput decreased 8.9 bcf (11.0%) principally reflecting the lower core market volumes partially offset by higher interruptible delivery service volumes. Gas Utility’s core market customers comprise firm- residential, commercial and industrial (“retail core-market”) customers who purchase their gas from Gas Utility and, to a lesser extent, residential and small commercial customers who purchase their gas from alternate suppliers.

Gas Utility revenues decreased \$169.9 million principally reflecting a decrease in core market revenues (\$128.3 million), lower off-system sales revenues (\$39.3 million), and, to a much lesser extent, lower delivery service revenues. The decrease in Gas Utility core market revenues reflects the effects of the lower core market throughput (\$85.6 million) and lower average PGC rates (\$42.7 million) during the 2016 three-month period. Because Gas Utility is subject to a reconcilable PGC recovery mechanism, increases or decreases in the actual cost of gas associated with customers who purchase their gas from Gas Utility impact revenues and cost of sales but have no direct effect on retail core-market margin (see Note 5 to condensed consolidated financial statements). Gas Utility cost of sales was \$123.7 million in the 2016 three-month period compared with \$258.2 million in the 2015 three-month

**UGI UTILITIES, INC. AND SUBSIDIARIES**

period, a decrease of \$134.5 million, principally reflecting the combined effects of the lower retail core-market volumes and lower average Gas Utility PGC rates (\$96.3 million), and lower cost of sales associated with off-system sales (\$39.3 million).

Gas Utility 2016 three-month period total margin decreased \$35.4 million principally reflecting lower total margin from core market customers (\$32.0 million) and lower total margin from delivery service customers. The decrease in Gas Utility core market margin reflects the lower core market throughput.

Gas Utility operating income and income before income taxes decreased \$28.3 million and \$27.0 million, respectively. The decreases in operating income and income before income taxes during the 2016 three-month period principally reflects the decrease in total margin (\$35.4 million), higher depreciation expense (\$1.3 million) and lower other operating income (\$3.6 million) reflecting, among other things, lower margin from off-system sales and higher interest on deferred fuel overcollections. Partially offsetting these decreases in operating income was a \$12.1 million decrease in operating and administrative expenses primarily reflecting lower preliminary stage expenses associated with a UGI Utilities information technology (“IT”) project and lower uncollectible accounts and system maintenance expenses. During the three months ended March 31, 2016, we determined that certain preliminary stage costs associated with the IT project were probable of future recovery in rates in accordance with GAAP related to rate regulated entities. As a result, Gas Utility capitalized \$5.2 million of such IT costs that had been expensed in prior periods (including \$1.2 million of such costs that had been expensed during the 2015 three-month period) and recorded associated increases to utility plant and regulatory assets (see Note 5 to condensed consolidated financial statements). The change in Gas Utility income before income taxes also reflects lower interest expense principally due to lower average long-term debt outstanding.

***Electric Utility***

Temperatures based upon heating degree days during the 2016 three-month period were approximately 12.1% warmer than normal and approximately 24.3% warmer than the prior-year period. Total kilowatt-hour sales decreased by 11.6% principally reflecting the impact of the warmer weather on heating-related sales. The lower Electric Utility revenues principally resulted from the lower sales volumes and lower DS rates in the 2016 three-month period. Because Electric Utility is subject to reconcilable DS recovery mechanisms, increases or decreases in the actual cost of electricity associated with customers who purchase their electricity from Electric Utility impact revenues and cost of sales but have no direct effect on Electric Utility margin. Electric Utility cost of sales decreased to \$13.7 million in the 2016 three-month period from \$20.2 million in the 2015 three-month period, reflecting the lower volumes sold and lower DS rates.

Electric Utility total margin decreased \$1.5 million principally reflecting the lower volume sales as a result of the warmer 2016 three-month period weather.

Notwithstanding the decrease in total margin, Electric Utility operating income and income before income taxes in the 2016 three-month period were about equal to the prior-year period reflecting a decrease in operating and administrative expenses principally reflecting lower IT preliminary stage expenses. As previously mentioned, during the three months ended March 31, 2016, we determined that certain preliminary stage costs associated with the IT project were probable of future recovery in rates in accordance with GAAP related to rate regulated entities. As a result, Electric Utility capitalized \$0.6 million of such IT costs that had been expensed in prior periods (including \$0.1 million of such costs that had been expensed during the 2015 three-month period).

***Interest Expense and Income Taxes***

Our interest expense in the 2016 three-month period decreased principally reflecting lower average long-term debt outstanding. Our effective income tax rate for the three months ended March 31, 2016 was comparable with the prior-year three-month period.

## UGI UTILITIES, INC. AND SUBSIDIARIES

## 2016 six-month period compared with 2015 six-month period

Six Months Ended March 31,	2016	2015	Decrease	
(Dollars in millions)				
<b>Gas Utility:</b>				
Revenues	\$ 475.0	\$ 728.5	\$ (253.5)	(34.8)%
Total margin (a)	\$ 287.1	\$ 343.1	\$ (56.0)	(16.3)%
Operating and administrative expenses	\$ 90.4	\$ 102.1	\$ (11.7)	(11.5)%
Operating income	\$ 156.8	\$ 211.1	\$ (54.3)	(25.7)%
Income before income taxes	\$ 138.9	\$ 190.9	\$ (52.0)	(27.2)%
System throughput — billions of cubic feet (“bcf”)				
Core market	51.4	67.5	(16.1)	(23.9)%
Total	122.0	137.8	(15.8)	(11.5)%
Heating degree days — % (warmer) colder than normal (b)	(16.1)%	10.6%	—	—
<b>Electric Utility:</b>				
Revenues	\$ 45.0	\$ 58.7	\$ (13.7)	(23.3)%
Total margin (a)	\$ 17.6	\$ 19.5	\$ (1.9)	(9.7)%
Operating and administrative expenses	\$ 8.7	\$ 9.6	\$ (0.9)	(9.4)%
Operating income	\$ 6.0	\$ 7.2	\$ (1.2)	(16.7)%
Income before income taxes	\$ 5.1	\$ 6.2	\$ (1.1)	(17.7)%
Distribution sales — millions of kilowatt-hours (“gwh”)	490.3	544.7	(54.4)	(10.0)%

- (a) Gas Utility’s total margin represents total revenues less total cost of sales. Electric Utility’s total margin represents total revenues less total cost of sales and revenue-related taxes, i.e. Electric Utility gross receipts taxes, of \$2.4 million and \$3.2 million during the six months ended March 31, 2016 and 2015, respectively. For financial statement purposes, revenue-related taxes are included in taxes other than income taxes on the Condensed Consolidated Statements of Income.
- (b) Deviation from average heating degree days for the 15-year period 2000-2014 based upon weather statistics provided by the National Oceanic and Atmospheric Administration for airports located within Gas Utility’s service territory.

**Gas Utility**

Temperatures in Gas Utility’s service territory during the 2016 six-month period based upon heating degree days were 16.1% warmer than normal and 23.4% warmer than the 2015 six-month period. In particular, Gas Utility temperatures in the critical heating-season month of December were 37% warmer than normal. Core market volumes declined 16.1 bcf (23.9%) reflecting the effects of the significantly warmer weather. Total Gas Utility distribution system throughput decreased 15.8 bcf (11.5%) principally reflecting the lower core market volumes.

Gas Utility revenues decreased \$253.5 million principally reflecting a decrease in core market revenues (\$200.3 million), lower off-system sales revenues (\$48.7 million) and, to a much lesser extent, lower large firm delivery service revenues. The decrease in Gas Utility core market revenues reflects the effects of the lower core market throughput (\$138.2 million) and lower average PGC rates during the 2016 six-month period (\$62.0 million). Gas Utility cost of sales was \$187.9 million in the 2016 six-month period compared with \$385.4 million in the 2015 six-month period principally reflecting the combined effects of the lower Gas Utility retail core-market volumes sold and lower average Gas Utility PGC rates (\$149.5 million) and lower cost of sales associated with off-system sales (\$48.7 million).

Gas Utility 2016 six-month period total margin decreased \$56.0 million principally reflecting lower Gas Utility total margin from core market customers (\$50.8 million) and lower total margin from large firm delivery service customers. The decrease in Gas Utility core market margin reflects the lower core market throughput.

Gas Utility operating income and income before income taxes decreased \$54.3 million and \$52.0 million, respectively. The decreases in operating income and income before income taxes during the 2016 six-month period principally reflects the decrease in total margin (\$56.0 million), higher depreciation expense (\$2.6 million) and lower other operating income (\$7.4 million) which includes, among other things, higher environmental matters expense (\$3.9 million), higher interest on PGC overcollections and lower margin from off-system sales. Gas Utility operating and administrative expenses were \$11.7 million lower than the prior-year period primarily reflecting lower preliminary stage expenses associated with a UGI Utilities IT project and, to a lesser extent,



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lower uncollectible accounts and system maintenance expenses. As previously mentioned, during the three months ended March 31, 2016, we determined that certain preliminary stage costs associated with the IT project were probable of future recovery in rates in accordance with GAAP related to rate regulated entities. As a result, during the six months ended March 31, 2016, Gas Utility capitalized \$4.8 million of such IT costs that had been expensed in prior periods (including \$2.1 million of such costs that had been expensed during the 2015 six-month period). Income before income taxes also reflects lower interest expense principally due to lower average long-term debt outstanding.

***Electric Utility***

Temperatures based upon heating degree days during the 2016 six-month period were approximately 18.4% warmer than normal and approximately 23.5% warmer than the prior-year period. Total kilowatt-hour sales decreased by 10.0% principally reflecting the impact of the warmer weather on heating-related sales. The lower Electric Utility revenues principally resulted from the lower sales and lower DS recovery mechanism rates in the 2016 six-month period. Because Electric Utility is subject to reconcilable DS recovery mechanisms, increases or decreases in the actual cost of electricity associated with customers who purchase their electricity from Electric Utility impact revenues and cost of sales but have no direct effect on Electric Utility margin. Electric Utility cost of sales decreased to \$24.9 million in the 2016 six-month period from \$36.0 million in the 2015 six-month period, reflecting the lower volumes sold and lower DS rates.

Electric Utility total margin, net of gross receipts taxes, decreased \$1.9 million principally reflecting the lower volume sales as a result of the warmer 2016 six-month period weather.

Electric Utility operating income and income before income taxes in the 2016 six-month period each decreased \$1.2 million and \$1.1 million, respectively, reflecting the decrease in total margin partially offset by lower net operating and administrative expenses including lower preliminary stage expenses associated with an IT project. During the six months ended March 31, 2016, Electric Utility capitalized \$0.5 million of such IT costs that had been expensed in prior periods (including \$0.2 million of such costs that had been expensed during the 2015 six-month period).

***Interest Expense and Income Taxes***

Our interest expense in the 2016 six-month period decreased principally reflecting lower average long-term debt outstanding. Our effective income tax rate for the six months ended March 31, 2016 was comparable with the prior-year six-month period.

**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.

UGI Utilities' total debt outstanding at March 31, 2016, was \$705.0 million, which includes \$155.0 million of short-term borrowings, compared with total debt outstanding of \$693.7 million at September 30, 2015, which includes \$71.7 million of short-term borrowings. Total long-term debt outstanding at March 31, 2016, comprises \$450.0 million of Senior Notes and \$100.0 million of Medium-Term Notes.

In April 2016, UGI Utilities entered into a Note Purchase Agreement (the "2016 Note Purchase Agreement") which provides for the private placement of (1) \$100 million aggregate principal amount of 2.95% Senior Notes due June 30, 2026; (2) \$200 million aggregate principal amount of 4.12% Senior Notes due September 30, 2046; and (3) \$100 million aggregate principal amount of 4.12% Senior Notes due October 31, 2046. These Senior Notes are expected to be issued in June 2016, September 2016 and October 2016, respectively. These Senior Notes, when issued, will be unsecured and will rank equally with UGI Utilities' existing outstanding senior debt. The Company expects to use the net proceeds from the issuance of the Senior Notes to refinance existing debt and for general corporate purposes. Because UGI Utilities intends to use a portion of the net proceeds from the issuance of \$200 million Senior Notes in September 2016 to repay UGI Utilities' currently outstanding \$175 million principal amount of 5.75% Senior Notes due September 30, 2016, the 5.75% Senior Notes have been classified as long-term on the March 31, 2016, Condensed Consolidated Balance Sheet.

On March 31, 2016, concurrent with the pricing of the Senior Notes to be issued under the 2016 Note Purchase Agreement, UGI Utilities agreed to settle all of its then-existing IRPA contracts associated with such debt at a loss of \$36.0 million (which amount was paid in early April 2016 and is included in other current liabilities on the March 31, 2016 Condensed Consolidated Balance Sheet). Because these IRPA contracts qualified for and were designated as cash flow hedges, the loss recognized in connection with the settled IRPAs has been recorded in AOCI and will be recognized in interest expense as future interest expense impacts earnings.

**UGI UTILITIES, INC. AND SUBSIDIARIES**

UGI Utilities has an unsecured revolving credit agreement (the “UGI Utilities 2015 Credit Agreement”) with a group of banks providing for borrowings up to \$300 million (including a \$100 million sublimit for letters of credit). Borrowings under the UGI Utilities 2015 Credit Agreement are classified as short-term borrowings on the Condensed Consolidated Balance Sheets. During the 2016 and 2015 six-month periods, average daily short-term borrowings under the UGI Utilities 2015 Credit Agreement and a predecessor agreement were \$177.6 million and \$108.9 million, respectively, and peak short-term borrowings totaled \$232.0 million and \$163.6 million, respectively. At March 31, 2016, UGI Utilities’ available borrowing capacity under the UGI Utilities 2015 Credit Agreement was \$143 million. 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 and inventories, is generally greatest.

During the 2016 six-month period, UGI Utilities repaid \$72 million of maturing Medium-Term Notes. UGI Utilities used borrowings under the UGI Utilities 2015 Credit Agreement and existing cash balances to fund such repayments.

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 2015 Credit Agreement and the ability to refinance long-term debt as it matures to meet our anticipated contractual and projected cash commitments.

**Cash Flows**

**Operating activities.** Due to the seasonal nature of UGI Utilities’ businesses, cash flows from our operating activities are generally greatest during the second and third fiscal quarters when customers pay for natural gas and electricity consumed during the peak heating season months. Conversely, operating cash flows are generally at their lowest levels during the first and fourth fiscal quarters when the Company’s investment in working capital, principally accounts receivable and inventories, is generally greatest. UGI Utilities uses borrowings under the UGI Utilities 2015 Credit Agreement to manage seasonal cash flow needs.

Cash provided by operating activities was \$152.4 million in the 2016 six-month period compared to \$197.2 million in the prior-year period. Cash flow from operating activities before changes in operating working capital was \$177.0 million in the 2016 six-month period compared to \$147.1 million recorded in the prior-year period. Changes in operating working capital used \$24.6 million of operating cash flow during the 2016 six-month period compared to \$50.0 million of cash provided during the prior-year period. The lower cash used for changes in accounts receivable, and the lower cash provided by changes in accounts payable and inventories, reflects in large part the impact on these items from declines in natural gas costs and the lower volumes resulting from the warmer weather. In addition, changes in working capital include net refunds of UGI Utilities purchased gas and electricity costs of \$7.8 million compared with net overcollections of such costs in the prior-year six-month period of \$55.8 million. During the 2015 six-month period, changes in operating working capital also included higher cash flow from changes in accrued income taxes.

**Investing activities.** Cash used by investing activities was \$119.2 million in the 2016 six-month period compared to \$107.7 million in the 2015 six-month period. Total cash capital expenditures were \$116.8 million in the 2016 six-month period compared with \$102.0 million recorded in the prior-year period. The increase in cash capital expenditures during the 2016 six-month period principally reflects higher Gas Utility maintenance and betterment capital expenditures. Changes in restricted cash in futures brokerage accounts provided \$2.7 million of cash in the 2016 six-month period compared with cash used of \$2.0 million in the prior-year period.

**Financing activities.** Cash used by financing activities was \$9.9 million in the 2016 six-month period compared with \$85.8 million in the 2015 six-month period. Financing activity cash flows are primarily the result of net borrowings and repayments under revolving credit agreements, net borrowings and repayments of long-term debt and cash dividends paid to UGI. During the 2016 six-month period there were net credit agreement borrowings of \$83.3 million compared with net credit agreement repayments of \$55.8 million during the prior-year period. During the 2016 six-month period, UGI Utilities repaid \$72.0 million of maturing Medium-Term Notes. UGI Utilities used borrowings under the UGI Utilities 2015 Credit Agreement and existing cash balances to fund these repayments. UGI Utilities expects to issue long-term debt under the 2016 Note Purchase Agreement later in Fiscal 2016 to refinance these and other scheduled debt repayments on a long-term basis. Cash dividends in the 2016 six-month period totaled \$22.0 million compared to cash dividends of \$30.6 million in the prior-year period.

**REGULATORY MATTERS**

**Preliminary Stage Information Technology Costs.** During the three months ended March 31, 2016, it was determined that certain preliminary project stage costs associated with an ongoing information technology project at UGI Utilities were probable of future recovery in rates in accordance with GAAP related to regulated entities. As a result, during the three months ended March 31,

**UGI UTILITIES, INC. AND SUBSIDIARIES**

2016, we capitalized \$5.8 million of such project costs, substantially all of which had been expensed in prior periods, and recorded associated increases to utility property, plant and equipment and regulatory assets (see Note 5 to condensed consolidated financial statements).

***UGI Gas Base Rate Filing.*** On January 19, 2016, UGI Utilities filed a request with the PUC to increase UGI Gas base operating revenues for residential, commercial and industrial customers by \$58.6 million annually. 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. UGI Utilities requested that the new gas rates become effective March 19, 2016. The PUC entered an Order dated February 11, 2016, suspending the effective date for the rate increase to allow for investigation and public hearings. Unless a settlement is reached sooner, this review process is expected to last approximately nine months from the date of filing; however, the Company cannot predict the timing or the ultimate outcome of the rate case review process.

***Distribution System Improvement Charge.*** On April 14, 2012, legislation became effective enabling gas and electric utilities in Pennsylvania, under certain circumstances, to recover the cost of eligible capital investment in distribution system infrastructure improvement projects between base rate cases. The charge enabled by the legislation is known as a distribution system improvement charge ("DSIC"). The primary benefit to a company from a DSIC charge is the elimination of regulatory lag, or delayed rate recognition, that occurs under traditional ratemaking relating to qualifying capital expenditures. To be eligible for a DSIC, a utility must have filed a general rate filing within five years of its petition seeking permission to include a DSIC in its tariff, and not exceed certain earnings tests. Absent PUC permission, the DSIC is capped at five percent of the amount billed to customers. PNG and CPG received PUC approval on a DSIC tariff, initially set at zero, in 2014, while UGI Gas has not had a general rate filing within the required time period to be eligible. PNG and CPG began charging a DSIC at a rate other than zero beginning on April 1, 2015 and April 1, 2016, respectively. In March 2016, PNG and CPG filed petitions, seeking approval to increase the maximum allowable DSIC from five percent to ten percent of billed distribution revenues. Also in March 2016, UGI Gas sought PUC approval to initiate a DSIC effective November 2017 after rates from the pending rate case become effective, along with a petition, seeking approval to increase the maximum allowable DSIC from five percent to ten percent of billed distribution revenues. To date, no action has been taken by the PUC on any of these petitions. The Company cannot predict the timing or outcome of these petitions. The impact of the DSIC charge at PNG and CPG did not have a material effect on Gas Utility results of operations.

***UGI Gas Consent Order and Agreement.*** UGI Utilities' UGI Gas division has negotiated a Consent Order and Agreement ("UGI Gas-COA") with the DEP and is awaiting execution thereof. The UGI Gas-COA would be effective October 1, 2016 and would be scheduled to terminate in September 2031. The UGI Gas-COA would require UGI Gas to perform a specified level of activities associated with environmental investigation and remediation work at certain properties in Pennsylvania on which MGP related facilities were operated ("UGI Gas MGP Properties"). Under this agreement, required environmental expenditures related to the UGI Gas MGP Properties would be capped at \$2.5 million in any calendar year. At March 31, 2016, our estimated accrued liabilities for environmental investigation and remediation costs related to the UGI Gas-COA totaled \$43.8 million. UGI Gas has recorded associated regulatory assets for these costs because recovery of these costs from customers is probable (See Note 7 to condensed consolidated financial statements).

**UGI UTILITIES, INC. AND SUBSIDIARIES****ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

**Commodity Price Risk**

Gas Utility's tariffs contain clauses that permit recovery of all of the prudently incurred costs of natural gas it sells to its customers, including the cost of financial instruments used to hedge purchased gas costs. The recovery clauses provide for periodic adjustments for the difference between the total amounts actually collected from customers through PGC rates and the recoverable costs incurred. Because of this ratemaking mechanism, there is limited commodity price risk associated with our Gas Utility operations. Gas Utility uses derivative financial instruments including natural gas futures and option contracts traded on the NYMEX to reduce volatility in the cost of gas it purchases for its retail core-market customers. The cost of these derivative financial instruments, net of any associated gains or losses, is included in Gas Utility's PGC recovery mechanism. The change in market value of natural gas futures contracts can require daily deposits of cash in futures accounts. At March 31, 2016 and 2015, the fair values of our natural gas futures and option contracts were losses of \$1.9 million and \$3.4 million, respectively.

Electric Utility's DS tariffs contain clauses which permit recovery of all prudently incurred power costs, including the cost of financial instruments used to hedge electricity costs, through the application of DS rates. Because of this ratemaking mechanism, there is limited power cost risk, including the cost of FTRs and forward electricity purchase contracts, associated with our Electric Utility operations. At March 31, 2016 and 2015, the fair values of Electric Utility's electricity supply contracts not accounted for as NPNS were losses of \$0.2 million and \$1.2 million, respectively. At March 31, 2016 and 2015, the fair values of FTRs were not material.

In addition, Gas Utility and Electric Utility from time to time enter into exchange-traded gasoline futures and swap contracts for a portion of gasoline volumes expected to be used in their operations. These gasoline futures and swap contracts are recorded at fair value with changes in fair value reflected in operating expenses and other income.

At March 31, 2016, UGI Utilities had \$3.9 million of restricted cash in commodity brokerage accounts. At March 31, 2015, UGI Utilities had \$5.6 million of restricted cash in commodity brokerage accounts.

**Interest Rate Risk**

In order to reduce interest rate risk associated with near- or medium-term issuances of fixed-rate debt, from time to time we enter into IRPAs. There were no unsettled IRPAs outstanding at March 31, 2016 and 2015.

**ITEM 4. CONTROLS AND PROCEDURES****(a) Evaluation of Disclosure Controls and Procedures**

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

**(b) Change in Internal Control over Financial Reporting**

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

**UGI UTILITIES, INC. AND SUBSIDIARIES****PART II OTHER INFORMATION****ITEM 1A. RISK FACTORS**

In addition to the information presented in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing the Company. Other unknown or unpredictable factors could also have material adverse effects on future results.

**ITEM 6. EXHIBITS**

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

<b>Exhibit No.</b>	<b>Exhibit</b>	<b>Registrant</b>	<b>Filing</b>	<b>Exhibit</b>
4.1	Form of Note Purchase Agreement dated April 22, 2016 between the Company and the purchasers listed as signatories thereto.	Utilities	Form 8-K (4/22/16)	4.1
10.1	Form of UGI Corporation 2013 Omnibus Incentive Compensation Plan Performance Unit Grant Letter for UGI Utilities Employees, dated January 1, 2016.			
10.2	Form of UGI Corporation 2013 Omnibus Incentive Compensation Plan Nonqualified Stock Option Grant Letter for UGI Utilities Employees, dated January 1, 2016.			
12.1	Computation of ratio of earnings to fixed charges			
31.1	Certification by the Chief Executive Officer relating to the Registrant’s Report on Form 10-Q for the quarter ended March 31, 2016, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.			
31.2	Certification by the Chief Financial Officer relating to the Registrant’s Report on Form 10-Q for the quarter ended March 31, 2016, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.			
32	Certification by the Chief Executive Officer and the Chief Financial Officer relating to the Registrant’s Report on Form 10-Q for the quarter ended March 31, 2016, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.			
101.INS	XBRL Instance			
101.SCH	XBRL Taxonomy Extension Schema			
101.CAL	XBRL Taxonomy Extension Calculation Linkbase			
101.DEF	XBRL Taxonomy Extension Definition Linkbase			
101.LAB	XBRL Taxonomy Extension Labels Linkbase			
101.PRE	XBRL Taxonomy Extension Presentation Linkbase			

**UGI UTILITIES, INC. AND SUBSIDIARIES**

**SIGNATURES**

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

UGI Utilities, Inc.  
(Registrant)

Date: May 6, 2016

By: /s/ Daniel J. Platt

Daniel J. Platt  
Vice President - Finance and  
Chief Financial Officer

Date: May 6, 2016

By: /s/ Ann P. Kelly

Ann P. Kelly  
Controller

**UGI UTILITIES, INC. AND SUBSIDIARIES****EXHIBIT INDEX**

- 10.1 Form of UGI Corporation 2013 Omnibus Incentive Compensation Plan Performance Unit Grant Letter for UGI Utilities Employees, dated January 1, 2016.
- 10.2 Form of UGI Corporation 2013 Omnibus Incentive Compensation Plan Nonqualified Stock Option Grant Letter for UGI Utilities Employees, dated January 1, 2016.
- 12.1 Computation of ratio of earnings to fixed charges.
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**UGI UTILITIES, INC.**  
**COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES - EXHIBIT 12.1**  
**(Thousands of dollars)**

	Six Months Ended March 31,		Year Ended September 30,		
	2016	2015	2014	2013	2012
<b>Earnings:</b>					
Earnings before income taxes	\$ 144,013	\$ 200,539	\$ 207,929	\$ 171,010	\$ 142,971
Interest expense	18,626	40,400	37,897	38,578	41,599
Amortization of debt discount and expense	138	728	575	731	814
Estimated interest component of rental expense	1,298	2,728	2,398	2,090	2,121
	<u>\$ 164,075</u>	<u>\$ 244,395</u>	<u>\$ 248,799</u>	<u>\$ 212,409</u>	<u>\$ 187,505</u>
<b>Fixed Charges:</b>					
Interest expense	\$ 18,626	\$ 40,400	\$ 37,897	\$ 38,578	\$ 41,599
Amortization of debt discount and expense	138	728	575	731	814
Allowance for funds used during construction (capitalized interest)	215	407	227	286	10
Estimated interest component of rental expense	1,298	2,728	2,398	2,090	2,121
	<u>\$ 20,277</u>	<u>\$ 44,263</u>	<u>\$ 41,097</u>	<u>\$ 41,685</u>	<u>\$ 44,544</u>
Ratio of earnings to fixed charges	<u>8.09</u>	<u>5.52</u>	<u>6.05</u>	<u>5.10</u>	<u>4.21</u>



**EXHIBIT 31.1****CERTIFICATION**

I, Robert F. Beard, certify that:

1. I have reviewed this periodic report on Form 10-Q of UGI Utilities, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2016

/s/ Robert F. Beard

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Robert F. Beard

President and Chief Executive Officer

**EXHIBIT 31.2****CERTIFICATION**

I, Daniel J. Platt, certify that:

1. I have reviewed this periodic report on Form 10-Q of UGI Utilities, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2016

/s/ Daniel J. Platt

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Daniel J. Platt

Vice President - Finance and  
Chief Financial Officer

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**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, 2015

OR

■ **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  
(State or other jurisdiction of  
incorporation or organization)

23-1174060  
(I.R.S. Employer  
Identification No.)

UGI UTILITIES, INC.  
2525 N. 12th Street, Suite 360  
Reading, PA  
(Address of principal executive offices)

19612  
(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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

At January 31, 2016, 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.

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**UGI UTILITIES, INC. AND SUBSIDIARIES****TABLE OF CONTENTS**

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## UGI UTILITIES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

(Thousands of dollars)

	December 31, 2015	September 30, 2015	December 31, 2014
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 15,585	\$ 3,099	\$ 14,267
Restricted cash	6,324	6,602	8,963
Accounts receivable (less allowances for doubtful accounts of \$5,283, \$5,599 and \$6,764, respectively)	78,954	55,659	116,454
Accounts receivable — related parties	2,671	1,271	2,901
Accrued utility revenues	30,776	12,051	52,743
Inventories	49,365	51,716	85,429
Deferred income taxes	—	24,694	1,600
Income taxes receivable	31,465	10,026	—
Regulatory assets	3,905	4,105	16,773
Derivative instruments	234	934	—
Prepaid expenses & other current assets	28,670	23,903	19,052
Total current assets	247,949	194,060	318,182
Property, plant and equipment, at cost (less accumulated depreciation and amortization of \$940,655, \$929,130 and \$897,802, respectively)	1,870,732	1,824,369	1,727,117
Goodwill	182,145	182,145	182,145
Regulatory assets	297,914	300,103	253,826
Other assets	7,559	7,501	7,351
Total assets	<u>\$ 2,606,299</u>	<u>\$ 2,508,178</u>	<u>\$ 2,488,621</u>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>			
Current liabilities:			
Current maturities of long-term debt	\$ 175,000	\$ 247,000	\$ 92,000
Short-term borrowings	217,700	71,700	153,500
Accounts payable	51,954	58,135	65,574
Accounts payable — related parties	7,069	4,430	10,716
Regulatory liability — deferred fuel refunds	28,083	36,638	—
Derivative instruments	10,351	12,591	9,434
Other current liabilities	112,528	103,265	123,285
Total current liabilities	602,685	533,759	454,509
Long-term debt	375,000	375,000	550,000
Deferred income taxes	524,287	512,497	466,037
Deferred investment tax credits	3,513	3,597	3,849
Pension and postretirement benefit obligations	132,899	135,003	96,861
Derivative instruments	—	—	344
Other noncurrent liabilities	58,469	57,702	53,418
Total liabilities	1,696,853	1,617,558	1,625,018
Commitments and contingencies (Note 6)			
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	471,952	471,904	471,076
Retained earnings	388,494	372,143	339,927
Accumulated other comprehensive loss	(11,259)	(13,686)	(7,659)
Total common stockholder's equity	909,446	890,620	863,603
Total liabilities and stockholder's equity	<u>\$ 2,606,299</u>	<u>\$ 2,508,178</u>	<u>\$ 2,488,621</u>

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,	
	2015	2014
Revenues	\$ 197,982	\$ 287,306
Costs and expenses:		
Cost of sales — gas, fuel and purchased power (excluding depreciation shown below)	75,439	143,052
Operating and administrative expenses	48,027	46,548
Operating and administrative expenses — related parties	2,180	2,782
Taxes other than income taxes	3,769	4,104
Depreciation	15,827	14,558
Amortization	874	867
Other operating loss (income), net	3,570	(245)
	149,686	211,666
Operating income	48,296	75,640
Interest expense	9,494	10,649
Income before income taxes	38,802	64,991
Income taxes	15,451	26,152
Net income	\$ 23,351	\$ 38,839

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,	
	2015	2014
Net income	<u>\$ 23,351</u>	<u>\$ 38,839</u>
Other comprehensive income:		
Net gains on derivative instruments (net of tax of \$(1,332) and \$0, respectively)	1,877	—
Reclassifications of net losses on derivative instruments (net of tax of \$(276) and \$(278), respectively)	390	391
Benefit plans reclassifications of actuarial losses and prior service costs (net of tax of \$(113) and \$(91), respectively)	<u>160</u>	<u>131</u>
Other comprehensive income	2,427	522
Comprehensive income	<u>\$ 25,778</u>	<u>\$ 39,361</u>

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,	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 23,351	\$ 38,839
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	16,701	15,425
Deferred income taxes, net	15,607	3,921
Provision for uncollectible accounts	1,930	2,490
Other, net	4,331	3,534
Net change in:		
Accounts receivable and accrued utility revenues	(46,757)	(92,313)
Inventories	2,351	9,790
Deferred fuel and power costs, net of changes in unsettled derivatives	(6,788)	4,393
Accounts payable	(3,642)	6,075
Other current assets	(4,767)	(4,821)
Other current liabilities	6,449	25,356
Net cash provided by operating activities	<u>8,766</u>	<u>12,689</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Expenditures for property, plant and equipment	(60,457)	(55,029)
Net costs of property, plant and equipment disposals	(3,150)	(2,028)
Decrease (increase) in restricted cash	278	(5,371)
Net cash used by investing activities	<u>(63,329)</u>	<u>(62,428)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payment of dividends	(7,000)	(15,600)
Repayments of long-term debt	(72,000)	—
Increase in short-term borrowings	146,000	67,200
Other	49	5
Net cash provided by financing activities	<u>67,049</u>	<u>51,605</u>
Cash and cash equivalents increase	<u>\$ 12,486</u>	<u>\$ 1,866</u>
<b>CASH AND CASH EQUIVALENTS:</b>		
End of period	\$ 15,585	\$ 14,267
Beginning of period	3,099	12,401
Increase	<u>\$ 12,486</u>	<u>\$ 1,866</u>

See accompanying notes to condensed consolidated financial statements.



**UGI UTILITIES, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements**

(unaudited)

(Thousands of dollars)

**Note 1 — Nature of Operations**

UGI Utilities, Inc. (“UGI Utilities”), a wholly owned subsidiary of UGI Corporation (“UGI”), and UGI Utilities’ wholly owned subsidiaries UGI Penn Natural Gas, Inc. (“PNG”) and UGI Central Penn Gas, Inc. (“CPG”), own and operate natural gas distribution utilities in eastern, northeastern and central Pennsylvania and in a portion of one Maryland county. UGI Utilities also owns and operates an electric distribution utility in northeastern Pennsylvania (“Electric Utility”). UGI Utilities’ natural gas distribution utility is referred to as “UGI Gas.” UGI Gas, PNG and CPG are collectively referred to as “Gas Utility.” Gas Utility is subject to regulation by the Pennsylvania Public Utility Commission (“PUC”) and, with respect to a small service territory in one Maryland county, the Maryland Public Service Commission, and Electric Utility is subject to regulation by the PUC. Gas Utility and Electric Utility are collectively referred to as “Utilities.” Prior to June 1, 2015, PNG also had a heating, ventilation and air-conditioning service business (“UGI Penn HVAC Services, Inc.”) which operated principally in the PNG service territory (“HVAC Business”). The assets of the HVAC business principally comprising customer contracts were sold on June 1, 2015.

The term “UGI Utilities” is used sometimes as an abbreviated reference to UGI Utilities, Inc., or to UGI Utilities, Inc. and its subsidiaries, including PNG and CPG.

**Note 2 — Summary of Significant Accounting Policies**

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

The accompanying condensed consolidated financial statements are unaudited and have been prepared in accordance with the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”). They include all adjustments that we consider necessary for a fair statement of the results for the interim periods presented. Such adjustments consisted only of normal recurring items unless otherwise disclosed. The September 30, 2015, condensed consolidated balance sheet data was derived from audited financial statements but do not include all disclosures required by accounting principles generally accepted in the United States of America (“GAAP”).

These financial statements should be read in conjunction with the financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015 (“the Company’s 2015 Annual Report”). Due to the seasonal nature of our businesses, the results of operations for interim periods are not necessarily indicative of the results to be expected for a full year.

**Derivative Instruments**

Derivative instruments are reported in the Condensed Consolidated Balance Sheets at their fair values, unless the derivative instruments qualify for the normal purchase and normal sale (“NPNS”) exception under GAAP and such exception has been elected. The accounting for changes in fair value depends upon the purpose of the derivative instrument and whether it is subject to regulatory ratemaking mechanisms or is designated and qualifies for hedge accounting.

Gains and losses on substantially all of the derivative instruments used by Gas Utility and Electric Utility to hedge commodity prices are included in regulatory assets and liabilities in accordance with GAAP regarding accounting for rate-regulated entities. Certain of our derivative instruments are designated and qualify as cash flow hedges. For cash flow hedges, changes in the fair value of the derivative financial instruments are recorded in accumulated other comprehensive income (“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 the 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.

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 9.

## UGI UTILITIES, INC. AND SUBSIDIARIES

**Notes to Condensed Consolidated Financial Statements**

(unaudited)

(Thousands of dollars)

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

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

**Note 3 — Accounting Changes****Adoption of New Accounting Standard**

**Presentation of Deferred Taxes.** During the first quarter of Fiscal 2016, the Company adopted new accounting guidance regarding the classification of deferred taxes. The new guidance amends existing guidance to require that deferred income tax liabilities and assets be classified as noncurrent in a classified balance sheet, and eliminates the prior guidance which required an entity to separate deferred tax liabilities and assets into a current amount and a noncurrent amount in a classified balance sheet. We applied this guidance prospectively and, as such, prior period amounts were not retrospectively adjusted.

**Accounting Standards Not Yet Adopted**

**Debt Issuance Costs.** In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs." This ASU amends existing guidance to require the presentation of debt issuance costs in the balance sheet as a direct deduction from the carrying amount of the related debt liability instead of a deferred charge. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2015 (Fiscal 2017). Early adoption is permitted. Entities will apply the new guidance retrospectively to all periods presented. The Company expects to adopt the new guidance effective September 30, 2016. The adoption of the new guidance is not expected to have a material impact on the Company's financial statements.

**Revenue Recognition.** In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." This ASU supersedes the revenue recognition requirements in Accounting Standards Codification ("ASC") No. 605, "Revenue Recognition," and most industry-specific guidance included in the ASC. The standard 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. This standard is effective for the Company for interim and annual periods beginning October 1, 2018 (Fiscal 2019) and allows for either full retrospective adoption or modified retrospective adoption. We have not yet selected a transition method and are currently evaluating the impact of adopting this guidance on our consolidated financial statements.

**Note 4 — Inventories**

Inventories comprise the following:

	December 31, 2015	September 30, 2015	December 31, 2014
Gas Utility natural gas	\$ 35,923	\$ 37,510	\$ 72,442
Materials, supplies and other	13,442	14,206	12,987
<b>Total inventories</b>	<b>\$ 49,365</b>	<b>\$ 51,716</b>	<b>\$ 85,429</b>

At December 31, 2015, UGI Utilities is a party to two principal storage contract administrative agreements ("SCAAs") having terms of three years. One of the SCAAs is with UGI Energy Services, LLC ("Energy Services"), a second-tier, wholly owned subsidiary of UGI (see Note 11) and one of the SCAAs is with a non-affiliate. Pursuant to 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

## UGI UTILITIES, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(unaudited)

(Thousands of dollars)

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 value of gas storage inventories released under the SCAAs at December 31, 2015, September 30, 2015 and December 31, 2014, comprising 8.9 billion cubic feet (“bcf”), 9.0 bcf and 9.9 bcf of natural gas, was \$22,061, \$22,694 and \$41,937, respectively. At December 31, 2015, September 30, 2015 and December 31, 2014, UGI Utilities held a total of \$15,100, \$17,700 and \$17,600, respectively, of security deposits 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 11.

**Note 5 — 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 2015 Annual Report. UGI Utilities does not recover a rate of return on its regulatory assets. The following regulatory assets and liabilities associated with Gas Utility and Electric Utility are included in our accompanying Condensed Consolidated Balance Sheets:

	December 31, 2015	September 30, 2015	December 31, 2014
<b>Regulatory assets:</b>			
Income taxes recoverable	\$ 117,396	\$ 115,946	\$ 111,075
Underfunded pension and postretirement plans	138,294	140,762	107,827
Environmental costs	17,643	19,983	14,738
Deferred fuel and power costs	—	—	16,761
Removal costs, net	22,346	21,223	17,550
Other	6,140	6,294	2,648
<b>Total regulatory assets</b>	<b>\$ 301,819</b>	<b>\$ 304,208</b>	<b>\$ 270,599</b>
<b>Regulatory liabilities:</b>			
Postretirement benefits	\$ 20,314	\$ 19,975	\$ 18,959
Deferred fuel and power refunds	28,083	36,638	—
State tax benefits — distribution system repairs	13,712	13,266	10,349
Other	1,073	1,125	3,580
<b>Total regulatory liabilities (a)</b>	<b>\$ 63,182</b>	<b>\$ 71,004</b>	<b>\$ 32,888</b>

(a) Regulatory liabilities, other than deferred fuel and power refunds, are recorded in other current and noncurrent liabilities in the Condensed Consolidated Balance Sheets.

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

Gas Utility uses derivative instruments to reduce volatility in the cost of gas it purchases for firm- residential, commercial and industrial (“retail core-market”) customers. Realized and unrealized gains or losses on natural gas derivative instruments are included in deferred fuel costs or refunds. Net unrealized gains (losses) on such contracts at December 31, 2015, September 30, 2015, and December 31, 2014, were \$(4,488), \$(3,262) and \$(6,798), respectively.

**UGI UTILITIES, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements**

(unaudited)

(Thousands of dollars)

Electric Utility enters into forward electricity purchase contracts to meet a substantial portion of its electricity supply needs. Prior to March 1, 2015, we did not elect the NPNS exception under GAAP for these contracts. Therefore, we recognized the fair value of these contracts on the balance sheet with an associated adjustment to regulatory assets or liabilities because Electric Utility is entitled to fully recover its DS costs. At December 31, 2015, September 30, 2015, and December 31, 2014, the fair values of Electric Utility's electricity supply contracts were gains (losses) of \$(450), \$(533) and \$(2,397), respectively. These amounts are reflected in current and noncurrent derivative assets and current and noncurrent derivative liabilities on the Condensed Consolidated Balance Sheets with equal and offsetting amounts reflected in deferred fuel and power costs and refunds in the table above. Effective with Electric Utility forward contracts entered into beginning March 1, 2015, Electric Utility has elected the NPNS exception under GAAP and, as a result, the fair values of such contracts are not recognized on the balance sheet (see Note 9).

In order to reduce volatility associated with a substantial portion of its electric transmission congestion costs, Electric Utility obtains financial transmission rights ("FTRs"). FTRs are derivative instruments that entitle the holder to receive compensation for electricity transmission congestion charges when there is insufficient electricity transmission capacity on the electric transmission grid. Because Electric Utility is entitled to fully recover its DS costs, realized and unrealized gains or losses on FTRs are included in deferred fuel and power costs or deferred fuel and power refunds. Unrealized gains or losses on FTRs at December 31, 2015, September 30, 2015, and December 31, 2014, were not material.

***UGI Gas Base Rate Filing.*** On January 19, 2016, UGI Utilities filed a request with the PUC to increase UGI Gas base operating revenues for residential, commercial and industrial customers by \$58,600 annually. 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. UGI Utilities is requesting that the new gas rates become effective March 19, 2016. However, the PUC typically suspends the effective date for general base rate proceedings to allow for investigation and public hearings. This review process is expected to last approximately nine months, however, the Company cannot predict the timing or the ultimate outcome of the rate case review process.

**Note 6 — Commitments and Contingencies****Contingencies*****Environmental Matters***

CPG is party to a Consent Order and Agreement ("CPG-COA") with the Pennsylvania Department of Environmental Protection ("DEP") requiring CPG to perform a specified level of activities associated with environmental investigation and remediation work at certain properties in Pennsylvania on which manufactured gas plant ("MGP") related facilities were operated ("CPG MGP Properties") and to plug a minimum number of non-producing natural gas wells per year. In addition, PNG is a party to a Multi-Site Remediation Consent Order and Agreement ("PNG-COA") with the DEP. The PNG-COA requires PNG to perform annually a specified level of activities associated with environmental investigation and remediation work at certain properties on which MGP-related facilities were operated ("PNG MGP Properties"). Under these agreements, environmental expenditures relating to the CPG MGP Properties and the PNG MGP Properties are capped at \$1,800 and \$1,100, respectively, in any calendar year. The CPG-COA is scheduled to terminate at the end of 2018. The PNG-COA terminates in 2019 but may be terminated by either party effective at the end of any two-year period beginning with the original effective date in March 2004. At December 31, 2015 and 2014, our accrued liabilities for environmental investigation and remediation costs related to the CPG-COA and the PNG-COA totaled \$11,679 and \$11,233, respectively. We have recorded associated regulatory assets for these costs because recovery of these costs from customers is probable.

From the late 1800s through the mid-1900s, UGI Utilities and its 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 Gas and Electric Utility.

UGI Utilities does not expect its costs for investigation and remediation of hazardous substances at Pennsylvania MGP sites to be material to its results of operations because (1) UGI Gas is currently permitted to include in rates, through future base rate

**UGI UTILITIES, INC. AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**

(unaudited)

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proceedings, a five-year average of such prudently incurred remediation costs, and (2) CPG and PNG receive ratemaking recognition of estimated environmental investigation and remediation costs associated with their environmental sites. This ratemaking recognition balances the accumulated difference between historical costs and rate recoveries with an estimate of future costs associated with the sites. At December 31, 2015, neither the undiscounted nor the accrued liability for environmental investigation and cleanup costs for UGI Gas was material for UGI Utilities.

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 its former subsidiaries. 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 former subsidiaries 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.

There are 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 position, results of operations or cash flows.

**Note 7 — Defined Benefit Pension and Other Postretirement Plans**

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

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

Three Months Ended December 31,	Pension Benefits		Other Postretirement Benefits	
	2015	2014	2015	2014
Service cost	\$ 1,732	\$ 1,741	\$ 46	\$ 48
Interest cost	5,817	5,627	116	119
Expected return on assets	(7,167)	(7,224)	(149)	(153)
Amortization of:				
Prior service cost (benefit)	87	87	(160)	(160)
Actuarial loss	2,393	2,198	24	32
Net benefit cost (income)	2,862	2,429	(123)	(114)
Change in associated regulatory liabilities	—	—	878	937
Net benefit cost after change in regulatory liabilities	<u>\$ 2,862</u>	<u>\$ 2,429</u>	<u>\$ 755</u>	<u>\$ 823</u>

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, smallcap common stocks and 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. During the three months ended December 31, 2015 and 2014, the Company made contributions to the Pension Plan of \$2,467 and \$2,783, respectively. The Company expects to make additional discretionary cash contributions of approximately \$7,400 to the Pension Plan during the remainder of Fiscal 2016.

UGI Utilities has established a Voluntary Employees' Beneficiary Association ("VEBA") trust to pay retiree health care and life insurance benefits by depositing into the VEBA the annual amount of postretirement benefits costs, if any, determined under GAAP. The difference between such amount and the amounts included in UGI Gas' and Electric Utility's rates 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, 2015 and 2014.

## UGI UTILITIES, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(unaudited)

(Thousands of dollars)

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 8 — 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, 2015, September 30, 2015 and December 31, 2014:

	Asset (Liability)			Total
	Level 1	Level 2	Level 3	
<b>December 31, 2015:</b>				
Assets:				
Commodity contracts	\$ 234	\$ —	\$ —	\$ 234
Interest rate contracts	\$ —	\$ 572	\$ —	\$ 572
Liabilities:				
Commodity contracts	\$ (4,986)	\$ (1,557)	\$ —	\$ (6,543)
Interest rate contracts	\$ —	\$ (4,380)	\$ —	\$ (4,380)
<b>September 30, 2015:</b>				
Assets:				
Commodity contracts	\$ 934	\$ 373	\$ —	\$ 1,307
Liabilities:				
Commodity contracts	\$ (4,560)	\$ (1,388)	\$ —	\$ (5,948)
Interest rate contracts	\$ —	\$ (7,016)	\$ —	\$ (7,016)
<b>December 31, 2014:</b>				
Assets:				
Commodity contracts	\$ —	\$ 177	\$ —	\$ 177
Liabilities:				
Commodity contracts	\$ (7,355)	\$ (2,600)	\$ —	\$ (9,955)

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 and electricity forward contracts, which are designated as Level 2, are generally based upon recent market transactions and related market indicators. There were no transfers between Level 1 and Level 2 during the periods presented.

**Other Financial Instruments**

The carrying amounts of other financial instruments included in current assets and current liabilities (except for current maturities of long-term debt) approximate their fair values because of their short-term nature. The carrying amount and estimated fair value of our long-term debt (including current maturities) at December 31, 2015, were \$550,000 and \$615,213, respectively. The carrying amount and estimated fair value of our long-term debt (including current maturities) at December 31, 2014, were \$642,000 and \$741,853, respectively. We estimate the fair value of long-term debt by using current market rates and by discounting future cash flows using rates available for similar types of debt (Level 2).

**Note 9 — 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

**UGI UTILITIES, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements**

(unaudited)

(Thousands of dollars)

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

**Commodity Price Risk**

Gas Utility's tariffs contain clauses that permit recovery of all of the prudently incurred costs of natural gas it sells to retail core-market customers, including the cost of financial instruments used to hedge purchased gas costs. As permitted and agreed to by the PUC pursuant to Gas Utility's annual PGC filings, Gas Utility currently uses New York Mercantile Exchange ("NYMEX") natural gas futures and option contracts to reduce commodity price volatility associated with a portion of the natural gas it purchases for its retail core-market customers. At December 31, 2015 and 2014, the volumes of natural gas associated with Gas Utility's unsettled NYMEX natural gas futures and option contracts totaled 12.4 million dekatherms and 11.2 million dekatherms, respectively. At December 31, 2015, the maximum period over which Gas Utility is economically hedging natural gas market price risk is 9 months. Gains and losses on natural gas futures contracts and any gains on 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 5).

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. For such contracts entered into prior to March 1, 2015, Electric Utility chose not to elect the NPNS exception under GAAP related to these derivative instruments and the fair values of these contracts are reflected in current and noncurrent derivative instrument assets and liabilities in the accompanying Condensed Consolidated Balance Sheets. Associated gains and losses on these forward contracts are recorded in regulatory assets and liabilities on the Condensed Consolidated Balance Sheets in accordance with GAAP because it is probable such gains or losses will be recoverable from, or refundable to, customers through the DS mechanism (see Note 5). Effective with Electric Utility forward electricity purchase contracts entered into beginning March 1, 2015, Electric Utility has elected the NPNS exception under GAAP and, as a result, the fair values of such contracts are not recognized on the balance sheet. At December 31, 2015 and 2014, the volumes of Electric Utility's forward electricity purchase contracts were 333.3 million kilowatt hours and 486.2 million kilowatt hours, respectively. At December 31, 2015, the maximum period over which these contracts extend is 11 months.

In order to reduce volatility associated with a substantial portion of its electricity transmission congestion costs, Electric Utility obtains FTRs through an annual allocation process. Gains and losses on Electric Utility FTRs are recorded in regulatory assets or liabilities in accordance with GAAP because it is probable such gains or losses will be recoverable from, or refundable to, customers through the DS mechanism (see Note 5). At December 31, 2015 and 2014, the total volumes associated with FTRs totaled 172.6 million kilowatt hours and 144.6 million kilowatt hours, respectively. At December 31, 2015, the maximum period over which we are economically hedging electricity congestion is 5 months.

In order to reduce operating expense volatility, UGI Utilities from time to time enters into NYMEX gasoline futures and swap contracts for a portion of gasoline volumes expected to be used in the operation of its vehicles and equipment.

**Interest Rate Risk**

Our long-term debt typically is issued at fixed rates of interest. As these long-term debt issues mature, we typically refinance such debt with new debt having interest rates reflecting then-current market conditions. In order to reduce market rate risk on the underlying benchmark rate of interest associated with near- to medium-term forecasted issuances of fixed-rate debt, from time to time we enter into interest rate protection agreements ("IRPAs"). We account for IRPAs as cash flow hedges. As of December 31, 2015, the notional amount of our unsettled IRPA contracts was \$290,000. At December 31, 2014, we had no unsettled IRPAs. Our December 31, 2015, unsettled IRPA contracts hedge forecasted interest payments expected to occur over ten- and thirty-year periods beginning in Fiscal 2016. At December 31, 2015, the amount of net losses associated with IRPAs expected to be reclassified into earnings during the next twelve months is approximately \$2,200.

## UGI UTILITIES, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(unaudited)

(Thousands of dollars)

**Derivative Instrument Credit Risk**

Our commodity exchange-traded futures contracts generally require cash deposits in margin accounts. At December 31, 2015 and 2014, restricted cash in brokerage accounts totaled \$6,324 and \$8,963, respectively.

**Offsetting Derivative Assets and Liabilities**

Derivative assets and liabilities are presented net by counterparty on our 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 our Condensed Consolidated Balance Sheets with our derivative counterparties are not included in the table below but could reduce our net exposure to such counterparties because such balances are subject to master netting or similar arrangements.

**Fair Value of Derivative Instruments**

The following table presents the Company's derivative assets and liabilities, as well as the effects of offsetting, as of December 31, 2015 and 2014:

	December 31, 2015	December 31, 2014
<b>Derivative assets:</b>		
Derivatives designated as hedging instruments:		
Interest rate contracts	\$ 572	\$ —
Derivatives subject to PGC and DS mechanisms:		
Commodity contracts	234	177
Total derivative assets - gross	806	177
Gross amounts offset in the balance sheet	(572)	(177)
Total derivative assets - net	<u>\$ 234</u>	<u>\$ —</u>
<b>Derivative liabilities:</b>		
Derivatives designated as hedging instruments:		
Interest rate contracts	\$ (4,380)	\$ —
Derivatives subject to PGC and DS mechanisms:		
Commodity contracts	(6,278)	(9,398)
Derivatives not subject to PGC and DS mechanisms:		
Commodity contracts	(265)	(557)
Total derivative liabilities - gross	(10,923)	(9,955)
Gross amounts offset in the balance sheet	572	177
Total derivative liabilities - net	<u>\$ (10,351)</u>	<u>\$ (9,778)</u>



## UGI UTILITIES, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(unaudited)

(Thousands of dollars)

**Effect of Derivative Instruments**

The following table provides information on the effects of derivative instruments not subject to ratemaking mechanisms on the Condensed Consolidated Statements of Income and changes in AOCI for the three months ended December 31, 2015 and 2014:

Three Months Ended December 31,	Gain (Loss) Recognized in AOCI		Gain (Loss) Reclassified from AOCI into Income		Location of Gain (Loss) Reclassified from AOCI into Income
	2015	2014	2015	2014	
<b>Cash Flow Hedges:</b>					
Interest rate contracts	\$ 3,209	\$ —	\$ (666)	\$ (669)	Interest expense
Three Months Ended December 31,	Gain (Loss) Recognized in Income		Location of Gain (Loss) Recognized in Income		
	2015	2014			
<b>Derivatives Not Subject to PGC and DS Mechanisms:</b>					
Gasoline contracts	\$ (65)	\$ (522)	Operating expenses/ other operating income, net		

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 normal purchase and normal sale exception accounting under GAAP because they provide for the delivery of products or services in quantities that are expected to be used in the normal course of operating our business and the price in the contract is based on an underlying that is directly associated with the price of the product or service being purchased or sold.

**Note 10 — Accumulated Other Comprehensive Income**

The tables below present changes in AOCI, net of tax, during the three months ended December 31, 2015 and 2014:

	Postretirement Benefit Plans	Derivative Instruments	Total
<b>Three Months Ended December 31, 2015</b>			
AOCI - September 30, 2015	\$ (9,276)	\$ (4,410)	\$ (13,686)
Net gains on IRPAs	—	1,877	1,877
Reclassifications of benefit plan actuarial losses and prior service costs	160	—	160
Reclassifications of net losses on IRPAs	—	390	390
AOCI - December 31, 2015	\$ (9,116)	\$ (2,143)	\$ (11,259)
<b>Three Months Ended December 31, 2014</b>			
AOCI - September 30, 2014	\$ (6,311)	\$ (1,870)	\$ (8,181)
Reclassifications of benefit plan actuarial losses and prior service costs	131	—	131
Reclassifications of net losses on IRPAs	—	391	391
AOCI - December 31, 2014	\$ (6,180)	\$ (1,479)	\$ (7,659)

**Note 11 — 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

**UGI UTILITIES, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements**

(unaudited)

(Thousands of dollars)

services provided to UGI Utilities. The allocation of indirect UGI corporate expenses to UGI Utilities utilizes a weighted, three-component formula comprising revenues, operating expenses and net assets employed and considers UGI Utilities' relative percentage of such items to the total of such items for all UGI operating subsidiaries for which general and administrative services are provided. Management believes that this allocation method is reasonable and equitable to UGI Utilities and this allocation method has been accepted by the PUC in past rate case proceedings and management audits as a reasonable method of allocating such expenses. These billed expenses are classified as operating and administrative expenses - related parties in the Condensed Consolidated Statements of Income. In addition, UGI Utilities provides limited administrative services to UGI and certain of UGI's subsidiaries under PUC affiliated interest agreements. Amounts billed to these entities by UGI Utilities for all periods presented were not material.

From time to time, UGI Utilities is a party to SCAAs with Energy Services which have terms of up to three years. Under the SCAAs, UGI Utilities has, among other things, released certain storage and transportation contracts (subject to recall for operational purposes) to Energy Services for the terms of the SCAAs. UGI Utilities also transferred certain associated storage inventories upon the commencement of the SCAAs, receives a transfer of storage inventories at the end of the SCAAs, and makes payments associated with refilling storage inventories during the term of the SCAAs. Energy Services, in turn, provides a firm delivery service and makes certain payments to UGI Utilities for its various obligations under the SCAAs. UGI Utilities incurred costs associated with Energy Services' SCAAs totaling \$1,870 and \$4,956 during the three months ended December 31, 2015 and 2014, respectively. In conjunction with the SCAAs, UGI Utilities received security deposits from Energy Services. The amount of such security deposits, which are included in other current liabilities on the Condensed Consolidated Balance Sheets, was \$8,100, \$10,700, and \$10,600 as of December 31, 2015, September 30, 2015 and December 31, 2014, respectively.

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) on its balance sheet under the caption inventories. The carrying value of these gas storage inventories at December 31, 2015, September 30, 2015 and December 31, 2014, comprising approximately 5.1 bcf, 5.0 bcf and 6.5 bcf of natural gas, were \$12,684, \$12,889 and \$27,501, 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, 2015 and 2014 totaled \$27,364 and \$23,747, respectively.

From time to time, the Company sells natural gas or pipeline capacity to Energy Services. During the three months ended December 31, 2015 and 2014, revenues associated with such sales to Energy Services totaled \$8,766 and \$16,190, respectively. Also from time to time, the Company purchases natural gas, pipeline capacity and electricity from Energy Services (in addition to those transactions already described above) and purchases a firm storage service from UGI Storage Company, a subsidiary of Energy Services, under one-year agreements. During the three months ended December 31, 2015 and 2014, such purchases totaled \$8,192 and \$21,775, respectively.

**Note 12 — 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, northeastern and central Pennsylvania. Electric Utility derives its revenues principally from the sale and distribution of electricity in two northeastern Pennsylvania counties. The HVAC Business, prior to its sale in June 2015, did not meet the quantitative thresholds for separate segment reporting under GAAP relating to business segment reporting and has been included in "Other" below.

The accounting policies of our reportable segments are the same as those described in Note 2 of the Company's 2015 Annual Report. We evaluate the performance of our Gas Utility and Electric Utility segments principally based upon their income before income taxes.

## UGI UTILITIES, INC. AND SUBSIDIARIES

**Notes to Condensed Consolidated Financial Statements**

(unaudited)

(Thousands of dollars)

Financial information by business segment follows:

**Three Months Ended December 31, 2015:**

	Total	Reportable Segments	
		Gas Utility	Electric Utility
Revenues	\$ 197,982	\$ 176,942	\$ 21,040
Cost of sales	\$ 75,439	\$ 64,229	\$ 11,210
Depreciation and amortization	\$ 16,701	\$ 15,504	\$ 1,197
Operating income	\$ 48,296	\$ 45,820	\$ 2,476
Interest expense	\$ 9,494	\$ 9,066	\$ 428
Income before income taxes	\$ 38,802	\$ 36,754	\$ 2,048
Capital expenditures	\$ 61,464	\$ 59,270	\$ 2,194

**As of December 31, 2015**

Total assets (at period end)	\$ 2,606,299	\$ 2,462,508	\$ 143,791
Goodwill (at period end)	\$ 182,145	\$ 182,145	\$ —

**Three Months Ended December 31, 2014:**

	Total	Reportable Segments		
		Gas Utility	Electric Utility	Other
Revenues	\$ 287,306	\$ 260,478	\$ 26,423	\$ 405
Cost of sales	\$ 143,052	\$ 127,208	\$ 15,844	\$ —
Depreciation and amortization	\$ 15,425	\$ 14,280	\$ 1,145	\$ —
Operating income	\$ 75,640	\$ 71,846	\$ 3,719	\$ 75
Interest expense	\$ 10,649	\$ 10,130	\$ 519	\$ —
Income before income taxes	\$ 64,991	\$ 61,716	\$ 3,200	\$ 75
Capital expenditures	\$ 55,029	\$ 53,492	\$ 1,537	\$ —

**As of December 31, 2014**

Total assets (at period end)	\$ 2,488,621	\$ 2,346,169	\$ 142,452	\$ —
Goodwill (at period end)	\$ 182,145	\$ 182,145	\$ —	\$ —

**UGI UTILITIES, INC. AND SUBSIDIARIES****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****Forward-Looking Statements**

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

A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. We believe that we have chosen these assumptions or bases in good faith and that they are reasonable. However, we caution you that actual results almost always vary from assumed facts or bases, and the differences between actual results and assumed facts or bases can be material, depending on the circumstances. When considering forward-looking statements, you should keep in mind the following important factors that could affect our future results and could cause those results to differ materially from those expressed in our forward-looking statements: (1) adverse weather conditions resulting in reduced demand; (2) price volatility and availability of oil, electricity and natural gas and the capacity to transport them to market areas; (3) changes in laws and regulations, including safety, tax, consumer protection 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) large customer, counterparty or supplier defaults; (11) increased uncollectible accounts expense; (12) liability for personal injury and property damage arising from explosions and other catastrophic events, including acts of terrorism, resulting from operating hazards and risks incidental to generating and distributing electricity and transporting, storing and distributing natural gas, including liability in excess of insurance coverage; (13) political, regulatory and economic conditions in the United States; (14) capital market conditions, including reduced access to capital markets and interest rate fluctuations; and (15) changes in commodity market prices resulting in significantly higher cash collateral requirements.

These factors, and those factors set forth in Item 1A. Risk Factors in the Company's 2015 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.

## UGI UTILITIES, INC. AND SUBSIDIARIES

**ANALYSIS OF RESULTS OF OPERATIONS**

The following analyses compare our results of operations for the three months ended December 31, 2015 (“2015 three-month period”) with the three months ended December 31, 2014 (“2014 three-month period”). Our analyses of results of operations should be read in conjunction with the segment information included in Note 12 to the condensed consolidated financial statements.

**2015 three-month period compared with 2014 three-month period**

Three Months Ended December 31,	2015	2014	Increase (Decrease)	
<b>Gas Utility:</b>				
Revenues	\$ 176.9	\$ 260.5	\$ (83.6)	(32.1)%
Total margin (a)	\$ 112.7	\$ 133.3	\$ (20.6)	(15.5)%
Operating and administrative expenses	\$ 45.4	\$ 45.0	\$ 0.4	0.9 %
Operating income	\$ 45.8	\$ 71.8	\$ (26.0)	(36.2)%
Income before income taxes	\$ 36.8	\$ 61.7	\$ (24.9)	(40.4)%
System throughput — billions of cubic feet (“bcf”)				
Core market	17.4	23.2	(5.8)	(25.0)%
Total	49.9	56.8	(6.9)	(12.1)%
Heating degree days — % (warmer) than normal (b)	(25.3)%	(3.1)%	—	—
<b>Electric Utility:</b>				
Revenues	\$ 21.0	\$ 26.4	\$ (5.4)	(20.5)%
Total margin (a)	\$ 8.7	\$ 9.2	\$ (0.5)	(5.4)%
Operating and administrative expenses	\$ 4.8	\$ 4.0	\$ 0.8	20.0 %
Operating income	\$ 2.5	\$ 3.7	\$ (1.2)	(32.4)%
Income before income taxes	\$ 2.0	\$ 3.2	\$ (1.2)	(37.5)%
Distribution sales — millions of kilowatt-hours (“gwh”)	225.0	244.8	(19.8)	(8.1)%

- (a) Gas Utility’s total margin represents total revenues less total cost of sales. Electric Utility’s total margin represents total revenues less total cost of sales and revenue-related taxes, i.e. Electric Utility gross receipts taxes, of \$1.1 million and \$1.4 million during the three months ended December 31, 2015 and 2014, respectively. For financial statement purposes, revenue-related taxes are included in taxes other than income taxes in the Condensed Consolidated Statements of Income.
- (b) Deviation from average heating degree days for the 15-year period 2000-2014 based upon weather statistics provided by the National Oceanic and Atmospheric Administration for airports located within Gas Utility’s service territory.

**Gas Utility**

Temperatures in Gas Utility’s service territory in the 2015 three-month period based upon heating degree days were 25.3% warmer than normal and 22.9% warmer than the 2014 three-month period. In particular, temperatures in the critical heating-season month of December were 37% warmer than normal. Total Gas Utility distribution system throughput decreased 6.9 bcf (12.1%) principally reflecting lower core market volumes and, to a lesser extent, slightly lower delivery service volumes. Core market volumes declined 25% reflecting the effects of the significantly warmer weather. Gas Utility’s core market customers comprise firm- residential, commercial and industrial (“retail core-market”) customers who purchase their gas from Gas Utility and, to a much lesser extent, residential and small commercial customers who purchase their gas from alternate suppliers.

The lower Gas Utility revenues principally reflect a decrease in core market revenues (\$72.0 million), lower off-system sales revenues (\$9.3 million), and lower delivery service revenues. The decrease in core market revenues reflects the effects of the lower core market throughput (\$52.8 million) and lower average PGC rates during the 2015 three-month period. Because Gas Utility is subject to reconcilable PGC recovery mechanisms, increases or decreases in the actual cost of gas associated with customers who purchase their gas from Gas Utility impact revenues and cost of sales but have no direct effect on retail core-market margin (see Note 5 to condensed consolidated financial statements). Gas Utility cost of sales was \$64.2 million in the 2015 three-month period compared with \$127.2 million in the 2014 three-month period principally reflecting the combined effects of the lower Gas Utility retail core-market volumes sold and lower average Gas Utility PGC rates (\$53.2 million) and lower cost of sales associated with off-system sales (\$9.3 million).

**UGI UTILITIES, INC. AND SUBSIDIARIES**

Gas Utility total margin decreased \$20.6 million principally reflecting lower margin from core market customers (\$18.8 million) and lower total margin from delivery service customers. The decrease in core market margin reflects the lower core market throughput.

Gas Utility operating income and income before income taxes decreased \$26.0 million and \$24.9 million, respectively, compared with the prior-year period. The decreases in operating income and income before income taxes during the 2015 three-month period principally reflects the decrease in total margin (\$20.6 million), higher depreciation expense (\$1.2 million) and lower other operating income (loss) including a non-recurring charge related to the settlement of litigation (\$2.5 million) and interest on PGC overcollections. Income before income taxes also reflects lower interest expense principally due to lower average long-term debt outstanding.

***Electric Utility***

Temperatures based upon heating degree days during the 2015 three-month period were approximately 27.5% warmer than normal and approximately 22.1% warmer than the prior-year period. Total kilowatt-hour sales decreased by 8.1% principally reflecting the impact of the warmer weather on heating-related sales. The lower Electric Utility revenues principally resulted from the lower sales and lower DS recovery mechanism rates in the 2015 three-month period. Because Electric Utility is subject to reconcilable DS recovery mechanisms, increases or decreases in the actual cost of electricity associated with customers who purchase their electricity from Electric Utility impact revenues and cost of sales but have no direct effect on Electric Utility margin. Electric Utility cost of sales decreased to \$11.2 million in the 2015 three-month period from \$15.8 million in the 2014 three-month reflecting the lower volumes sold and lower DS rates.

Electric Utility total margin, net of gross receipts taxes, decreased \$0.5 million principally reflecting the lower volume sales as a result of the warmer 2015 three-month period weather.

Electric Utility operating income and income before income taxes in the 2015 three-month period each decreased \$1.2 million principally reflecting the decrease in total margin and higher operating and administrative expenses.

***Interest Expense and Income Taxes***

Our interest expense in the 2015 three-month period decreased principally reflecting lower average long-term debt outstanding. Our effective income tax rate for the three months ended December 31, 2015 was comparable with the prior-year three-month period.

**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.

UGI Utilities' total debt outstanding at December 31, 2015, was \$767.7 million, which includes \$217.7 million of short-term borrowings, compared with total debt outstanding of \$693.7 million at September 30, 2015, which includes \$71.7 million of short-term borrowings. Total long-term debt outstanding at December 31, 2015, comprises \$450.0 million of Senior Notes and \$100.0 million of Medium-Term Notes.

UGI Utilities has an unsecured revolving credit agreement (the "UGI Utilities 2015 Credit Agreement") with a group of banks providing for borrowings up to \$300 million (including a \$100 million sublimit for letters of credit). Borrowings under the UGI Utilities 2015 Credit Agreement and a predecessor agreement are classified as short-term borrowings on the Condensed Consolidated Balance Sheets. During the 2015 and 2014 three-month periods, average daily short-term borrowings were \$154.6 million and \$115.7 million, respectively, and peak short-term borrowings totaled \$220.0 million and \$163.6 million, respectively. At December 31, 2015, UGI Utilities' available borrowing capacity under the UGI Utilities 2015 Credit Agreement was \$80.3 million. 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 and inventories, is generally greatest.

During the 2015 three-month period, UGI Utilities repaid \$72 million of maturing Medium-Term Notes. UGI Utilities used borrowings under the UGI Utilities 2015 Credit Agreement and existing cash balances to fund such repayments. UGI Utilities expects to issue fixed-rate long-term debt later in Fiscal 2016 principally to refinance, on a long-term basis, these repayments and the repayment of \$175 million of 5.75% Senior Notes due September 2016. In order to reduce market rate risk on the underlying benchmark rate of interest associated with these forecasted issuances of fixed-rate debt, we have entered into interest rate protection agreements (see Note 9 to condensed consolidated financial statements).

**UGI UTILITIES, INC. AND SUBSIDIARIES**

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 2015 Credit Agreement and the ability to refinance long-term debt as it matures to meet our anticipated contractual and projected cash commitments.

**Cash Flows**

**Operating activities.** Due to the seasonal nature of UGI Utilities' businesses, cash flows from our operating activities are generally greatest during the second and third fiscal quarters when customers pay for natural gas and electricity consumed during the peak heating season months. Conversely, operating cash flows are generally at their lowest levels during the first and fourth fiscal quarters when the Company's investment in working capital, principally accounts receivable and inventories, is generally greatest. UGI Utilities uses borrowings under the UGI Utilities 2015 Credit Agreement to manage seasonal cash flow needs.

Cash provided by operating activities was \$8.8 million in the 2015 three-month period compared to \$12.7 million in the prior-year period. Cash flow from operating activities before changes in operating working capital was \$61.9 million in the 2015 three-month period compared to \$64.2 million recorded in the prior-year period. Changes in operating working capital used \$53.2 million of operating cash flow during the 2015 three-month period compared to \$51.5 million of cash used during the prior-year period. Among other things, cash used to fund changes in operating working capital includes \$6.8 million of cash used to fund changes in deferred fuel collections during the 2015 three-month period compared with \$4.4 million of cash provided by changes in deferred fuel collections during the prior-year period. The 2015 three-month period also reflects lower cash required to fund changes in accounts receivable reflecting, in large part, the effects on accounts receivable from the lower sales resulting from the significantly warmer weather. During the 2014 three-month period, changes in operating working capital included higher cash flow from changes in accrued income taxes.

**Investing activities.** Cash used by investing activities was \$63.3 million in the 2015 three-month period compared to \$62.4 million in the 2014 three-month period. Total cash capital expenditures were \$60.5 million in the 2015 three-month period compared with \$55.0 million recorded in the prior-year period. The increase in cash capital expenditures during the 2015 three-month period principally reflects higher Gas Utility maintenance and betterment capital expenditures. Changes in restricted cash in futures brokerage accounts provided \$0.3 million of cash in the 2015 three-month period compared with cash used of \$5.4 million in the prior-year period.

**Financing activities.** Cash provided by financing activities was \$67.0 million in the 2015 three-month period compared with \$51.6 million in the 2014 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. During the 2015 three-month period there were net credit agreement borrowings of \$146.0 million compared with net credit agreement borrowings of \$67.2 million during the prior-year period. During the 2015 three-month period, UGI Utilities repaid \$72 million of maturing Medium-Term Notes. UGI Utilities used borrowings under the UGI Utilities 2015 Credit Agreement and existing cash balances to fund these repayments. UGI Utilities expects to issue long-term debt later in Fiscal 2016 to refinance these and other scheduled debt repayments on a long-term basis. Cash dividends in the 2015 three-month period totaled \$7.0 million compared to cash dividends of \$15.6 million in the prior-year period.

**REGULATORY MATTERS**

**UGI Gas Base Rate Filing.** On January 19, 2016, UGI Utilities filed a request with the PUC to increase UGI Gas base operating revenues for residential, commercial and industrial customers by \$58.6 million annually. 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. UGI Utilities is requesting that the new gas rates become effective March 19, 2016. However, the PUC typically suspends the effective date for general base rate proceedings to allow for investigation and public hearings. This review process is expected to last approximately nine months, however, the Company cannot predict the timing or the ultimate outcome of the rate case review process.

**UGI UTILITIES, INC. AND SUBSIDIARIES****ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

**Commodity Price Risk**

Gas Utility's tariffs contain clauses that permit recovery of all of the prudently incurred costs of natural gas it sells to its 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, 2015 and 2014, the fair values of our natural gas futures and option contracts were losses of \$4.5 million and \$6.8 million, respectively.

Electric Utility's DS tariffs contain clauses which permit recovery of all prudently incurred power costs, including the cost of financial instruments used to hedge electricity costs, through the application of DS rates. Because of this ratemaking mechanism, there is limited power cost risk, including the cost of FTRs and forward electricity purchase contracts, associated with our Electric Utility operations. At December 31, 2015 and 2014, the fair values of Electric Utility's electricity supply contracts not accounted for as NPNS were losses of \$0.5 million and \$2.4 million, respectively. At December 31, 2015 and 2014, the fair values of FTRs were not material.

In addition, Gas Utility and Electric Utility from time to time enter into exchange-traded gasoline futures and swap contracts for a portion of gasoline volumes expected to be used in their operations. These gasoline futures and swap contracts are recorded at fair value with changes in fair value reflected in operating expenses and other income.

At December 31, 2015, UGI Utilities had \$6.3 million of restricted cash in commodity brokerage accounts. At December 31, 2014, UGI Utilities had \$9.0 million of restricted cash in commodity brokerage accounts.

**Interest Rate Risk**

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. The fair values of unsettled IRPAs held at December 31, 2015, were losses of \$3.8 million. A 50 basis point decline in interest rates would result in an approximate \$27.7 million decline in the fair values of our IRPAs at December 31, 2015. There were no unsettled IRPAs outstanding at December 31, 2014.

**ITEM 4. CONTROLS AND PROCEDURES****(a) Evaluation of Disclosure Controls and Procedures**

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

**(b) Change in Internal Control over Financial Reporting**

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



**UGI UTILITIES, INC. AND SUBSIDIARIES****PART II OTHER INFORMATION****ITEM 1A. RISK FACTORS**

In addition to the information presented in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing the Company. Other unknown or unpredictable factors could also have material adverse effects on future results.

**ITEM 6. EXHIBITS**

The exhibits filed as part of this report are as follows:

<b>Exhibit No.</b>	<b>Exhibit</b>	<b>Registrant</b>	<b>Filing</b>	<b>Exhibit</b>
12.1	Computation of ratio of earnings to fixed charges			
31.1	Certification by the Chief Executive Officer relating to the Registrant’s Report on Form 10-Q for the quarter ended December 31, 2015, 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, 2015, 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, 2015, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.			
101.INS	XBRL Instance			
101.SCH	XBRL Taxonomy Extension Schema			
101.CAL	XBRL Taxonomy Extension Calculation Linkbase			
101.DEF	XBRL Taxonomy Extension Definition Linkbase			
101.LAB	XBRL Taxonomy Extension Labels Linkbase			
101.PRE	XBRL Taxonomy Extension Presentation Linkbase			

**UGI UTILITIES, INC. AND SUBSIDIARIES**

**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 5, 2016

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

Date: February 5, 2016

By: /s/ Ann P. Kelly  
Ann P. Kelly  
Controller

**UGI UTILITIES, INC. AND SUBSIDIARIES****EXHIBIT INDEX**

- 12.1 Computation of ratio of earnings to fixed charges.
- 31.1 Certification by the Chief Executive Officer relating to the Registrant's Report on Form 10-Q for the quarter ended December 31, 2015, 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, 2015, 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, 2015, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS XBRL Instance
- 101.SCH XBRL Taxonomy Extension Schema
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase
- 101.DEF XBRL Taxonomy Extension Definition Linkbase
- 101.LAB XBRL Taxonomy Extension Labels Linkbase
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase

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

	Three Months	Year Ended September 30,			
	Ended December 31, 2015	2015	2014	2013	2012
<b>Earnings:</b>					
Earnings before income taxes	\$ 38,802	\$ 200,539	\$ 207,929	\$ 171,010	\$ 142,971
Interest expense	9,453	40,400	37,897	38,578	41,599
Amortization of debt discount and expense	41	728	575	731	814
Estimated interest component of rental expense	688	2,728	2,398	2,090	2,121
	<u>\$ 48,984</u>	<u>\$ 244,395</u>	<u>\$ 248,799</u>	<u>\$ 212,409</u>	<u>\$ 187,505</u>
<b>Fixed Charges:</b>					
Interest expense	\$ 9,453	\$ 40,400	\$ 37,897	\$ 38,578	\$ 41,599
Amortization of debt discount and expense	41	728	575	731	814
Allowance for funds used during construction (capitalized interest)	101	407	227	286	10
Estimated interest component of rental expense	688	2,728	2,398	2,090	2,121
	<u>\$ 10,283</u>	<u>\$ 44,263</u>	<u>\$ 41,097</u>	<u>\$ 41,685</u>	<u>\$ 44,544</u>
Ratio of earnings to fixed charges	<u>4.76</u>	<u>5.52</u>	<u>6.05</u>	<u>5.10</u>	<u>4.21</u>

**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 5, 2016

/s/ Robert F. Beard

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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 5, 2016

/s/ Daniel J. Platt

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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, 2015 (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

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Robert F. Beard

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Daniel J. Platt

Date: February 5, 2016

Date: February 5, 2016

**EXHIBIT 32**

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

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

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

- (1) The Company's periodic report on Form 10-Q for the period ended March 31, 2016 (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

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Robert F. Beard

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Daniel J. Platt

Date: May 6, 2016

Date: May 6, 2016