

UGI UTILITIES INC

FORM 10-Q (Quarterly Report)

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Industry	Multiline Utilities
Sector	Utilities
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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, 2017

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.)

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

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

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

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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>	Non-accelerated filer	<input checked="" type="checkbox"/>
Smaller reporting company	<input type="checkbox"/>	Emerging growth company	<input type="checkbox"/>		

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

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

At July 31, 2017, there were 26,781,785 shares of UGI Utilities, Inc. Common Stock, par value \$2.25 per share, outstanding, all of which were held, beneficially and of record, by UGI Corporation.

UGI UTILITIES, INC. AND SUBSIDIARIES

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UGI UTILITIES, INC. AND SUBSIDIARIES
PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2017	September 30, 2016	June 30, 2016
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 4,828	\$ 2,819	\$ 82,449
Restricted cash	2,524	583	212
Accounts receivable (less allowances for doubtful accounts of \$10,050, \$3,946 and \$7,921, respectively)	69,246	44,692	59,301
Accounts receivable — related parties	718	398	638
Accrued utility revenues	5,924	12,753	10,099
Inventories	37,129	42,340	27,009
Prepaid income taxes	428	1,956	—
Regulatory assets	7,759	3,208	3,263
Derivative instruments	942	4,263	5,384
Prepaid expenses & other current assets	12,995	22,009	33,724
Total current assets	142,493	135,021	222,079
Property, plant and equipment, at cost (less accumulated depreciation and amortization of \$1,008,121, \$975,374 and \$961,006, respectively)	2,174,609	2,023,541	1,945,539
Goodwill	182,145	182,145	182,145
Regulatory assets	390,988	391,933	342,037
Other assets	14,297	10,451	5,501
Total assets	\$ 2,904,532	\$ 2,743,091	\$ 2,697,301
LIABILITIES AND STOCKHOLDER'S EQUITY			
Current liabilities:			
Current maturities of long-term debt	\$ 39,990	\$ 19,986	\$ 19,981
Short-term borrowings	50,000	112,500	130,000
Accounts payable	56,866	65,180	50,665
Accounts payable — related parties	7,625	3,995	5,838
Regulatory liability — deferred fuel and power refunds	12,587	22,299	34,432
Derivative instruments	1,056	310	507
Other current liabilities	129,325	109,640	113,011
Total current liabilities	297,449	333,910	354,434
Long-term debt	711,116	651,455	627,422
Deferred income taxes	614,419	550,229	545,614
Deferred investment tax credits	3,029	3,268	3,348
Pension and postretirement benefit obligations	176,393	184,516	128,932
Other noncurrent liabilities	95,108	94,976	98,652
Total liabilities	1,897,514	1,818,354	1,758,402
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	473,580	473,580	473,295
Retained earnings	502,603	422,516	434,391
Accumulated other comprehensive loss	(29,424)	(31,618)	(29,046)
Total common stockholder's equity	1,007,018	924,737	938,899
Total liabilities and stockholder's equity	\$ 2,904,532	\$ 2,743,091	\$ 2,697,301

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		Nine Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Revenues	\$ 146,692	\$ 140,283	\$ 768,045	\$ 660,312
Costs and expenses:				
Cost of sales — gas, fuel and purchased power (excluding depreciation shown below)	51,979	44,415	325,991	257,288
Operating and administrative expenses	49,031	43,254	148,132	136,406
Operating and administrative expenses — related parties	2,961	2,811	10,059	8,789
Taxes other than income taxes	3,706	3,970	12,342	12,187
Depreciation	17,364	15,877	51,351	47,850
Amortization	548	673	1,651	2,431
Other operating (income) expense, net	(6,568)	(532)	(7,796)	2,769
	<u>119,021</u>	<u>110,468</u>	<u>541,730</u>	<u>467,720</u>
Operating income	27,671	29,815	226,315	192,592
Interest expense	10,128	9,158	30,478	27,922
Income before income taxes	17,543	20,657	195,837	164,670
Income taxes	6,846	8,054	75,750	65,422
Net income	<u>\$ 10,697</u>	<u>\$ 12,603</u>	<u>\$ 120,087</u>	<u>\$ 99,248</u>

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,	
	2017	2016	2017	2016
Net income	\$ 10,697	\$ 12,603	\$ 120,087	\$ 99,248
Other comprehensive income (loss):				
Net losses on derivative instruments (net of tax of \$0, \$0, \$0, and \$12,016, respectively)	—	—	—	(16,943)
Reclassifications of net losses on derivative instruments (net of tax of \$(355), \$(253), \$(1,047), and \$(782), respectively)	501	357	1,477	1,103
Benefit plans reclassifications of actuarial losses and prior service costs (net of tax of \$(169), \$(113), \$(507), and \$(340), respectively)	239	160	717	480
Other comprehensive income (loss)	740	517	2,194	(15,360)
Comprehensive income	\$ 11,437	\$ 13,120	\$ 122,281	\$ 83,888

See accompanying notes to condensed consolidated financial statements.

UGI UTILITIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW S
 (unaudited)
 (Thousands of dollars)

	Nine Months Ended	
	June 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 120,087	\$ 99,248
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	53,002	50,281
Deferred income tax expense	56,285	66,136
Provision for uncollectible accounts	8,184	6,716
Settlement of interest rate protection agreements	—	(35,975)
Other, net	4,358	954
Net change in:		
Accounts receivable and accrued utility revenues	(31,471)	(9,864)
Inventories	5,211	24,707
Deferred fuel and power costs, net of changes in unsettled derivatives	(12,571)	(11,587)
Accounts payable	2,775	(6,062)
Other current assets	9,014	(7,833)
Other current liabilities	21,727	17,763
Net cash provided by operating activities	236,601	194,484
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for property, plant and equipment	(201,916)	(163,967)
Net costs of property, plant and equipment disposals	(7,734)	(7,664)
(Increase) decrease in restricted cash	(1,941)	6,390
Net cash used by investing activities	(211,591)	(165,241)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of dividends	(40,000)	(37,000)
Issuances of long-term debt, net of issuance costs	99,499	99,415
Repayments of long-term debt	(20,000)	(72,000)
(Decrease) increase in short-term borrowings	(62,500)	58,300
Other	—	1,392
Net cash (used) provided by financing activities	(23,001)	50,107
Cash and cash equivalents increase	\$ 2,009	\$ 79,350
CASH AND CASH EQUIVALENTS		
End of period	\$ 4,828	\$ 82,449
Beginning of period	2,819	3,099
Increase	\$ 2,009	\$ 79,350

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.”

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 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, 2016 , 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, 2016 (“the Company’s 2016 Annual Report”). Due to the seasonal nature of our businesses, the results of operations for interim periods are not necessarily indicative of the results to be expected for a full year.

Derivative Instruments

Derivative instruments are reported on the Condensed Consolidated Balance Sheets at their fair values, unless the derivative instruments qualify for the normal purchase and normal sale (“NPNS”) exception 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 10 .

UGI UTILITIES, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(unaudited)

(Thousands of dollars)

Deferred Debt Issuance Costs. During the fourth quarter of Fiscal 2016, we adopted new accounting guidance regarding the classification of deferred debt issuance costs. Deferred debt issuance costs associated with long-term debt are reflected as a direct deduction from the carrying amount of such debt. Deferred debt issuance costs associated with line of credit facilities continue to be classified as “ Other assets ” on the Condensed Consolidated Balance Sheets. As a result of the retrospective application of new accounting guidance adopted, the Company has reflected \$2,597 of such costs as a reduction to long-term debt, including current maturities, on the June 30, 2016 , Condensed Consolidated Balance Sheet. Previously, these costs were presented within “ Other assets .”

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.

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

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

Employee Share-based Payments. Effective October 1, 2016, the Company adopted new accounting guidance issued to simplify several aspects of 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 employee share-based awards that vest or are exercised are recognized as income tax benefit or expense and treated as discrete items in the reporting period in which they occur. The adoption of the new accounting guidance did not have a material impact on our financial statements.

Accounting Standards Not Yet Adopted

Pension and Other Postretirement Benefit Costs. In March 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2017-07, “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.” This ASU requires entities to disaggregate the service cost component from the other components of net periodic benefit costs and present it with compensation costs for related employees in the income statement. The other components are required to be presented elsewhere in the income statement and outside of operating income. The amendments in this ASU permit only the service cost component to be eligible for capitalization when applicable. 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 generally 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 and determining the period in which the new guidance will be adopted.

Goodwill Impairment. In January 2017, the FASB issued ASU No. 2017-04, “Simplifying the Test for Goodwill Impairment.” Under the new accounting guidance, an entity will no longer determine goodwill impairment by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. Instead, an entity will perform its goodwill impairment tests by comparing the fair value of a reporting unit with its carrying amount. An entity will recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value but not to exceed the total amount of the goodwill of the reporting unit. In addition, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment, if applicable. The provisions of the new accounting guidance are required to be applied prospectively. The new accounting guidance is effective for the Company for goodwill impairment tests performed in fiscal years beginning after December 15, 2019 (Fiscal 2021). Early adoption is permitted for goodwill impairment tests performed after January 1, 2017. The Company expects to adopt the new guidance in the fourth quarter of Fiscal 2017.

Cash Flow Classification. In August 2016, the FASB issued 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

UGI UTILITIES, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(unaudited)

(Thousands of dollars)

adoption is permitted. The amendments in the ASU should generally 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 and determining the period in which the new guidance will be adopted.

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 are required to 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 and determining the period in which the new guidance will be adopted.

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

Revenue Recognition. In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." 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. The Company has not yet selected a transition method and is in the process of assessing the impact on its financial statements from the adoption of the new guidance.

Note 4 — Inventories

Inventories comprise the following:

	June 30, 2017	September 30, 2016	June 30, 2016
Gas Utility natural gas	\$ 21,826	\$ 29,223	\$ 13,561
Materials, supplies and other	15,303	13,117	13,448
Total inventories	\$ 37,129	\$ 42,340	\$ 27,009

At June 30, 2017, UGI Utilities was a party to five principal storage contract administrative agreements ("SCAAs") having terms ranging from one to three years. Four of the SCAAs were with UGI Energy Services, LLC ("Energy Services"), a second-tier, wholly owned subsidiary of UGI (see Note 12) 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 inventories, and any exchange receivable (representing amounts of natural gas inventories used by the other parties to the agreement but not yet replenished for which UGI Utilities has the rights), are included in the caption "Gas Utility natural gas" in the table above.

The carrying values of gas storage inventories released under the SCAAs at June 30, 2017, September 30, 2016 and June 30, 2016, comprising 4.8 billion cubic feet ("bcf"), 8.1 bcf and 4.6 bcf of natural gas, were \$14,146, \$18,773 and \$8,390, respectively. At June 30, 2017, September 30, 2016 and June 30, 2016, UGI Utilities held a total of \$15,040, \$19,100 and \$15,100, respectively, of security deposits received from its SCAA counterparties. These amounts are included in "Other current liabilities" on the Condensed Consolidated Balance Sheets.

UGI UTILITIES, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(unaudited)
(Thousands of dollars)

For additional information related to the SCAAs with Energy Services, see Note 12 .

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 2016 Annual Report. Other than removal costs, UGI Utilities currently does not recover a rate of return on its regulatory assets. The following regulatory assets and liabilities associated with UGI Utilities are included in the accompanying Condensed Consolidated Balance Sheets:

	June 30, 2017	September 30, 2016	June 30, 2016
Regulatory assets:			
Income taxes recoverable	\$ 122,733	\$ 115,643	\$ 119,604
Underfunded pension and postretirement plans	171,833	183,129	133,356
Environmental costs	61,616	59,397	60,716
Deferred fuel and power costs	7,024	151	—
Removal costs, net	29,405	27,956	22,444
Other	6,136	8,865	9,180
Total regulatory assets	\$ 398,747	\$ 395,141	\$ 345,300
Regulatory liabilities:			
Postretirement benefits	\$ 16,715	\$ 17,519	\$ 19,671
Deferred fuel and power refunds	12,587	22,299	34,432
State tax benefits — distribution system repairs	16,662	15,086	14,604
Other	2,706	665	1,149
Total regulatory liabilities (a)	\$ 48,670	\$ 55,569	\$ 69,856

(a) Regulatory liabilities, other than deferred fuel and power refunds, are recorded in “Other current liabilities” and “Other noncurrent liabilities” on 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 (losses) gains on such contracts at June 30, 2017 , September 30, 2016 , and June 30, 2016 , were \$(73) , \$4,263 and \$5,483 , respectively.

Electric Utility enters into forward electricity purchase contracts to meet a substantial portion of its electricity supply needs. At June 30, 2017 , September 30, 2016 , and 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 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, 2017 , September 30, 2016 , and June 30, 2016 , were not material.

UGI UTILITIES, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(unaudited)

(Thousands of dollars)

Base Rate Filings. On January 19, 2017, PNG filed a rate request with the PUC to increase PNG's base operating revenues for residential, commercial and industrial customers by \$21,700 annually. The increased revenues would fund ongoing system improvements and operations necessary to maintain safe and reliable natural gas service. PNG requested that the new gas rates become effective March 20, 2017. The PUC entered an Order dated February 9, 2017, suspending the effective date for the rate increase to allow for investigation and public hearings. On June 30, 2017, all active parties supported the filing of a Joint Petition for Approval of Settlement of all issues with the PUC. Under the terms of the Joint Petition, UGI Utilities will be permitted, effective October 20, 2017, to increase PNG's annual base distribution rates by \$11,250. On July 25, 2017, the PUC administrative law judge recommended that the settlement be adopted without modification. Although the Company expects to receive the final order from the PUC approving the settlement by October 2017, the Company cannot predict the timing or the ultimate outcome of the rate case review process.

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

Distribution System Improvement Charge. 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 5% of distribution charges 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 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 5% to 10% of billed distribution revenues. On May 10, 2017, the PUC issued a final Order to approve an increase of the maximum allowable DSIC to 7.5% of billed distribution revenues effective July 1, 2017, for PNG and CPG, pending reconsideration at the Company's Long-term Infrastructure Improvement Plan filing in 2018.

On November 9, 2016, UGI Gas received PUC approval to establish a DSIC tariff mechanism, capped at 5% of distribution charges billed to customers, effective January 1, 2017. 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. UGI Gas will be permitted to recover revenue under the mechanism for the amount of DSIC-eligible plant placed into service in excess of the threshold amount of DSIC-eligible plant agreed upon in the settlement of its recent base rate case. Achievement of that threshold is not likely to occur prior to September 30, 2017.

Note 6 — Debt

Pursuant to a Note Purchase Agreement, in October 2016, UGI Utilities issued \$100,000 aggregate principal amount of 4.12% Senior Notes due October 2046 (the "4.12% Senior Notes"). The net proceeds of the issuance of the 4.12% Senior Notes were used (1) to provide additional financing for UGI Utilities' infrastructure replacement and betterment capital program and information technology initiatives and (2) for general corporate purposes. The 4.12% Senior Notes are unsecured and rank equally with UGI Utilities' existing outstanding senior debt.

Note 7 — Commitments and Contingencies**Contingencies**

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

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

Each of UGI Utilities and its subsidiaries, CPG and PNG, has entered into an agreement with the Pennsylvania Department of Environmental Protection (“DEP”) to address the remediation of former MGPs in Pennsylvania (each, a “COA”). The COAs require UGI Gas, CPG and PNG 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 previously operated (“MGP Properties”) and, in the case of CPG, to plug a minimum number of non-producing natural gas wells per year. Under these agreements, in any calendar year, required environmental expenditures relating to the MGP Properties and, with respect to CPG, the natural gas wells, are capped at \$2,500 , \$1,800 , and \$1,100 , for UGI Gas, CPG and PNG, respectively. The COAs for UGI Gas, CPG and PNG are scheduled to terminate at the end of 2031, 2018, and 2019, respectively, but each COA may be terminated by either party at the end of any two -year period beginning with the original effective date of such COA. At June 30, 2017 , September 30, 2016 and June 30, 2016 , our estimated accrued liabilities for environmental investigation and remediation costs related to the COAs for UGI Gas, CPG and PNG totaled \$55,185 , \$55,063 , and \$56,006 , respectively. UGI Gas, 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 does not expect the costs for investigation and remediation of hazardous substances at Pennsylvania MGP sites to be material to its results of operations because UGI Gas, CPG and PNG receive ratemaking recovery of actual environmental investigation and remediation costs associated with the sites covered by the COAs. This ratemaking recognition reconciles the accumulated difference between historical costs and rate recoveries with an estimate of future costs associated with the sites.

From time to time, UGI Utilities is notified of sites outside Pennsylvania on which private parties allege MGPs were formerly owned or operated by UGI Utilities or owned or operated by 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, 2017 , September 30, 2016 and June 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.

Other Matters

Manor Township, Pennsylvania Natural Gas Explosion. On July 2, 2017, an explosion occurred in Manor Township, Pennsylvania which resulted in the death of a Company employee, significant injuries to two other Company employees and an employee of the local sewer authority, and significant property damage. The National Transportation Safety Board (“NTSB”), the Occupational Safety and Health Administration (“OSHA”) and the PUC are investigating the Manor Township incident. The NTSB investigative team includes representatives from the Company, the PUC, the local Fire Department and the Pipeline and Hazardous Materials Safety Administration and the Company is cooperating with the investigation. Other parties may be invited to participate by the NTSB.

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

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

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Notes to Condensed Consolidated Financial Statements(unaudited)
(Thousands of dollars)**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	
	2017	2016	2017	2016
Service cost	\$ 2,023	\$ 1,731	\$ 62	\$ 46
Interest cost	5,540	5,818	108	116
Expected return on assets	(7,497)	(7,167)	(164)	(149)
Amortization of:				
Prior service cost (benefit)	81	87	(160)	(160)
Actuarial loss	3,706	2,393	28	24
Net benefit cost (income)	3,853	2,862	(126)	(123)
Change in associated regulatory liabilities	—	—	(123)	878
Net benefit cost (income) after change in regulatory liabilities	\$ 3,853	\$ 2,862	\$ (249)	\$ 755

Nine Months Ended June 30,	Pension Benefits		Other Postretirement Benefits	
	2017	2016	2017	2016
Service cost	\$ 6,068	\$ 5,195	\$ 184	\$ 137
Interest cost	16,618	17,453	323	349
Expected return on assets	(22,490)	(21,502)	(492)	(447)
Amortization of:				
Prior service cost (benefit)	244	261	(480)	(480)
Actuarial loss	11,119	7,179	85	73
Net benefit cost (income)	11,559	8,586	(380)	(368)
Change in associated regulatory liabilities	—	—	(368)	2,632
Net benefit cost (income) after change in regulatory liabilities	\$ 11,559	\$ 8,586	\$ (748)	\$ 2,264

Pension Plan assets are held in trust and consist principally of publicly traded, diversified equity and fixed income mutual funds and, to a much lesser extent, UGI Corporation Common Stock. It is our general policy to fund amounts for Pension Plan benefits equal to at least the minimum contribution required by ERISA. From time to time we may, at our discretion, contribute additional amounts. During the nine months ended June 30, 2017 and 2016, the Company made contributions to the Pension Plan of \$8,546 and \$7,402, respectively. The Company expects to make additional discretionary cash contributions of approximately \$2,800 to the Pension Plan during the remainder of Fiscal 2017.

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, if any, is deferred for future recovery from, or refund to, ratepayers. There were no required contributions to the VEBA during the nine months ended June 30, 2017 and 2016.

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.

UGI UTILITIES, INC. AND SUBSIDIARIES

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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, 2017, September 30, 2016 and June 30, 2016 :

	Asset (Liability)			
	Level 1	Level 2	Level 3	Total
June 30, 2017:				
Assets:				
Commodity contracts	\$ 1,062	\$ 101	\$ —	\$ 1,163
Liabilities:				
Commodity contracts	\$ (1,157)	\$ (68)	\$ —	\$ (1,225)
September 30, 2016:				
Assets:				
Commodity contracts	\$ 4,506	\$ 4	\$ —	\$ 4,510
Liabilities:				
Commodity contracts	\$ (263)	\$ (294)	\$ —	\$ (557)
June 30, 2016:				
Assets:				
Commodity contracts	\$ 5,715	\$ 3	\$ —	\$ 5,718
Liabilities:				
Commodity contracts	\$ (341)	\$ (391)	\$ —	\$ (732)

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

Other Financial Instruments

The carrying amounts of other financial instruments included in current assets and current liabilities (except for current maturities of long-term debt) approximate their fair values because of their short-term nature. We estimate the fair value of long-term debt by using current market rates and by discounting future cash flows using rates available for similar type debt (Level 2). The carrying amount and estimated fair value of our long-term debt (including current maturities but excluding unamortized debt issuance costs) at June 30, 2017, September 30, 2016 and June 30, 2016 were as follows:

	June 30, 2017	September 30, 2016	June 30, 2016
Carrying amount	\$ 755,000	\$ 675,000	\$ 650,000
Estimated fair value	\$ 788,472	\$ 770,781	\$ 747,588

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,

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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, 2017, September 30, 2016 and June 30, 2016, the volumes of natural gas associated with Gas Utility's unsettled NYMEX natural gas futures and option contracts totaled 12.7 million dekatherms, 18.4 million dekatherms and 13.4 million dekatherms, respectively. At June 30, 2017, 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 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. At June 30, 2017, September 30, 2016 and June 30, 2016, all Electric Utility forward electricity purchase contracts were subject to the NPNS exception.

In order to reduce volatility associated with a substantial portion of its electricity transmission congestion costs, Electric Utility obtains FTRs through an annual allocation process. Gains and losses on Electric Utility FTRs are recorded in regulatory assets or liabilities on the Condensed Consolidated Balance Sheets because it is probable such gains or losses will be recoverable from, or refundable to, customers through the DS mechanism (see Note 5). At June 30, 2017, September 30, 2016 and June 30, 2016, the total volumes associated with FTRs totaled 139.4 million kilowatt hours, 58.3 million kilowatt hours and 80.6 million kilowatt hours, respectively. At June 30, 2017, 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. At June 30, 2017, September 30, 2016 and June 30, 2016, the total volumes associated with gasoline futures contracts were not material.

Interest Rate Risk

Our long-term debt typically is issued at fixed rates of interest. As these long-term debt issues mature, we typically refinance such debt with new debt having interest rates reflecting then-current market conditions. In order to reduce market rate risk on the underlying benchmark rate of interest associated with near- to medium-term forecasted issuances of fixed-rate debt, from time to time we enter into interest rate protection agreements ("IRPAs"). We account for IRPAs as cash flow hedges. As of June 30, 2017, September 30, 2016 and June 30, 2016, we had no unsettled IRPAs. At June 30, 2017, the amount of net losses associated with IRPAs expected to be reclassified into earnings during the next twelve months is \$3,485.

Derivative Instrument Credit Risk

Our commodity exchange-traded futures contracts generally require cash deposits in margin accounts. At June 30, 2017, September 30, 2016 and June 30, 2016, restricted cash in brokerage accounts totaled \$2,524, \$583 and \$212, 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

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or clear the transactions. Over-the-counter contracts are bilateral contracts that are transacted directly with a third party. Certain over-the-counter and exchange contracts contain contractual rights of offset through master netting arrangements, derivative clearing agreements and contract default provisions. In addition, the contracts are subject to conditional rights of offset through counterparty nonperformance, insolvency or other conditions.

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

Fair Value of Derivative Instruments

The following table presents the Company's derivative assets and liabilities, as well as the effects of offsetting, as of June 30, 2017, September 30, 2016 and June 30, 2016:

	June 30, 2017	September 30, 2016	June 30, 2016
Derivative assets:			
Derivatives subject to PGC and DS mechanisms:			
Commodity contracts	\$ 1,163	\$ 4,472	\$ 5,718
Derivatives not subject to PGC and DS mechanisms:			
Commodity contracts	—	38	—
Total derivative assets — gross	1,163	4,510	5,718
Gross amounts offset in the balance sheet	(159)	(247)	(225)
Total derivative assets — net (a)	\$ 1,004	\$ 4,263	\$ 5,493
Derivative liabilities:			
Derivatives subject to PGC and DS mechanisms:			
Commodity contracts	\$ (1,204)	\$ (499)	\$ (593)
Derivatives not subject to PGC and DS mechanisms:			
Commodity contracts	(21)	(58)	(139)
Total derivative liabilities — gross	(1,225)	(557)	(732)
Gross amounts offset in the balance sheet	159	247	225
Total derivative liabilities — net (a)	\$ (1,066)	\$ (310)	\$ (507)

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

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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, 2017 and 2016 :

Three Months Ended June 30,	Loss Recognized in AOCI		Loss Reclassified from AOCI into Income		Location of Loss Reclassified from AOCI into Income
	2017	2016	2017	2016	
Cash Flow Hedges:					
Interest rate contracts	\$ —	\$ —	\$ (856)	\$ (610)	Interest expense
	Gain (Loss) Recognized in Income		Location of Gain (Loss) Recognized in Income		
Three Months Ended June 30,	2017	2016			
Derivatives Not Subject to PGC and DS Mechanisms:					
Gasoline contracts	\$ (57)	\$ 27	Operating and administrative expenses		
	Loss Recognized in AOCI <th colspan="2">Loss Reclassified from AOCI into Income</th> <th rowspan="2">Location of Loss Reclassified from AOCI into Income</th>		Loss Reclassified from AOCI into Income		Location of Loss Reclassified from AOCI into Income
Nine Months Ended June 30,	2017	2016	2017	2016	
Cash Flow Hedges:					
Interest rate contracts	\$ —	\$ (28,959)	\$ (2,524)	\$ (1,885)	Interest expense
	Loss Recognized in Income		Location of Loss Recognized in Income		
Nine Months Ended June 30,	2017	2016			
Derivatives Not Subject to PGC and DS Mechanisms:					
Gasoline contracts	\$ (25)	\$ (93)	Operating and administrative expenses		

We are also a party to a number of other contracts that have elements of a derivative instrument. These contracts include, among others, binding purchase orders, contracts which provide for the purchase and delivery of natural gas and electricity, and service contracts that require the counterparty to provide commodity storage, transportation or capacity service to meet our normal sales commitments. Although many of these contracts have the requisite elements of a derivative instrument, these contracts qualify for NPNS exception accounting 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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(Thousands of dollars)**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, 2017 and 2016 :

Three Months Ended June 30, 2017	Postretirement Benefit Plans	Derivative Instruments	Total
AOCI — March 31, 2017	\$ (11,356)	\$ (18,808)	\$ (30,164)
Reclassifications of benefit plan actuarial losses and prior service costs	239	—	239
Reclassifications of net losses on IRPAs	—	501	501
AOCI — June 30, 2017	\$ (11,117)	\$ (18,307)	\$ (29,424)
Three Months Ended June 30, 2016	Postretirement Benefit Plans	Derivative Instruments	Total
AOCI — March 31, 2016	\$ (8,956)	\$ (20,607)	\$ (29,563)
Reclassifications of benefit plan actuarial losses and prior service costs	160	—	160
Reclassifications of net losses on IRPAs	—	357	357
AOCI — June 30, 2016	\$ (8,796)	\$ (20,250)	\$ (29,046)
Nine Months Ended June 30, 2017	Postretirement Benefit Plans	Derivative Instruments	Total
AOCI — September 30, 2016	\$ (11,834)	\$ (19,784)	\$ (31,618)
Reclassifications of benefit plans actuarial losses and prior service costs	717	—	717
Reclassifications of net losses on IRPAs	—	1,477	1,477
AOCI — June 30, 2017	\$ (11,117)	\$ (18,307)	\$ (29,424)
Nine Months Ended June 30, 2016	Postretirement Benefit Plans	Derivative Instruments	Total
AOCI — September 30, 2015	\$ (9,276)	\$ (4,410)	\$ (13,686)
Net losses on IRPAs	—	(16,943)	(16,943)
Reclassifications of benefit plans actuarial losses and prior service costs	480	—	480
Reclassifications of net losses on IRPAs	—	1,103	1,103
AOCI — June 30, 2016	\$ (8,796)	\$ (20,250)	\$ (29,046)

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 totaled \$562 and \$3,420 during the three and nine months ended June 30, 2017, respectively, and \$1,752 and \$3,904 during the three and nine months ended June 30, 2016, respectively.

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

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upon the commencement of the SCAAs, receives a transfer of storage inventories at the end of the SCAAs, and makes payments associated with refilling storage inventories during the term of the SCAAs. UGI Utilities incurred costs associated with Energy Services' SCAAs totaling \$9,777 and \$12,272 during the three and nine months ended June 30, 2017, respectively, and \$4,358 and \$6,387 during the three and nine months ended June 30, 2016, respectively. Energy Services, in turn, provides a firm delivery service and makes certain payments to UGI Utilities for its various obligations under the SCAAs. These payments totaled \$729 and \$2,027 during the three and nine months ended June 30, 2017, respectively, and \$493 and \$1,510 during the three and nine months ended June 30, 2016, 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 \$11,040 at June 30, 2017 and \$8,100 as of September 30, 2016 and June 30, 2016.

UGI Utilities reflects the historical cost of the gas storage inventories and any exchange receivable from Energy Services (representing amounts of natural gas inventories used but not yet replenished by Energy Services) in "Inventories" on the Condensed Consolidated Balance Sheets. The carrying values of these gas storage inventories at June 30, 2017, September 30, 2016 and June 30, 2016, comprising approximately 3.6 bcf, 4.6 bcf and 2.7 bcf of natural gas, were \$10,662, \$11,148 and \$5,100, 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, 2017 totaled \$2,137 and \$73,872, respectively. During the three and nine months ended June 30, 2016, such purchases totaled \$2,138 and \$61,193, respectively.

From time to time, UGI Utilities sells natural gas or pipeline capacity to Energy Services. During the three and nine months ended June 30, 2017, revenues associated with such sales to Energy Services totaled \$10,554 and \$43,836, respectively. 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. Also from time to time, UGI Utilities purchases natural gas, pipeline capacity and electricity from Energy Services (in addition to those transactions already described above) and purchases a firm storage service from UGI Storage Company, a subsidiary of Energy Services, under one-year agreements. During the three and nine months ended June 30, 2017, such purchases totaled \$14,675 and \$75,783, respectively. During the three and nine months ended June 30, 2016, such purchases totaled \$6,928 and \$30,032, 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 accounting policies of our reportable segments are the same as those described in Note 2 of the Company's 2016 Annual Report. We evaluate the performance of our Gas Utility and Electric Utility segments principally based upon their income before income taxes.

Financial information by business segment follows:

	Reportable Segments		
	Total	Gas Utility	Electric Utility
Three Months Ended June 30, 2017			
Revenues	\$ 146,692	\$ 127,849	\$ 18,843
Cost of sales — gas, fuel and purchased power	\$ 51,979	\$ 42,180	\$ 9,799
Depreciation and amortization	\$ 17,912	\$ 16,845	\$ 1,067
Operating income	\$ 27,671	\$ 25,628	\$ 2,043
Interest expense	\$ 10,128	\$ 9,601	\$ 527
Income before income taxes	\$ 17,543	\$ 16,027	\$ 1,516
Capital expenditures (including the effects of accruals)	\$ 79,088	\$ 75,836	\$ 3,252

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Three Months Ended June 30, 2016	Total	Reportable Segments	
		Gas Utility	Electric Utility
Revenues	\$ 140,283	\$ 119,995	\$ 20,288
Cost of sales — gas, fuel and purchased power	\$ 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

Nine Months Ended June 30, 2017	Total	Reportable Segments	
		Gas Utility	Electric Utility
Revenues	\$ 768,045	\$ 700,813	\$ 67,232
Cost of sales — gas, fuel and purchased power	\$ 325,991	\$ 288,610	\$ 37,381
Depreciation and amortization	\$ 53,002	\$ 49,378	\$ 3,624
Operating income	\$ 226,315	\$ 219,700	\$ 6,615
Interest expense	\$ 30,478	\$ 29,017	\$ 1,461
Income before income taxes	\$ 195,837	\$ 190,683	\$ 5,154
Capital expenditures (including the effects of accruals)	\$ 199,701	\$ 191,715	\$ 7,986

As of June 30, 2017

Total assets	\$ 2,904,532	\$ 2,743,035	\$ 161,497
Goodwill	\$ 182,145	\$ 182,145	\$ —

Nine Months Ended June 30, 2016	Total	Reportable Segments	
		Gas Utility	Electric Utility
Revenues	\$ 660,312	\$ 595,025	\$ 65,287
Cost of sales — gas, fuel and purchased power	\$ 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	\$ 2,697,301	\$ 2,531,573	\$ 165,728
Goodwill	\$ 182,145	\$ 182,145	\$ —

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**Forward-Looking Statements**

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

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

These factors, and those factors set forth in Item 1A. Risk Factors in the Company's 2016 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, 2017 (“2017 three-month period”) with the three months ended June 30, 2016 (“2016 three-month period”) and the nine months ended June 30, 2017 (“2017 nine-month period”) with the nine months ended June 30, 2016 (“2016 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.

2017 three-month period compared with the 2016 three-month period

Three Months Ended June 30, (Dollars in millions)	2017		2016		Increase (Decrease)	
Gas Utility:						
Revenues	\$	127.8	\$	120.0	\$	7.8 6.5 %
Total margin (a)	\$	85.6	\$	86.3	\$	(0.7) (0.8)%
Operating and administrative expenses	\$	47.2	\$	41.7	\$	5.5 13.2 %
Operating income	\$	25.6	\$	27.1	\$	(1.5) (5.5)%
Income before income taxes	\$	16.0	\$	18.4	\$	(2.4) (13.0)%
System throughput — billions of cubic feet (“bcf”)						
Core market		8.7		10.3		(1.6) (15.5)%
Total		46.5		43.6		2.9 6.7 %
Heating degree days — % (warmer) colder than normal (b)		(21.2)%		11.9%		— —
Electric Utility:						
Revenues	\$	18.8	\$	20.3	\$	(1.5) (7.4)%
Total margin (a)	\$	8.0	\$	8.5	\$	(0.5) (5.9)%
Operating and administrative expenses	\$	4.7	\$	4.4	\$	0.3 6.8 %
Operating income	\$	2.0	\$	2.7	\$	(0.7) (25.9)%
Income before income taxes	\$	1.5	\$	2.2	\$	(0.7) (31.8)%
Distribution sales — millions of kilowatt-hours (“gwh”)		209.5		215.7		(6.2) (2.9)%

- (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 \$1.0 million and \$1.1 million during the three months ended June 30, 2017 and 2016, 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 (“NOAA”) for airports located within Gas Utility’s service territory.

Temperatures in Gas Utility’s service territory during the three months ended June 30, 2017, were 21.2% warmer than normal and nearly 30% warmer than during the three months ended June 30, 2016. In particular, weather in the month of April 2017 was 43.6% warmer than in April 2016. Gas Utility core market volumes decreased 1.6 bcf (15.5%) principally reflecting the effects of the warmer 2017 three-month period weather partially offset by growth in the number of core market customers. Total Gas Utility distribution system throughput increased 2.9 billion bcf reflecting higher large firm delivery service volumes principally associated with service to a new natural gas-fired generation facility partially offset by the lower 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 others. Electric Utility kilowatt-hour sales were 2.9% lower than in the prior-year period primarily reflecting the impact of the warmer spring weather on Electric Utility heating-related sales.

UGI Utilities revenues increased \$6.4 million reflecting higher Gas Utility revenues (\$7.8 million). The higher Gas Utility revenues principally reflect higher off-system sales revenues (\$7.0 million) and higher delivery service revenues (\$1.5 million). Gas Utility core market revenues were comparable to the prior year and reflect the effects of the lower core market throughput (\$10.5 million) offset by higher average retail core market PGC rates (\$6.1 million) and an increase in UGI Gas base rates that became effective on October 19, 2016 (\$4.2 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 total margin. UGI Utilities cost of sales was \$52.0 million in the three-months ended June 30, 2017, compared with \$44.4 million in the three months ended June

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30, 2016, primarily reflecting the effects of higher average Gas Utility retail core market PGC rates (\$6.1 million) and higher cost of sales associated with Gas Utility off-system sales (\$7.0 million) partially offset by the lower retail core-market throughput (\$4.7 million).

UGI Utilities total margin decreased \$1.2 million principally reflecting lower total margin from Gas Utility core market customers (\$1.6 million) and lower other margin partially offset by higher large firm delivery service total margin (\$1.3 million). The decrease in Gas Utility core market margin reflects the effects of lower core market throughput (\$5.8 million) partially offset by the increase in UGI Gas base rates (\$4.2 million). Electric Utility total margin was lower than the prior-year three-month period reflecting the lower Electric Utility sales and lower transmission revenue.

UGI Utilities operating income decreased \$2.1 million principally reflecting the decrease in total margin (\$1.2 million), higher operating and administrative expenses (\$5.9 million) and higher depreciation and amortization expenses (\$1.4 million). These decreases in operating income were offset by a \$5.8 million environmental insurance settlement. UGI Utilities 2017 three-month period operating and administrative expenses include higher customer accounts expense (\$3.6 million) and, to a lesser extent, higher storage, transmission and production expenses and higher distribution system expenses. UGI Utilities income before income taxes decreased \$3.1 million reflecting the decrease in UGI Utilities operating income (\$2.1 million) and higher interest expense.

Interest Expense and Income Taxes

Our interest expense in the 2017 three-month period increased principally reflecting higher average long-term debt outstanding. Our effective income tax rate for the three months ended June 30, 2017 was comparable with the prior-year three -month period.

2017 nine-month period compared with the 2016 nine-month period

Nine Months Ended June 30,	2017	2016	Increase (Decrease)	
(Dollars in millions)				
Gas Utility:				
Revenues	\$ 700.8	\$ 595.0	\$ 105.8	17.8 %
Total margin (a)	\$ 412.2	\$ 373.4	\$ 38.8	10.4 %
Operating and administrative expenses	\$ 142.7	\$ 132.0	\$ 10.7	8.1 %
Operating income	\$ 219.7	\$ 183.9	\$ 35.8	19.5 %
Income before income taxes	\$ 190.7	\$ 157.4	\$ 33.3	21.2 %
System throughput — billions of cubic feet (“bcf”)				
Core market	65.4	61.7	3.7	6.0 %
Total	194.6	165.6	29.0	17.5 %
Heating degree days — % (warmer) than normal (b)	(11.3)%	(12.9)%	—	—
Electric Utility:				
Revenues	\$ 67.2	\$ 65.3	\$ 1.9	2.9 %
Total margin (a)	\$ 26.3	\$ 26.2	\$ 0.1	0.4 %
Operating and administrative expenses	\$ 15.4	\$ 13.1	\$ 2.3	17.6 %
Operating income	\$ 6.6	\$ 8.7	\$ (2.1)	(24.1)%
Income before income taxes	\$ 5.2	\$ 7.3	\$ (2.1)	(28.8)%
Distribution sales — millions of kilowatt-hours (“gwh”)	710.5	706.0	4.5	0.6 %

(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 \$3.5 million during the nine months ended June 30, 2017 and 2016 , 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 NOAA for airports located within Gas Utility’s service territory.

Temperatures in Gas Utility’s service territory during the nine months ended June 30, 2017, were 11.3% warmer than normal but 1.5% colder than during the nine months ended June 30, 2016. Gas Utility core market volumes increased 3.7 billion (6.0%) principally reflecting the effects of the slightly colder 2017 nine-month period weather and growth in the number of core market customers. Total Gas Utility distribution system throughput increased 29.0 bcf reflecting significantly higher large firm delivery

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service volumes principally associated with service to a new natural gas-fired generation facility and the higher core market volumes. These increases were partially offset by lower interruptible delivery service volumes. Electric Utility kilowatt-hour sales were 0.6% higher than the prior-year period, principally reflecting the impact of the slightly colder weather on Electric Utility heating-related sales.

UGI Utilities revenues increased \$107.7 million reflecting a \$105.8 million increase in Gas Utility revenues and slightly higher Electric Utility revenues. The higher Gas Utility revenues principally reflect an increase in core market revenues (\$72.1 million), higher large firm delivery service revenues (\$12.6 million) and higher off-system sales revenues (\$22.1 million). The \$72.1 million increase in Gas Utility core market revenues reflects the effects of the higher core market throughput (\$22.6 million), higher average retail core market PGC rates (\$31.7 million) and the increase in UGI Gas base rates effective October 19, 2016 (\$17.8 million). The increase in Electric Utility revenues principally reflects the higher Electric Utility volumes (\$0.4 million) and slightly higher average DS rates (\$1.4 million). UGI Utilities cost of sales was \$326.0 million in the nine months ended June 30, 2017 compared with \$257.3 million in the nine months ended June 30, 2016, principally reflecting the higher Gas Utility retail core-market volumes (\$11.2 million), higher average retail core market PGC rates (\$31.6 million) and higher cost of sales associated with Gas Utility off-system sales (\$22.1 million). In addition, the higher cost of sales reflects an increase in Electric Utility cost of sales of \$1.8 million resulting from the higher volumes sold and the slightly higher DS rates.

UGI Utilities total margin increased \$38.9 million principally reflecting higher total margin from Gas Utility core market customers (\$29.3 million) and higher large firm delivery service total margin (\$9.4 million). The increase in Gas Utility core market margin principally reflects the higher core market throughput (\$11.5 million) and the increase in UGI Gas base rates effective October 19, 2016 (\$17.8 million). Electric Utility total margin increased slightly principally reflecting the higher volume sales as a result of the slightly colder weather.

UGI Utilities operating income increased \$33.7 million, principally reflecting the increase in total margin (\$38.9 million) and higher other operating income, net (\$10.6 million). The higher other operating income, net reflects a \$5.8 million environmental insurance settlement, the absence of a non-recurring charge recorded in the prior-year period related to environmental matters (\$2.5 million) and lower interest on PGC overcollections (\$1.7 million). These increases in operating income were reduced by higher operating and administrative expenses (\$13.0 million) and higher depreciation and amortization expense (\$2.7 million) associated with increased capital expenditure activity. Operating and administrative expenses in the prior-year nine-month period were reduced by the capitalization of \$5.4 million of development stage IT project costs that had been expensed in prior periods but qualified for capitalization during the 2016 nine-month period. The increase in UGI Utilities operating and administrative expenses in the current year also reflects higher customer accounts expense (\$4.0 million) and higher employee benefits expenses (\$2.6 million). UGI Utilities income before income taxes increased \$31.2 million reflecting the increase in UGI Utilities operating income (\$33.7 million), partially offset by slightly higher interest expense.

Interest Expense and Income Taxes

Interest expense in the 2017 nine-month period increased principally reflecting higher average long-term debt outstanding. Our effective income tax rate for the nine months ended June 30, 2017, was slightly lower than the prior-year nine-month period. The lower 2017 nine-month period effective income tax rate is due primarily to the impact of excess tax benefits on share-based payments resulting from the adoption of new accounting guidance on share-based payments effective October 1, 2016 (see Note 3 to condensed consolidated financial statements).

FINANCIAL CONDITION AND LIQUIDITY

We depend on both internal and external sources of liquidity to provide funds for working capital and to fund capital requirements. Our short-term cash requirements not met by cash from operations are generally satisfied with borrowings under credit facilities. Our cash and cash equivalents at June 30, 2017, totaled \$4.8 million compared to \$2.8 million at September 30, 2016.

UGI Utilities' total debt outstanding at June 30, 2017, was \$801.1 million, which includes \$50.0 million of short-term borrowings, compared with total debt outstanding of \$783.9 million at September 30, 2016, which includes \$112.5 million of short-term borrowings. Total long-term debt outstanding at June 30, 2017, comprises \$675.0 million of Senior Notes and \$80.0 million of Medium-Term Notes, and is net of \$3.9 million of unamortized debt issuance costs.

Pursuant to a Note Purchase Agreement, in October 2016, UGI Utilities issued \$100 million aggregate principal amount of 4.12% Senior Notes due October 2046 (the "4.12% Senior Notes"). The net proceeds of the issuance of the 4.12% Senior Notes were used (1) to provide additional financing for UGI Utilities' infrastructure replacement and betterment capital program and information technology initiatives; and (2) for general corporate purposes.

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UGI Utilities has an unsecured revolving credit agreement (the “UGI Utilities Credit Agreement”) with a group of banks providing for borrowings up to \$300 million (including a \$100 million sublimit for letters of credit). Borrowings under the UGI Utilities Credit Agreement are classified as “Short-term borrowings” on the Condensed Consolidated Balance Sheets. During the 2017 and 2016 nine-month periods, average daily short-term borrowings under the UGI Utilities Credit Agreement were \$74.5 million and \$171.6 million, respectively, and peak short-term borrowings totaled \$137.0 million and \$232.0 million, respectively. At June 30, 2017, UGI Utilities’ available borrowing capacity under the UGI Utilities Credit Agreement was \$248.0 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, is generally greatest.

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

Cash Flows

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

Cash provided by operating activities was \$236.6 million in the 2017 nine-month period compared to \$194.5 million in the prior-year period. Cash flow from operating activities before changes in operating working capital was \$241.9 million in the 2017 nine-month period compared to \$187.4 million recorded in the prior-year period. The higher cash flow from operations before changes in operating working capital in the 2017 nine-month period principally reflects the increase in operating results and the absence of a \$36.0 million cash settlement of interest rate protection agreements recorded in the prior-year period. Changes in operating working capital used \$5.3 million of operating cash flow during the 2017 nine-month period compared to \$7.1 million of cash provided during the prior-year period.

Investing activities. Cash used by investing activities was \$211.6 million in the 2017 nine-month period compared to \$165.2 million in the 2016 nine-month period. Total cash capital expenditures were \$201.9 million in the 2017 nine-month period compared with \$164.0 million recorded in the prior-year period. The increase in cash capital expenditures during the 2017 nine-month period principally reflects higher information technology capital expenditures and higher expenditures associated with a pipeline expansion project. Changes in restricted cash in futures brokerage accounts used \$1.9 million of cash in the 2017 nine-month period compared with \$6.4 million of cash provided in the prior-year period.

Financing activities. Cash used by financing activities was \$23.0 million in the 2017 nine-month period compared with cash provided by financing activities of \$50.1 million during the 2016 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. UGI Utilities issued \$100 million of 4.12% Senior Notes during the 2017 nine-month period and used the net proceeds principally to fund infrastructure replacement and betterment capital expenditures, information technology initiatives, and for general corporate purposes. During the 2017 nine-month period there were net credit agreement repayments of \$62.5 million compared with net credit agreement borrowings of \$58.3 million during the prior-year period. Cash dividends in the 2017 nine-month period totaled \$40.0 million compared to cash dividends of \$37.0 million in the prior-year period.

REGULATORY MATTERS

Base Rate Filings. On January 19, 2017, PNG filed a rate request with the Pennsylvania Public Utility Commission (“PUC”) to increase PNG’s base operating revenues for residential, commercial and industrial customers by \$21.7 million annually. The increased revenues would fund ongoing system improvements and operations necessary to maintain safe and reliable natural gas service. PNG requested that the new gas rates become effective March 20, 2017. The PUC entered an Order dated February 9, 2017, suspending the effective date for the rate increase to allow for investigation and public hearings. On June 30, 2017, all active parties supported the filing of a Joint Petition for Approval of Settlement of all issues with the PUC. Under the terms of the Joint Petition, UGI Utilities will be permitted, effective October 20, 2017, to increase PNG’s annual base distribution rates by \$11.3 million. On July 25, 2017, the PUC administrative law judge recommended that the settlement be adopted without modification. Although the Company expects to receive the final order from the PUC approving the settlement by October 2017, the Company cannot predict the timing or the ultimate outcome of the rate case review process.

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

Distribution System Improvement Charge. 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 5% of distribution charges 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 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 5% to 10% of billed distribution revenues. On May 10, 2017, the PUC issued a final Order to approve an increase of the maximum allowable DSIC to 7.5% of billed distribution revenues effective July 1, 2017, for PNG and CPG, pending reconsideration at the Company’s Long-term Infrastructure Improvement Plan filing in 2018.

On November 9, 2016, UGI Gas received PUC approval to establish a DSIC tariff mechanism, capped at 5% of distribution charges billed to customers, effective January 1, 2017. 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. UGI Gas will be permitted to recover revenue under the mechanism for the amount of DSIC-eligible plant placed into service in excess of the threshold amount of DSIC-eligible plant agreed upon in the settlement of its recent base rate case. Achievement of that threshold is not likely to occur prior to September 30, 2017.

OTHER MATTERS

Manor Township, Pennsylvania Natural Gas Explosion. On July 2, 2017, an explosion occurred in Manor Township, Pennsylvania which resulted in the death of a Company employee, significant injuries to two other Company employees and an employee of the local sewer authority, and significant property damage. The National Transportation Safety Board (“NTSB”), the Occupational Safety and Health Administration (“OSHA”) and the PUC are investigating the Manor Township incident. The NTSB investigative team includes representatives from the Company, the PUC, the local Fire Department and the Pipeline and Hazardous Materials Safety Administration and the Company is cooperating with the investigation. Other parties may be invited to participate by the NTSB.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Commodity Price Risk

Gas Utility's tariffs contain clauses that permit recovery of all of the prudently incurred costs of natural gas it sells to its retail core-market customers, including the cost of financial instruments used to hedge purchased gas costs. The recovery clauses provide for periodic adjustments for the difference between the total amounts actually collected from customers through PGC rates and the recoverable costs incurred. Because of this ratemaking mechanism, there is limited commodity price risk associated with our Gas Utility operations. Gas Utility uses derivative financial instruments, including natural gas futures and option contracts traded on the NYMEX, to reduce volatility in the cost of gas it purchases for its retail core-market customers. The cost of these derivative financial instruments, net of any associated gains or losses, is included in Gas Utility's PGC recovery mechanism. The change in market value of natural gas futures contracts can require daily deposits of cash in futures accounts. At June 30, 2017, the fair values of our natural gas futures and option contracts were losses of \$0.1 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, 2017, all of our Electric Utility's forward electricity purchase contracts were subject to the NPNS exception. At June 30, 2017, the fair values of FTRs were not material.

In addition, Gas Utility and Electric Utility from time to time enter into exchange-traded gasoline futures contracts for a portion of gasoline volumes expected to be used in their operations. These gasoline futures contracts are recorded at fair value with changes in fair value reflected in "Operating and administrative expenses." The amount of unrealized losses on these contracts and associated volumes under contract at June 30, 2017 was not material.

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, 2017.

ITEM 4. CONTROLS AND PROCEDURES**(a) Evaluation of Disclosure Controls and Procedures**

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

(b) Change in Internal Control over Financial Reporting

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

PART II OTHER INFORMATION**ITEM 1A. RISK FACTORS**

In addition to the information presented in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended September 30, 2016, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing the Company. Other unknown or unpredictable factors could also have material adverse effects on future results.

ITEM 6. EXHIBITS

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

Exhibit No.	Exhibit	Registrant	Filing	Exhibit
3.1	Bylaws of UGI Utilities, Inc., Amended and Restated as of July 25, 2017.	Utilities	Form 8-K (7/25/17)	3.1
10.1	UGI Utilities, Inc. Senior Executive Employee Severance Plan, as amended as of July 10, 2017.			
10.2	UGI Corporation 2009 Supplemental Executive Retirement Plan for New Employees, as Amended and Restated as of June 15, 2017.	UGI	Form 10-Q (6/30/17)	10.1
10.3	Form of UGI Corporation 2013 Omnibus Incentive Compensation Plan, Nonqualified Stock Option Grant Letter for UGI, Utilities and AmeriGas Employees, dated January 1, 2017.	UGI	Form 10-Q (6/30/17)	10.2
10.4	Form of UGI Corporation 2013 Omnibus Incentive Compensation Plan, Performance Unit Grant Letter for UGI and Utilities Employees, dated January 1, 2017.	UGI	Form 10-Q (6/30/17)	10.3
10.5	UGI Corporation 2009 Deferral Plan, as amended and restated effective June 15, 2017.	UGI	Form 10-Q (6/30/17)	10.6
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, 2017, 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, 2017, 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, 2017, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.			
101.INS	XBRL Instance			
101.SCH	XBRL Taxonomy Extension Schema			
101.CAL	XBRL Taxonomy Extension Calculation Linkbase			
101.DEF	XBRL Taxonomy Extension Definition Linkbase			
101.LAB	XBRL Taxonomy Extension Labels Linkbase			
101.PRE	XBRL Taxonomy Extension Presentation Linkbase			

SIGNATURES

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

UGI Utilities, Inc.
(Registrant)

Date: August 4, 2017

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

Date: August 4, 2017

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

EXHIBIT INDEX

10.1	UGI Utilities, Inc. Senior Executive Employee Severance Plan, as amended as of July 10, 2017.
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, 2017, 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, 2017, 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, 2017, 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.
SENIOR EXECUTIVE EMPLOYEE
SEVERANCE PLAN
As amended as of July 10, 2017

UGI UTILITIES, INC.
SENIOR EXECUTIVE EMPLOYEE
SEVERANCE PLAN

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ARTICLE I

PURPOSE AND TERM OF PLAN

Section 1.01 Purpose of the Plan. This Senior Executive Employee Severance Plan is applicable to Executive Employees (as defined below) of UGI Utilities, Inc. and its Affiliates (as defined below). The Plan is intended to help alleviate financial hardships that may be experienced by Executive Employees whose employment is involuntary terminated. The Plan is intended to be a “severance pay plan” for purposes of ERISA (as defined below). The benefits paid by the Plan are not deferred compensation, and no employee shall have a vested right to such benefits. The Plan has been drafted to give the Company (as defined below) broad discretion in designating individuals who are eligible for benefits and the amount of such benefits. All actions taken by the Company shall be in its role as the plan sponsor and not as a fiduciary.

Section 1.02 Term of the Plan. The Plan has been amended and restated as of July 10, 2017. The Plan will continue until such time as the Company, acting in its sole discretion, elects to modify, supersede or terminate it in accordance with the further provisions hereof.

ARTICLE II

DEFINITIONS

Section 2.01 “Administrative Committee” shall mean the administrative committee designated pursuant to Article VI of the Plan to administer the Plan in accordance with its terms, or its delegate.

Section 2.02 “Affiliate” shall have the meaning ascribed to such term in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended.

Section 2.03 “Annual Compensation” shall mean the Participant’s annual base salary and applicable target annual bonus amount (if any) in effect on the Participant’s Employment Termination Date.

Section 2.04 “Benefit” or “Benefits” shall mean any or all of the benefits that a Participant is entitled to receive pursuant to Article IV of the Plan.

Section 2.05 “Board of Directors” shall mean the Board of Directors of the Company, or any successor thereto.

Section 2.06 “Change in Control” shall mean a change of control of the Company or UGI Corporation as defined in the attached Appendix A, as amended from time to time by the Committee, in its discretion.

Section 2.07 “Change in Control Agreement” shall mean a written Change in Control Agreement between an employee and the Company or an Affiliate.

Section 2.08 “Chief Executive Officer” shall mean the individual serving as the Chief Executive Officer of the Company as of the date of reference.

Section 2.09 “COBRA Cost” shall mean the applicable premium under section 4980B(f)(4) of the Code for continued medical and dental COBRA coverage under the benefit plans of the Company or an Affiliate.

Section 2.10 “COBRA Coverage” shall mean continued medical and dental coverage under benefit plans of the Company or an Affiliate, as determined under section 4980B of the Code.

Section 2.11 “Code” shall mean the Internal Revenue Code of 1986, as amended.

Section 2.12 “Company” shall mean UGI Utilities, Inc. and any corporation succeeding to the business of UGI Utilities, Inc. by merger, consolidation, liquidation, purchase of assets or stock or similar transaction.

Section 2.13 “Compensation Committee” shall mean the Compensation and Management Development Committee of the Board of Directors.

Section 2.14 “Employment Commencement Date” shall mean the most recent date on which a Participant became an employee of the Company or an Affiliate of the Company or, if the Company determines that service before an acquisition shall be taken into account, the most recent date on which a Participant became an employee of an entity whose business or assets have been acquired by the Company or an Affiliate.

Section 2.15 “Employment Termination Date” shall mean the date on which the Participant separates from service with the Company and its Affiliates within the meaning of section 409A of the Code.

Section 2.16 “ERISA” shall mean the Employee Retirement Income Security Act of 1974, as amended.

Section 2.17 “Executive Annual Bonus Plan” shall mean the UGI Utilities, Inc. Executive Annual Bonus Plan as in effect from time to time.

Section 2.18 “Executive Employee” shall mean any of the following employees who are employed in the United States:

(a) An executive level employee of the Company who participates in the Executive Annual Bonus Plan and who has a Change in Control Agreement in effect with the Company or an Affiliate; or

(b) An executive level employee of the Company or an Affiliate who is employed in the United States and who is designated in writing by the Compensation Committee as eligible to participate in this Plan.

Notwithstanding the foregoing, if an employee is employed by more than one company within the UGI Corporation controlled group and if the Company is not the employee’s primary employer, the employee shall not be eligible to participate in this Plan, unless otherwise designated in writing by the Compensation Committee. In no event shall any of the following persons be considered an employee for purposes of the Plan: (i) employees who are employed outside the United States, (ii) independent contractors, (iii) persons performing services pursuant to an arrangement with a third party leasing organization, (iv) any person whom the Company determines, in its sole discretion, is not a common law employee, whether or not any such person is later determined to have been a common law employee of the Company or an Affiliate, or (v) employees who are eligible to participate in another severance plan maintained by the Company or an Affiliate.

Section 2.19 “Just Cause” shall mean dismissal of an Executive Employee due to (i) theft or misappropriation of funds or conduct that has an adverse effect on the reputation of the Company or any Affiliate, (ii) conviction of a felony or a crime involving moral turpitude, (iii) material breach of the Company’s written code of conduct, or other material written employment policies, applicable to the Executive Employee, (iv) breach of any written confidentiality, non-competition or non-solicitation covenant between the Executive Employee and the Company or any Affiliate, (v) gross misconduct in the performance of duties, or (vi) intentional refusal or

failure to perform the material duties of the Executive Employee's position. Disputes with respect to whether Just Cause exists shall be resolved in accordance with Article IX.

Section 2.20 "Key Employee" shall mean an employee who, at any time during the 12-month period ending on the identification date, is a "specified employee" under section 409A of the Code, as determined by the Compensation Committee or its delegate. The determination of Key Employees, including the number and identity of persons considered specified employees and the identification date, shall be made by the Compensation Committee or its delegate in accordance with the provisions of section 409A of the Code and the regulations issued thereunder.

Section 2.21 "Month of Service" shall mean each calendar month (with each partial month counted as a full month) of continuous service with the Company and its Affiliates beginning on the Participant's Employment Commencement Date and ending on the Participant's Employment Termination Date. Months of Service with an entity whose business or assets have been acquired by the Company or an Affiliate shall be counted only if so determined by the Company.

Section 2.22 "Monthly Compensation" shall mean the Participant's Annual Compensation divided by 12.

Section 2.23 "Paid Notice" shall mean the cash amount payable to a Participant in lieu of notice as determined pursuant to Section 4.01(a).

Section 2.24 "Participant" shall mean any Executive Employee who receives Benefits under the Plan.

Section 2.25 "Plan" shall mean the UGI Utilities, Inc. Senior Executive Employee Severance Plan, as set forth herein, and as the same may from time to time be amended.

Section 2.26 "Plan Year" shall mean each fiscal year of the Company during which this Plan is in effect.

Section 2.27 "Postponement Period" shall mean, for a Key Employee, the period of six months after separation from service (or such other period as may be required by section 409A of the Code), during which deferred compensation may not be paid to the Key Employee under section 409A of the Code.

Section 2.28 "Release" shall mean a release and discharge of the Company, all of its Affiliates, and all affiliated persons and entities from any and all claims, demands and causes of action, other than as to amounts or benefits due to the Participant under any qualified employee retirement plan of the Company or an Affiliate, which shall be in such form as may be proscribed by the Company, acting as Plan sponsor and not as a fiduciary, from time to time and with such modifications as the Company deems appropriate for the Participant's particular situation.

Section 2.29 “Salary Continuation Period” shall mean (i) the number of months of Paid Notice plus (ii) one business day for each month that is included in the Participant’s Months of Service, up to a maximum of one year. Each calendar week is considered to consist of five business days for this purpose.

Section 2.30 “Separation Pay” shall mean the cash amount payable to a Participant as determined pursuant to Section 4.01(b).

ARTICLE III

PARTICIPATION
AND ELIGIBILITY FOR BENEFITS

Section 3.01 General Eligibility Requirement. In its sole discretion, acting in its role as Plan sponsor and not as a fiduciary, the Company may grant a Benefit under this Plan to any Executive Employee whose employment is terminated by the Company or an Affiliate other than for Just Cause, death, or continuous illness, injury or incapacity for a period of six consecutive months. Notwithstanding anything herein to the contrary, an Executive Employee will not be considered to have incurred a termination by the Company or an Affiliate for purposes of this Plan if his or her employment is discontinued due to voluntary resignation or the expiration of a leave of absence, as determined by the Company, acting in its role as Plan sponsor and not as a fiduciary. In addition, the Executive Employee must meet the requirements of Section 3.03 in order to receive a Benefit under this Plan.

Section 3.02 Substantially Comparable Employment. Notwithstanding anything herein to the contrary, no Benefits shall be due hereunder to an Executive Employee in connection with the disposition of a business, division or affiliated company by the Company or an Affiliate if substantially comparable terms of employment, as determined by the Company, have been offered to the Executive Employee by the transferee; *provided, however*, that the Company, acting in its role as Plan sponsor and not as a fiduciary, may determine that the Company or an Affiliate will provide some or all of the Benefits to an Executive Employee whose employment with the Company and its Affiliates is terminated as described in Section 3.01. For purposes of this Plan, “substantially comparable terms of employment” shall mean an executive level position with (i) no reduction in the Executive Employee’s annual base salary as of the date of the transaction, and (ii) no material change in the geographic location at which the Executive Employee must perform services (which, for purposes of this Plan, means a location that is not more than 50 miles from the Executive Employee’s principal place of business immediately before the transaction).

Section 3.03 Conditions to Entitlement to Benefits.

(a) As further conditions to entitlement to Benefits under the Plan, all Participants must, prior to the payment of any Benefits due hereunder, (i) sign and not rescind or contest the enforceability of a Release; (ii) ratify any patent assignment, confidentiality, non-solicitation, non-competition and other post-employment activities agreement in effect between the Participant and the Company or an Affiliate; (iii) return to the Company and its Affiliates any and all property of the Company and its Affiliates held by the Participant, including, but not limited to, all reports, manuals, memoranda, computer disks, tapes and data made available to the Participant during the performance of the Participant’s duties, including all copies; (iv) hold confidential any and all information concerning the Company and its Affiliates, whether with respect to its business, subscribers, providers, customers, operations, finances, employees, contractors, or otherwise; and (v) cooperate fully with the Company and its Affiliates to complete the transition of matters with which the Participant is familiar or responsible to other employees

and make himself or herself available to answer questions or assist in matters which may require attention after the Participant's Employment Termination Date. Notwithstanding the foregoing, accrued vacation described in Section 4.01(d) shall be paid without regard to the Participant's execution of a Release, to the extent required by applicable state law.

(b) If the Administrative Committee determines, in its sole discretion, that the Participant has violated one or more of the foregoing conditions to entitlement to Benefits, the Administrative Committee may determine that the Participant will not receive the Benefits or the Company may discontinue the payment of Benefits under the Plan. Any remedy under this Section 3.03 shall be in addition to, and not in place of, any other remedy the Company and its Affiliates may have, at law or otherwise.

ARTICLE IV

BENEFITS

Section 4.01 Amount of Immediate Cash Benefit. The Company, acting in its role as Plan sponsor and not as a fiduciary, shall determine which Executive Employees shall be awarded a Benefit hereunder and the amount of any such Benefit. The Company may take into account any factors it determines to be relevant in deciding which Executive Employees shall be awarded Benefits and the amount of such Benefits, and need not apply its determinations in a uniform manner to terminated Executive Employees similarly situated. All such decisions shall be final, binding and conclusive with respect to the Executive Employee. Unless the Company determines otherwise, subject in all events to Section 3.03, the amount to be paid to a Participant eligible to receive Benefits under Section 3.01 hereof upon the Participant's separation from service shall be paid in a lump sum as provided in Section 5.01 hereof and shall equal the sum of the amounts described in subsections (a) through (d), except that any payment under paragraph (c) below will be excluded from the lump sum payment and paid separately as provided below:

(a) Paid Notice as follows:

(i) In the case of the Chief Executive Officer, an amount of Paid Notice equal to 12 months of the Chief Executive Officer's Monthly Compensation.

(ii) In the case of all other Participants, an amount of Paid Notice equal to six months of the Participant's Monthly Compensation, unless otherwise designated in writing by the Company.

(b) An amount of Separation Pay equal to one day's pay (calculated by dividing the Participant's Annual Compensation by 260) for each Month of Service; provided, however, that such amount shall not exceed 100% of the Participant's Annual Compensation.

(c) The Administrative Committee may determine in its sole discretion that an annual bonus will be paid for the year of termination. The Administrative Committee may take into account factors such as Company and Affiliate performance, individual performance and the portion of the year elapsed prior to the Employment Termination Date. The annual bonus shall not exceed a pro rata portion of the Participant's target annual bonus for the year of termination. The bonus, if any, shall be paid within 60 days after the Employment Termination Date, unless the Executive Annual Bonus Plan in effect for the year specifically provides otherwise with respect to termination of employment. If a bonus is payable to the Participant under the Executive Annual Bonus Plan for the year of termination, no bonus will be payable under this Plan.

(d) An amount equal to the Participant's earned and accrued vacation entitlement, including banked vacation time, and personal holidays through the Participant's Employment Termination Date.

Section 4.02 Executive Benefits.

(a) If a Participant receives Benefits under Section 4.01, the Company shall pay to the Participant a single lump sum payment, as provided in Section 5.01 and subject to Section 3.03, equal to the COBRA Cost that the Participant would incur if the Participant continued medical and dental coverage under the Company's benefit plans through the end of the Salary Continuation Period, based on the benefits in effect for the Participant (and where applicable, his or her spouse and dependents) at the Participant's Employment Termination Date, less the amount that the Participant would be required to contribute for medical and dental coverage if such Participant were an active employee. The cash payment shall include an additional payment equal to 75% of the lump sum payment described in the preceding sentence.

(b) A Participant who receives Benefits under Section 4.01 may elect continuation coverage under the Company's applicable medical and dental plans during the Salary Continuation Period by paying the COBRA Cost of such coverage, provided such continued coverage would not result in adverse tax consequences to the Participant, Company or an Affiliate and provided such continued coverage is permitted under the applicable medical and dental plans. If the Participant elects such coverage, the Participant shall be responsible for paying the COBRA Cost of such coverage during the Salary Continuation Period in order to be eligible for the coverage. Notwithstanding anything herein to the contrary, any such continued coverage shall be discontinued if, and at the time, the Participant obtains other employment and becomes eligible to participate in the plan of, or is provided similar coverage by, a new employer. Any applicable conversion rights shall be provided to the Participant at the time coverage ceases. COBRA Coverage shall run concurrently with the Salary Continuation Period, and nothing in this Section shall limit the Employee's right to elect COBRA Coverage for the full period permitted by law.

(c) If a Participant who receives Benefits under Section 4.01 is entitled to receive tax preparation services immediately before his or her termination of employment, the Participant shall be entitled to receive tax preparation services for the final calendar year of his or her employment under the terms of the Company's tax preparation reimbursement policy. The Company shall reimburse the Participant for the services within 60 days following the Company's receipt of proof of payment for the services, but in no event later than December 31 of the calendar year following the calendar year in which the expense is incurred, provided that the Company receives proof of payment for the services at least 60 days before such December 31.

(d) The Company shall provide to each Participant who receives benefits under Section 4.01 outplacement services for up to 12 months following his or her Employment Termination Date through a vendor selected by the Company.

Section 4.03 Retirement Plans. This Plan shall not govern and shall in no way affect the Participant's interest in, or entitlement to benefits under, any of the qualified retirement plans of the Company or an Affiliate and any payments received under any such plan shall not affect a Participant's right to any Benefit hereunder.

Section 4.04 Effect on Other Benefits.

(a) After a Participant's termination of employment, the Participant shall not accrue benefits under any benefit plan of the Company or an Affiliate, and a terminated Participant shall not accrue vacation days, paid holidays, paid sick days or other benefits for any part of the Salary Continuation Period.

(b) Notwithstanding anything in this Plan to the contrary, no benefits shall be paid under this Plan if the Participant receives severance benefits under a Change in Control Agreement or any other severance agreement or arrangement with the Company or an Affiliate.

(c) Notwithstanding anything herein to the contrary, the Benefits payable under this Plan to any Participant may be reduced by any and all payments required to be made by the Company or an Affiliate under federal, state and local law, including the Worker Adjustment and Retraining Notification Act, 29 U.S.C. Section 2101 et. seq. or under any employment agreement or special severance arrangement, as determined by the Company, acting as Plan sponsor and not as a fiduciary.

ARTICLE V

METHOD AND DURATION OF BENEFIT PAYMENTS

Section 5.01 Method of Payment. The cash Benefit to which a Participant is entitled, pursuant to Article IV, shall be paid in a lump sum payment. Payment shall be made within 60 days following the Participant's Employment Termination Date, subject to the fulfillment of all conditions for payment of the Benefit set forth in Section 4.01 and compliance with all requirements of Section 3.03. Payment shall be made by mail to the last address provided by the Participant to the Company or an Affiliate. All payments under the Plan are subject to applicable federal, state and local taxes.

Section 5.02 Section 409A.

(a) Notwithstanding any provision of the Plan to the contrary, if required by section 409A of the Code and if a Participant is a Key Employee, no Benefits shall be paid to the Participant during the Postponement Period. If a Participant is a Key Employee and payment of Benefits is required to be delayed for the Postponement Period under section 409A, the accumulated amounts withheld on account of section 409A of the Code shall be paid in a lump sum payment within 30 days after the end of the Postponement Period. If the Participant dies during the Postponement Period prior to the payment of Benefits, the amounts withheld on account of section 409A of the Code shall be paid to the Participant's estate within 60 days after the Participant's death.

(b) This Agreement is intended to meet the requirements of the "short-term deferral" exception, the "separation pay" exception and other exceptions under section 409A of the Code. Notwithstanding anything in this Plan to the contrary, if required by section 409A, payments may only be made under this Plan upon an event and in a manner permitted by section 409A, to the extent applicable. As used in the Plan, the term "termination of employment" shall mean the Participant's separation from service with the Company and its Affiliates within the meaning of section 409A and the regulations promulgated thereunder. For purposes of section 409A, the right to a series of payments under the Plan shall be treated as a right to a series of separate payments. All reimbursements and in-kind benefits provided under the Plan shall be made or provided in accordance with the requirements of section 409A of the Code. **In no event may a Participant designate the year of payment for any amounts payable under the Plan.** Notwithstanding any provision of the Plan to the contrary, if the payments and benefits provided for under the Plan are subject to section 409A, in no event shall the timing of a Participant's execution of the Release, directly or indirectly, result in the Participant designating the calendar year of payment, and if a payment that is subject to execution of the Release could be made in more than one taxable year, payment shall be made in the later taxable year.

Section 5.03 Payments After Death. If a Participant dies after separation from service and before the Participant has received any Benefit that the Participant is entitled to receive under Article IV, any unpaid Benefit that the Participant would otherwise have received shall be payable to the Participant's estate.

ARTICLE VI

ADMINISTRATION

Section 6.01 Appointment. The Administrative Committee shall consist of one or more persons appointed by the Compensation Committee. Administrative Committee members may be, but need not be, employees of the Company.

Section 6.02 Tenure. Administrative Committee members shall serve at the pleasure of the Compensation Committee. Administrative Committee members may resign at any time on ten days' written notice, and Administrative Committee members may be discharged, with or without cause, at any time by the Compensation Committee.

Section 6.03 Authority and Duties. It shall be the duty of the Administrative Committee, on the basis of information supplied to it by the Company, to determine the eligibility of each Participant for Benefits under the Plan, to determine the amount of Benefits to which each such Participant may be entitled, and to determine the manner, time of payment and other requirements of payment of Benefits consistent with the provisions hereof. The Company shall make such payments as are certified to it by the Administrative Committee to be due to Participants. The Administrative Committee shall have the full power and discretionary authority to construe, interpret and administer the Plan, to correct deficiencies therein, and to supply omissions. All decisions, actions, and interpretations of the Administrative Committee shall be final, binding, and conclusive upon the parties. The Administrative Committee may delegate ministerial and other responsibilities to one or more employees of the Company or its Affiliates.

Section 6.04 Action by the Administrative Committee. A majority of the members of the Administrative Committee shall constitute a quorum for the transaction of business at a meeting of the Administrative Committee. Any action of the Administrative Committee may be taken upon the affirmative vote of a majority of the members of the Administrative Committee at a meeting, or at the direction of the Chairperson, without a meeting, by mail, telephone, or electronic communication; provided that all of the members of the Administrative Committee are informed of their right to vote on the matter before the Administrative Committee and of the outcome of the vote thereon.

Section 6.05 Officers of the Administrative Committee. The Administrative Committee shall designate one of its members to serve as Chairperson thereof. The Administrative Committee shall also designate a person to serve as Secretary of the Administrative Committee, which person may be, but need not be, a member of the Administrative Committee.

Section 6.06 Compensation of the Administrative Committee. Members of the Administrative Committee shall receive no compensation for their services as such. However, all reasonable expenses of the Administrative Committee shall be paid or reimbursed by the Company upon proper documentation. The Company shall indemnify members of the Administrative Committee against personal liability for actions taken in good faith in the discharge of their respective duties as members of the Administrative Committee.

Section 6.07 Records, Reporting, and Disclosure. The Administrative Committee shall keep all individual and group records relating to Participants and former Participants and all other records necessary for the proper operation of the Plan. Such records shall be made available to the Company and its Affiliates and to each Participant for examination during business hours except that a Participant shall examine only such records as pertain exclusively to the examining Participant and to the Plan. The Administrative Committee shall prepare and shall file as required by law or regulation all reports, forms, documents and other items required by ERISA, the Code, and every other relevant statute, each as amended, and all regulations thereunder (except that the Company or an Affiliate, as payor of the Benefits, shall prepare and distribute to the proper recipients all forms relating to withholding of income or wage taxes, Social Security taxes, and other amounts which may be similarly reportable).

Section 6.08 Actions of the Administrative Committee. All determinations made by the Administrative Committee under the Plan shall be made solely at the discretion of the Administrative Committee. The exercise of discretion by the Administrative Committee need not be uniformly applied to similarly situated Participants and shall be final and binding on each Participant or beneficiary to whom the determination is directed.

Section 6.09 Benefits of the Chief Executive Officer. Notwithstanding the foregoing, the Compensation Committee shall serve as the Administrative Committee under the Plan with respect to the Chief Executive Officer of the Company. The Compensation Committee shall make all determinations with respect to the Chief Executive Officer as to any matter that directly pertains to, or affects, the Chief Executive Officer.

Section 6.10 Bonding. The Administrative Committee shall arrange any bonding that may be required by law, but no amount in excess of the amount required by law (if any) shall be required by the Plan.

ARTICLE VII

AMENDMENT AND TERMINATION

Section 7.01 Amendment, Suspension and Termination. The Company, by action of its Board of Directors or the Compensation Committee or its delegate, retains the right, at any time and from time to time, to amend, suspend or terminate the Plan in whole or in part, for any reason, and without either the consent of or the prior notification to any Participant. No such amendment shall give the Company or an Affiliate the right to recover any amount paid to a Participant prior to the date of such amendment or to cause the cessation and discontinuance of payments of Benefits to any person or persons under the Plan already receiving Benefits. Notwithstanding the foregoing, the Administrative Committee may adopt any amendment to the Plan as it shall deem necessary or appropriate to (i) maintain compliance with current laws and regulations; (ii) correct errors and omissions in the Plan document; and (iii) facilitate the administration and operation of the Plan.

ARTICLE VIII

DUTIES OF THE COMPANY

Section 8.01 Records. The Company shall supply to the Administrative Committee all records and information necessary to the performance of the Administrative Committee's duties.

Section 8.02 Payment. The Company shall make payments from its general assets to Participants in accordance with the terms of the Plan, as directed by the Administrative Committee.

Section 8.03 Discretion, Delegation.

(a) Any decisions, actions or interpretations to be made under the Plan by the Company shall be made in its sole discretion, not in any fiduciary capacity and need not be uniformly applied to similarly situated individuals, and such decisions, actions or interpretations shall be final, binding and conclusive upon all parties.

(b) The Company may take actions under the Plan by action of its Board of Directors or the Compensation Committee, or by action of any officer or committee to whom any of the Company's authority with respect to the Plan shall have been delegated. The Compensation Committee shall be authorized to take all Company actions under the Plan with respect to the Chief Executive Officer.

ARTICLE IX

CLAIMS PROCEDURES

Section 9.01 Application for Benefits. A terminated employee who believes that he or she is eligible for benefits under this Plan may apply for such benefits by completing and filing with the Administrative Committee an application for benefits on a form supplied by the Administrative Committee. Each such application must be supported by such information as the Administrative Committee deems relevant and appropriate.

Section 9.02 Claim; Claim Decision. A terminated employee may contest his or her eligibility for benefits or his or her eligibility for the amount of benefit awarded, as applicable, by completing and filing with the Administrative Committee a written request for review in the manner specified by the Administrative Committee. Each such application must be supported by such information as the Administrative Committee deems relevant and appropriate. The Administrative Committee will review the claim and provide notice to the terminated employee, in writing, within 90 days after the claim is filed unless special circumstances require an extension of time for processing the claim. If the Administrative Committee determines that an extension of time for processing is required, the Administrative Committee shall furnish written notice of the extension before the end of the initial 90-day period. In no event shall the extension exceed a period of 90 days from the end of the initial period. The extension notice shall indicate the special circumstances requiring an extension of time and the date by which the Administrative Committee expects to render a decision. In the event that any claim for benefits is denied in whole or in part, the terminated employee whose claim has been so denied shall be notified of such denial in writing by the Administrative Committee. The notice advising of the denial shall be written in a manner calculated to be understood by the terminated employee and shall set forth: (a) the specific reason(s) for the denial; (b) specific references to the pertinent Plan provisions on which the denial is based; (c) a description of any additional material or information necessary for the claimant to perfect the claim and an explanation as to why such information is necessary; and (d) a description of the Plan's claim procedure and the time limits applicable to such procedures, including a statement of the claimant's right to bring a civil action under section 502(a) of ERISA following an adverse benefit determination on appeal.

Section 9.03 Appeals of Denied Claims for Benefits. All appeals shall be made by the following procedure:

(a) The terminated employee whose claim has been denied shall file with the Administrative Committee a notice of appeal of the denial. Such notice shall be filed within 60 days of notification by the Administrative Committee of the claim denial, shall be made in writing, and shall set forth all of the facts upon which the appeal is based. Appeals not timely filed shall be barred.

(b) Subject to subsection (a), the claimant or his duly authorized representative may:

(i) request a review upon written notice to the Administrative Committee;

(ii) request, free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claimant's claim for benefits; and

(iii) submit written comments, documents, records and other information related to the claim.

(c) The Named Appeals Fiduciary (as described in Section 9.04) shall issue a decision no later than 60 days after receipt of a request for review unless special circumstances, such as the need to hold a hearing, require a longer period of time, in which case a decision shall be rendered as soon as possible, but not later than 120 days after receipt of the terminated employee's notice of appeal. If the Named Appeals Fiduciary determines that an extension of time for processing is required, the Named Appeals Fiduciary shall furnish written notice of the extension before the end of the initial 60-day period. The extension notice shall indicate the special circumstances requiring an extension of time and the date by which the Named Appeals Fiduciary expects to render a decision.

(d) The Named Appeals Fiduciary shall take into account all comments, documents, records and other information submitted by the claimant relating to the claim, regardless of whether the information was submitted or considered in the initial benefit determination.

(e) The Named Appeals Fiduciary shall render a determination upon the appealed claim which determination shall be accompanied by a written statement. The notice advising of the denial shall be written in a manner calculated to be understood by the terminated employee and shall set forth:

(i) the specific reason(s) for the decision;

(ii) specific references to the pertinent Plan provisions on which the decision is based;

(iii) the claimant's right to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records and other information relevant to the claim for benefits; and

(iv) the claimant's right to bring a civil action under section 502(a) of ERISA.

Section 9.04 Appointment of the Named Appeals Fiduciary. The Named Appeals Fiduciary shall be the person or persons named as such by the Compensation Committee, or, if no such person or persons be named, then the person or persons named by the Administrative Committee as the Named Appeals Fiduciary. Named Appeals Fiduciaries may at any time be removed by the Compensation Committee, and any Named Appeals Fiduciary named by the

Administrative Committee may be removed by the Administrative Committee. All such removals may be with or without cause and shall be effective on the date stated in the notice of removal. The Named Appeals Fiduciary shall be a “Named Fiduciary” within the meaning of ERISA, and unless appointed to other fiduciary responsibilities, shall have no authority, responsibility or liability with respect to any matter other than the proper discharge of the functions of the Named Appeals Fiduciary as set forth herein.

Section 9.05 Claims Procedures Mandatory. The internal claims procedures set forth in this Article IX are mandatory. If a claimant fails to follow these claims procedures, or to timely file a request for appeal in accordance with this Article IX, the denial of the claim shall become final and binding on all persons for all purposes.

Section 9.06 Exhaustion of Claims and Appeals Procedures. A claim or action (a) to recover benefits allegedly due under the Plan or by reason of any law; (b) to enforce rights under the Plan; (c) to clarify rights to future benefits under the Plan; or (d) that relates to the Plan and seeks a remedy, ruling or judgment of any kind against the Plan or a Plan fiduciary or party in interest (collectively, a “Judicial Claim”), may not be commenced in any court or forum until after the claimant has exhausted the Plan’s claims and appeals procedures, including, for these purposes, any voluntary appeal right (an “Administrative Claim”). A claimant must raise all arguments and produce all evidence the claimant believes supports the claim or action in the Administrative Claim and shall be deemed to have waived every argument and the right to produce any evidence not submitted to the Named Appeals Fiduciary as part of the Administrative Claim. Any Judicial Claim must be commenced in the appropriate court or forum no later than 12 months from the earliest of (i) the date of the claimant’s termination of employment; (ii) the date the Administrative Committee or its delegate first denied the claimant's request; or (iii) the first date the claimant knew or should have known the principal facts on which such claim or action is based; provided, however, that, if the claimant commences an Administrative Claim before the expiration of such 12-month period, the period for commencing a Judicial Claim shall expire on the later of the end of the 12-month period and the date that is three months after the final denial of the claimant’s Administrative Claim, such that the claimant has exhausted the Plan’s claims and appeals procedures. Any claim or action that is commenced, filed or raised, whether a Judicial Claim or an Administrative Claim, after expiration of such 12-month limitations period (or, if applicable, expiration of the three-month limitations period following exhaustion of the Plan’s claims and appeals procedures) shall be time-barred. Filing or commencing a Judicial Claim before the claimant exhausts the Administrative Claim requirements shall not toll the 12-month limitations period (or, if applicable, the three month limitations period).

ARTICLE X

MISCELLANEOUS

Section 10.01 Nonalienation of Benefits. None of the payments, benefits or rights of any Participant shall be subject to any claim of any creditor, and, in particular, to the fullest extent permitted by law, all such payments, benefits and rights shall be free from attachment, garnishment, trustee's process, or any other legal or equitable process available to any creditor of such Participant. No Participant shall have the right to alienate, anticipate, commute, pledge, encumber or assign any of the benefits or payments which the Participant may expect to receive, contingently or otherwise, under this Plan.

Section 10.02 No Contract of Employment. Neither the establishment of the Plan, nor any modification thereof, nor the creation of any fund, trust or account, nor the payment of any benefits shall be construed as giving any Participant, or any person whosoever, the right to be retained in the service of the Company or an Affiliate, and all Participants shall remain subject to discharge to the same extent as if the Plan had never been adopted.

Section 10.03 Severability of Provisions. If any provision of this Plan shall be held invalid or unenforceable by a court of competent jurisdiction, such invalidity or unenforceability shall not affect any other provisions hereof, and this Plan shall be construed and enforced as if such provisions had not been included.

Section 10.04 Successors, Heirs, Assigns, and Personal Representatives. This Plan shall be binding upon the heirs, executors, administrators, successors and assigns of the parties, including each Participant, present and future. If a Change in Control occurs, unless the Compensation Committee directs otherwise before the Change in Control, the Company shall require any successor or successors (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, or a division or Affiliate thereof, (i) to acknowledge expressly that this Plan is binding upon and enforceable against such successor in accordance with the terms hereof, (ii) to become jointly and severally obligated with the Company to perform the obligations under this Plan, and (iii) to agree not to amend or terminate the Plan for a period of one year after the Change in Control without the consent of the affected Participant.

Section 10.05 Unfunded Plan. The Plan shall not be funded. The Company may, but shall not be required to, set aside or designate an amount necessary to provide the Benefits specified herein (including the establishment of trusts). In any event, no Participant shall have any right to, or interest in, any assets of the Company or an Affiliate which may be applied by the Company or an Affiliate to the payment of Benefits.

Section 10.06 Payments to Incompetent Persons. Any Benefit payable to or for the benefit of an incompetent person or other person incapable of receipting therefor shall be deemed paid when paid to such person's guardian or to the party providing or reasonably appearing to provide for the care of such person, and such payment shall fully discharge the Company, its

Affiliates, the Administrative Committee, the Compensation Committee and all other parties with respect thereto.

Section 10.07 Controlling Law. This Plan shall be construed and enforced according to the laws of the Commonwealth of Pennsylvania, to the extent not preempted by Federal law, without giving effect to any Pennsylvania choice of law provisions.

EXHIBIT A
UGI UTILITIES, INC.
CHANGE IN CONTROL

For purposes of this Plan, the term “Change in Control,” and defined terms used in the definition of “Change in Control,” shall have the following meanings:

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

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

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

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

their ownership of the Outstanding UGI Common Stock and UGI Voting Securities, as the case may be, immediately prior to such sale or disposition; or

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

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

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

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,			
	2017	2016	2015	2014	2013	
Earnings:						
Earnings before income taxes	\$ 195,837	\$ 163,271	\$ 200,539	\$ 207,929	\$ 171,010	
Interest expense	30,188	37,285	40,400	37,897	38,578	
Amortization of debt discount and expense	290	345	728	575	731	
Estimated interest component of rental expense	1,890	2,512	2,728	2,398	2,090	
	<u>\$ 228,205</u>	<u>\$ 203,413</u>	<u>\$ 244,395</u>	<u>\$ 248,799</u>	<u>\$ 212,409</u>	
Fixed Charges:						
Interest expense	\$ 30,188	\$ 37,285	\$ 40,400	\$ 37,897	\$ 38,578	
Amortization of debt discount and expense	290	345	728	575	731	
Allowance for funds used during construction (capitalized interest)	940	602	407	227	286	
Estimated interest component of rental expense	1,890	2,512	2,728	2,398	2,090	
	<u>\$ 33,308</u>	<u>\$ 40,744</u>	<u>\$ 44,263</u>	<u>\$ 41,097</u>	<u>\$ 41,685</u>	
Ratio of earnings to fixed charges	<u>6.85</u>	<u>4.99</u>	<u>5.52</u>	<u>6.05</u>	<u>5.10</u>	

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 4, 2017

/s/ Robert F. Beard

Robert F. Beard

President and Chief Executive Officer

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 4, 2017

/s/ Daniel J. Platt

Daniel J. Platt

Vice President - Finance and Chief
Financial Officer

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, 2017 (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 4, 2017

Date: August 4, 2017