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Around the clock

www.pgworks.com
800 West Montgomery Avenue
Philadelphia, PA 19122

Philadelphia Gas Works

(A Component Unit of the City of Philadelphia)
Comprehensive Annual Financial Report
For Fiscal Year Ended August 31, 2012

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Comprehensive Annual Financial Report
Fiscal Year Ended August 31, 2012

Michael A. Nutter
Mayor, City of Philadelphia, PA

David Seltzer
Chairman, Board of Directors
Philadelphia Facilities Management Corporation

Craig E. White
President & Chief Executive Officer,
Philadelphia Gas Works

Joseph F. Golden, Jr.
Executive Vice President &
Acting Chief Financial Officer,
Philadelphia Gas Works

Prepared by:
The Finance Organization
Philadelphia Gas Works
Philadelphia, PA

PHILADELPHIA GAS WORKS

(A Component Unit of the City of Philadelphia)

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Introductory Section

PHILADELPHIA GAS WORKS
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The Chairman and Members of the Philadelphia Facilities Management Corporation
Philadelphia, Pennsylvania:

The Comprehensive Annual Financial Report of the Philadelphia Gas Works (PGW) for the fiscal year ended August 31, 2012 is hereby submitted. The financial statements were prepared in accordance with Generally Accepted Accounting Principles in the United States of America (GAAP). Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures rests with PGW management.

The financial statements were audited by KPMG LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of PGW for the fiscal year ended August 31, 2012 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that PGW's financial statements for the fiscal year ended August 31, 2012 are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

Management has provided a narrative to accompany the basic financial statements. This narrative is known as Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

PROFILE OF PHILADELPHIA GAS WORKS

PGW began providing gas service to the City of Philadelphia (the City) in 1836, when the City's first gas lights were turned on along Second Street, between Vine and South Streets. In 1841, PGW came under City ownership. In 1897, the City contracted for PGW to be managed by UGI Corporation (then United Gas Improvement Company). Effective January 1, 1973 the City contracted with Philadelphia Facilities Management Corporation to operate and manage PGW.

Prior to July 1, 2000, PGW was under the regulatory jurisdiction of the Philadelphia Gas Commission (PGC). The PGC had the authority to set PGW's rates and tariffs. The PGC also approved PGW's annual Operating Budget and reviewed PGW's Capital Budget prior to approval by the City Council of the City (City Council).

Effective July 1, 2000, and pursuant to the passage of the Pennsylvania Natural Gas Choice and Competition Act (the Act), PGW came under the regulatory jurisdiction of the Pennsylvania Public Utility Commission (PUC). Under the PUC's jurisdiction, PGW filed a restructuring plan on July 1, 2002, which among other things, provided for an unbundled tariff permitting customer choice of the commodity supplier by September 1, 2003. Under the Act, the PUC is required to follow the "same ratemaking methodology and requirements" that were previously applicable to the PGC when determining PGW's revenue requirements and approving overall rates and charges. The PGC continues to approve PGW's Operating Budget and review its Capital Budget. PGW's Capital Budget must be approved by City Council.

PGW, as of September 1, 2003, is operating under its Restructuring Compliance Tariff. The Restructuring Compliance Tariff Rates are designed to maintain revenue neutrality and the Tariff Rules and Regulations are designed to comport with the Pennsylvania Public Utility Code.

Management is responsible for establishing and maintaining internal controls designed to protect the assets of PGW from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with GAAP. This internal control is subject to periodic evaluation by management in order to determine its adequacy. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

FACTORS AFFECTING FINANCIAL CONDITION

The information presented in this report is best understood in the context of the environment in which PGW operates. A more comprehensive analysis of these factors is available in PGW's Operating Budget and Five Year Forecast and Capital Budget and Five Year Forecast. These documents can be obtained online at www.pgworks.com.

The local economy is showing progress on several fronts despite continued fiscal challenges that arise from the demographic and economic changes that have occurred in recent Philadelphia history. PGW recognizes the challenges faced by our customers and has taken responsible action to assist our customers in need. PGW provides a discount on gas rates for senior citizens. There are approximately 27,000 customers receiving this discount on their current gas bills. PGW also provides a discounted payment plan with a possible forgiveness of arrearages over a three year time period. This program is offered to low income customers. There are approximately 80,000 customers enrolled in this program.

The single greatest operating expense is the cost of natural gas. The rate charged to PGW's customers to recover these costs is called the Gas Cost Rate (GCR). The GCR reflects the increases or decreases in natural gas costs and other costs. This GCR mechanism provides the flexibility to rapidly reflect current conditions without the time delay inherent in a full base rate proceeding. The intent is to achieve an annual balance between the costs incurred for fuel and their pass through to customers. In fiscal year 2012 the average GCR was $5.47 per thousand cubic feet (Mcf). This marks a 15% decrease in price from the prior fiscal year and is reflected in a lower monthly bill passed through to customers.

The temperature and other weather conditions greatly affect the gas usage of heating customers of PGW. Colder than normal weather conditions results in a greater demand for natural gas and warmer than normal weather conditions results in a lower demand for natural gas. In recent years the temperature in Philadelphia has been warmer than normal resulting in a decreased demand for natural gas. This decreased demand for natural gas results in lower operating margins.

PGW has recognized the need to stabilize and normalize revenue due to variations in weather from one fiscal year to another fiscal year. PGW requested a Weather Normalization Adjustment Clause (WNA) to address fluctuating revenue due to weather conditions. The WNA was approved by the PUC in 2002. The purpose of the WNA is to neutralize the impact of weather on PGW's revenues. This allows PGW to achieve the recovery of appropriate costs as authorized by the PUC. The WNA results in neither a rate increase nor a rate decrease, but acts as a billing adjustment. The main benefits of the WNA are the stabilization of cash flow and the reduction of the need for short-term borrowing from year to year. The

WNA is applied to customer invoices rendered during the period of October 1 through May 31 of each year for each billing cycle.

CAPITAL PROGRAM

PGW's annual capital program primarily supports an infrastructure investment plan to replace existing plant and facilities to ensure that PGW continues to operate the company's assets at a high standard of safety and reliability. The budget also supports PGW's efforts to add new accounts that offer economic advantages. This helps to spread PGW's fixed costs over a larger volume of customer usage, thereby positively impacting customer rates. Lastly, funds are requested for investment in systems and technology to improve customer service and the efficiency of its delivery.

The vast majority of PGW's capital program is dedicated to maintaining the integrity of underground distribution facilities. To this end, PGW implemented an annual program to reduce the inventory of cast iron main by 18 miles a year. On February 14, 2012, Act 11 was signed into law, providing Pennsylvania utility companies with a supplemental recovery mechanism (a Distribution System Improvement Charge, DSIC) for costs related to incremental/accelerated distribution system repair, improvement and replacement. Act 11 permits gas utilities to recover 5% of their non-gas revenues via the recovery mechanism, approximately $22 million for PGW. In order for a utility company to establish such a recovery mechanism, it must submit, along with other requirements, a Long Term Infrastructure Improvement Plan (LTIIP) and a DSIC petition to the PUC for review and approval. Accordingly, PGW has submitted its LTIIP in December 2012, and filed its DSIC petition in January 2013 with the PUC. As of this date the LTIIP filing and the DSIC petition are under PUC review.

MARKETING EFFORTS

PGW provides added-value services to our customers to satisfy their bottom line needs. This approach maximizes PGW's marketing efforts by differentiating PGW as the best source of fuel, providing safe, reliable service and valuable solutions to meet their energy requirements.

The Major Accounts group is focused on pursuing and developing new customers and natural gas projects. Driven by customer service, they are dedicated to developing energy solutions with operational and economic advantages. In fiscal year 2012, PGW's Major Accounts team conducted a 17,000 Mcf oil conversion with the School District of Philadelphia. There were two major steam conversions in fiscal year 2012 as well. One conversion was The Land Title Building for 10,000 Mcf and another at the Philadelphia Navy Yard for 65,000 Mcf. Also, within the Philadelphia Navy Yard, Urban Outfitters completed a fuel cell installation, a first within the City of Philadelphia, producing on-site generation which will base load their electric demand thereby reducing energy costs. Lastly, The Philadelphia College of Osteopathic Medicine's Main Campus installed a combined heat and power (CHP) unit increasing gas throughput by 10,000 Mcf thereby reducing energy costs. In fiscal year 2013, PGW is anticipating growth in the changing market trends with increased development along the Delaware riverfront. The emergence of new gas technologies with MicroCHP units and fuel cells will play an important role in the coming year. Plus, PGW is anticipating more oil to gas conversions as a continuing trend because of low natural gas prices.

On the Residential-Commercial side, PGW was able to increase load by 258,588 Mcf. There are eleven major residential housing projects currently in progress in the City. In fiscal year 2013, PGW will implement several additional residential rebate programs that specifically target residential consumers and water heater conversions and a whole gas house rebate program that targets builders, developers and contractors. These programs provide rebates to individuals who install natural gas appliances.

The Marketing team oversees the advertising and sales of the PGW Parts & Labor Plan (PLP). PLP serves to protect customers from parts and labor costs associated with repair or replacement of defective or worn parts as a result of normal usage of covered equipment.

PGW also places heavy emphasis on the development and corporate marketing plan of Compressed Natural Gas (CNG) and Liquefied Natural Gas (LNG) as transportation fuels. This includes developing external marketing sales plans to facilitate the siting of fueling stations and encouraging the development of CNG and LNG vehicle fleets.

ACKNOWLEDGEMENTS

This is PGW's inaugural submission to The Government Finance Officers Association of the United States and Canada (GFOA) for its prestigious Certificate of Achievement for Excellence in Financial Reporting. The preparation of the Comprehensive Annual Financial Report on a timely basis was made possible by the dedicated service of the entire staff of the Finance Organization as well as various other departments within the Company. Each has my sincere appreciation for their valuable contributions.

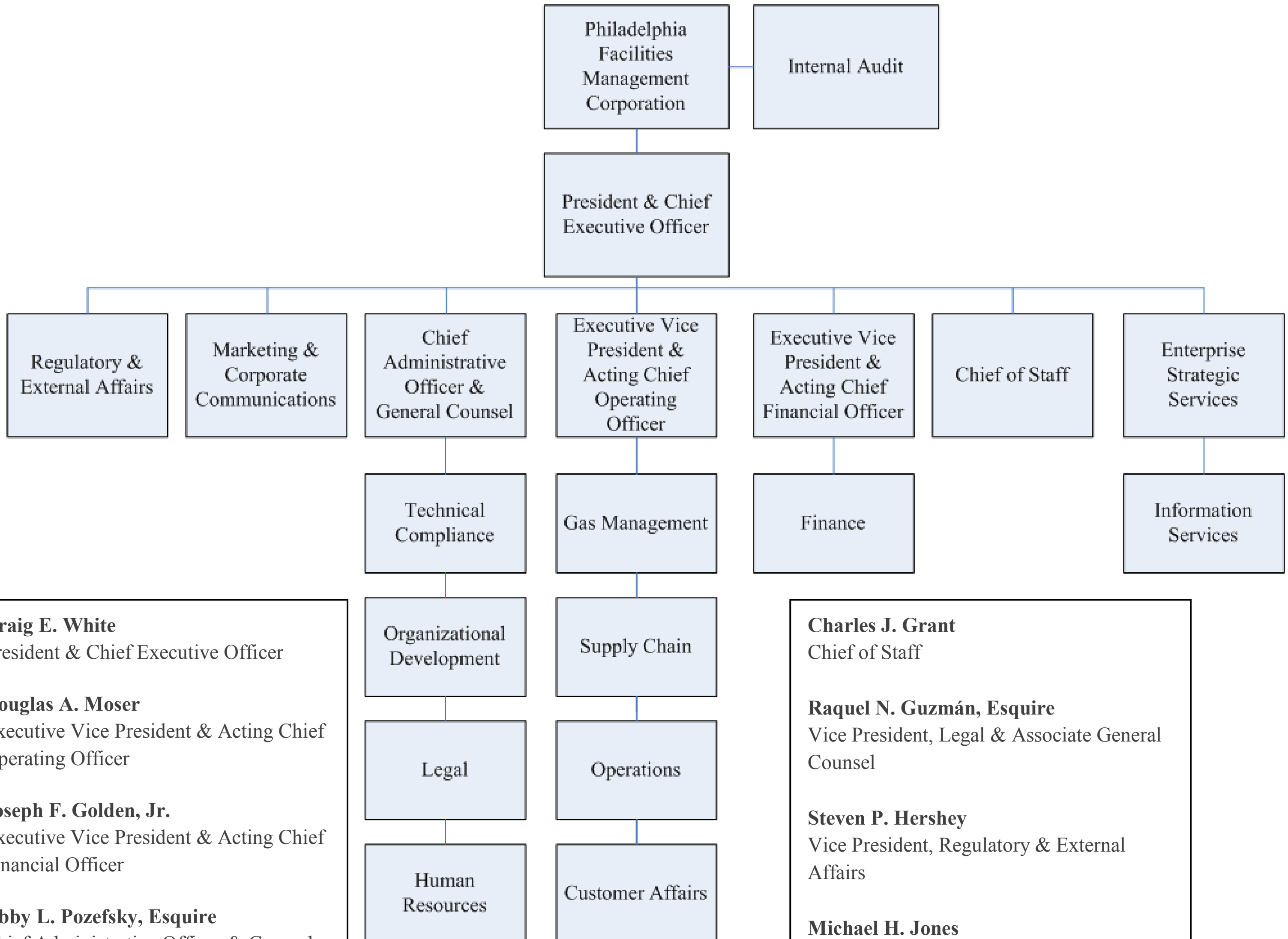
Respectfully submitted,

Joseph F. Golden, Jr.

Joseph F. Golden, Jr.
Executive Vice President and Acting Chief Financial Officer

February 26, 2013

Philadelphia Gas Works
Organizational Chart and Leadership



Craig E. White
President & Chief Executive Officer

Douglas A. Moser
Executive Vice President & Acting Chief Operating Officer

Joseph F. Golden, Jr.
Executive Vice President & Acting Chief Financial Officer

Abby L. Pozefsky, Esquire
Chief Administrative Officer & General Counsel

Thomas L. Kuczynski
Senior Vice President, Strategic & Information Services

Douglas I. Oliver
Senior Vice President, Marketing & Corporate Communications

Charles J. Grant
Chief of Staff

Raquel N. Guzmán, Esquire
Vice President, Legal & Associate General Counsel

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Vice President, Regulatory & External Affairs

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Vice President, Technical Compliance

Paul A. Mondimore
Vice President, Field Operations

Jo Ann Muniz
Vice President, Supply Chain

William C. Muntzer
Vice President, Human Resources

Daniel P. Murray
Vice President, Customer Affairs

Lorraine S. Webb
Vice President, Organizational Development

Eloise N. Young
Vice President & Chief Information Officer

John C. Zuk
Vice President, Marketing

Philadelphia Facilities Management Corporation

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President, Girard College
Board Vice Chair
Chair, Audit Committee
Chair, Finance Committee

David Seltzer
Principal, Mercator Advisors LLC
Board Chairman
Finance Committee, Audit Committee

Suzanne R. Biemiller
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Business Development Committee

Catherine M. Paster
First Deputy Director of Finance, City of Philadelphia
Board Treasurer
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Gerald T. Davis
Director, Media and Public Relations,
Sunoco, Inc., retired
Board Secretary
Chair, Workforce Development Committee

Maryam Mahdavi, Esquire
Assistant General Counsel, Arkema, Inc.
Chair, Business Development Committee

Sharmain Matlock-Turner
President and CEO, Urban Affairs Coalition
Workforce Development Committee

Financial Section

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

The Controller of the City of Philadelphia and
Chairman and Members of the
Philadelphia Facilities Management Corporation
Philadelphia, Pennsylvania:

We have audited the accompanying balance sheets of Philadelphia Gas Works (the Company), a component unit of the City of Philadelphia, as of August 31, 2012 and 2011, and the related statements of revenues and expenses, cash flows, and changes in fund equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Philadelphia Gas Works as of August 31, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 to 13 and the schedules of funding progress and other postemployment benefits on pages 59 and 60 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The introductory and statistical sections are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

KPMG LLP

December, 20, 2012, except for note 15, as to which the date is February 26, 2013

The narrative overview and analysis of the financial statements of Philadelphia Gas Works (the Company or PGW) for the years ended August 31, 2012 and 2011 have been prepared by PGW's management. The information presented here is unaudited and should be read in conjunction with additional information contained in PGW's financial statements.

Financial Highlights

- The fiscal year (FY) 2012 reflected a 30.3% warmer than normal winter. The FY 2012 period was 24.2% warmer than the prior year and firm gas sales decreased by 9.7 billion cubic feet (Bcf). In addition, the Weather Normalization Adjustment (WNA), which was in effect from October 2011 through May 2012, resulted in heating customers receiving charges totaling $45.4 million as a result of the temperatures experienced during the period. The FY 2011 reflected an 8.8% warmer than normal winter. The FY 2011 period was 7.4% colder than the prior year and firm gas sales increased by 3.2 Bcf. In addition, the WNA, which was in effect from October 2010 through May 2011, resulted in heating customers receiving charges totaling $1.8 million as a result of the warmer than normal temperatures experienced during the period.
- PGW achieved a collection rate of 96.6% in the current period, 95.1% in FY 2011, and 98.7% in FY 2010. The collection rate is calculated by dividing the total gas receipts collected in FY 2012 by the total gas billings that were applied to PGW customers' accounts from September 1 through August 31. The same methodology was utilized in FY 2011 and FY 2010.
- PGW continues to have various business initiatives that pertain to improving collections, productivity, and operational efficiencies throughout the Company. PGW, at the end of FY 2012 and FY 2011, had no tax exempt commercial paper outstanding and a cash balance of $75.8 million and $105.4 million, respectively. This reflects an overall decrease of $29.6 million in PGW's liquidity.
- On August 28, 2012, the Company accelerated payment of $20.2 million of principal for bonds issued under the 1998 General Ordinance with internally generated resources. The defeased bonds were for these respective series and amounts: Fourth Series – $3.1 million, Fifth Series – $2.9 million, Seventh Series – $6.1 million, Eighth Series A – $5.3 million and Ninth Series – $2.8 million.
- On September 28, 2011, the City issued:
  - Gas Works Revenue Bonds, Twentieth Series (1975 General Ordinance) in the amount of $16.2 million for the purpose of refunding the entire Sixteenth Series Bond (1975 General Ordinance), and paying the costs of issuing the bonds. The Twentieth Series Bonds, with fixed interest rates that range from 2.0% to 5.0%, have maturity dates through 2015.
  - Gas Works Revenue Bonds, Tenth Series (1998 General Ordinance) in the amount of $72.6 million for the purpose of refunding the entire First Series A, First Series C, Second Series, and Third Series Bonds (1998 General Ordinance), and paying the costs of issuing the bonds. The Tenth Series Bonds, with fixed interest rates that range from 3.0% to 5.0%, have maturity dates through 2026.
- On September 1, 2011, the City defeased $29.5 million of the Eighth Series variable rate Bonds utilizing internally generated funds. As a result of this defeasance, a portion of the related interest rate swap agreement was terminated. The termination payment was approximately $7.0 million. Concurrently, the letters of credit

for the Eighth Series B, C, and D Bonds were extended and the Series E letter of credit was replaced. The remaining Eighth Series Bonds in the amount of $225.5 million were then remarketed, with the remaining aggregate principal being reallocated among the Eighth Series B Bonds ($50.3 million), the Eighth Series C Bonds ($50.0 million), the Eighth Series D Bonds ($75.0 million), and Eighth Series E Bonds ($50.2 million). The related swap agreement was amended to reflect these new notional amounts for each of the issuances.

- The Company's only derivative instruments within the scope of Governmental Accounting Standards Board (GASB), Statement 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53), are four interest rate swaps entered into to hedge the interest payments on its variable rate debt. These swaps originate from an interest rate swap used as a hedge of the Sixth Series Bonds. Because the hedges were effective at August 31, 2012, the change in fair value of the swaps of $5.8 million for FY 2012 has been recorded as an increase in the interest rate swap liability and the related deferred outflow of resources. The balance of the interest rate swap liability at August 31, 2012 is $57.4 million, and the related deferred outflow of resources balance is $31.1 million. The difference between the balances is due to the impact of refunding the Sixth Series Bonds, which the original swap previously hedged, during FY 2009, and establishing a hedging relationship between the portion of the original swap remaining after the refunding (divided into four swaps) and the refunding Eighth Series Bonds. Because the hedges were determined effective for both periods presented, there was no impact on the Statements of Revenues and Expenses for either year other than swap settlement payments.

Overview of the Financial Statements

The discussion and analysis are intended to serve as an introduction and overview of PGW's basic financial statements. PGW's financial statements are comprised of:

Financial statements provide both long-term and short-term information about PGW's overall financial condition, results of operations, and cash flows.

The notes to financial statements provide additional information that is essential to a full understanding of the data presented in PGW's financial statements. The notes can be found immediately following the basic financial statements.

The financial statements report information about PGW as a whole using accounting methods similar to those used by private sector business. The four statements presented are:

The statement of revenues and expenses presents revenue and expenses and their effects on the change in equity during the fiscal year. These changes in equity are recorded as soon as the underlying event giving rise to the change occurs, regardless of when cash is received or paid.

The balance sheet includes all of PGW's assets and liabilities, with the difference between the two reported as equity. Over time, increases or decreases in fund equity are indicators of whether PGW's financial position is improving or deteriorating.

The statement of cash flows provides relevant information about the cash receipts and cash payments of an enterprise during a period and the impact on PGW's financial position.

The statement of changes in net position provides a rollforward of the net position balance of PGW based upon the results from the statement of revenues and expenses.

Condensed Statements of Revenues and Expenses

(Thousands of U.S. dollars)

	Years ended August 31		
	2012	**2011**	**2010**
Total gas revenues	628,387	749,268	742,342
Other revenues	16,596	17,011	16,890
Total operating revenues	644,983	766,279	759,232
Total operating expenses	550,338	641,640	662,594
Operating income	94,645	124,639	96,638
Interest and other income	4,659	4,348	5,301
Total interest expense	(69,544)	(75,682)	(71,123)
Excess of revenues over expenses	29,760	53,305	30,816

Operating Revenues

Operating revenues in FY 2012 were $645.0 million, a decrease of $121.3 million or 15.8% from FY 2011. The decrease in FY 2012 was due to decreased heating demand and lower natural gas commodity prices. Operating revenues in FY 2011 were $766.3 million, an increase of $7.0 million or 0.9% from FY 2010. The increase in FY 2011 was due to increased heating demand and higher natural gas sales. Please see the discussion of the cost of fuel in the Operating Expenses section below.

Total sales volumes, including gas transportation deliveries, in FY 2012 decreased by 12.2 Bcf to 62.3 Bcf or 16.4% from FY 2011 sales volumes of 74.5 Bcf. In FY 2011, total sales volumes, including gas transportation deliveries, increased by 5.2 Bcf to 74.5 Bcf or 7.5% from FY 2010 sales volumes of 69.3 Bcf. In FY 2012, firm gas sales of 38.3 Bcf were 9.7 Bcf or 20.1% lower than FY 2011 firm gas sales of 48.0 Bcf, which were 3.2 Bcf, or 7.2% higher than FY 2010. Interruptible customer sales decreased by 0.8 Bcf compared to FY 2011 which decreased by less than 0.1 Bcf compared to FY 2010. Gas transportation sales in FY 2012 decreased by 0.9 Bcf to 24.4 Bcf from the 25.3 Bcf level experienced in FY 2011. In FY 2011, the volume of gas transportation sales increased by 2.2 Bcf to 25.3 Bcf from the 23.1 Bcf level experienced in FY 2010.

In FY 2012, the number of customers served by PGW did not change from the previous year and was approximately 503,000 customers. The number of customers served by PGW at the end of FY 2011 and FY 2010 were approximately 503,000 and 502,000, respectively. Commercial accounts were approximately 25,000 customers, reflecting no change from the previous two fiscal years. Industrial accounts were unchanged, from the previous year at 700 customers. PGW served 800 Industrial customers in FY 2010. Residential accounts remained at 477,000 customers. The number of residential accounts in FY 2011 increased to approximately 477,000 customers, an increase of 1,000 customers from the FY 2010 level.

Operating Expenses

Total operating expenses, including fuel costs, in FY 2012 were $550.3 million, a decrease of $91.3 million or 14.2% from FY 2011. The decrease for FY 2012 reflects lower natural gas demand and a decrease in the commodity price of natural gas. Total operating expenses, including fuel costs, in FY 2011 were $641.6 million, a decrease of $21.0 million or 3.2% from FY 2010. The decrease for FY 2011 reflects lower natural gas prices partially offset by an increase in demand.

Cost of Fuel – The cost of natural gas utilized decreased by $97.2 million or 29.4% to $233.7 million in FY 2012 compared with $330.9 million in FY 2011. The average commodity price per Thousand cubic feet (Mcf) decreased by $0.80 or $34.9 million, while the volume of gas utilized decreased by 12.0 Bcf, 21.8% or $56.7 million. In addition, pipeline supplier refunds in FY 2012 decreased by $0.2 million while demand charges decreased by $5.7 million, compared to FY 2011.

The cost of natural gas utilized decreased by $23.1 million or 6.5% to $330.9 million in FY 2011 compared with $354.0 million in FY 2010. The average commodity price per Mcf decreased by $0.75 or $41.1 million, while the volume of gas utilized increased by 3.2 Bcf, 6.2% or $17.5 million. In addition, pipeline supplier refunds in FY 2011 increased by $0.1 million while demand charges increased by $0.4 million, compared to FY 2010.

Variations in the cost of purchased gas are passed through to customers under the gas cost rate (GCR) provision of PGW's rate schedules. Over–recoveries or under–recoveries of purchased gas costs are subtracted from or added to gas revenues and are included in other current assets and deferred debits or other current liabilities and deferred credits, thereby eliminating the effect that recovery of gas costs would otherwise have on net income.

The average natural gas commodity prices for utilized gas for FY 2012, FY 2011, and FY 2010 were $3.91, $4.71, and $5.45 per Mcf, respectively.

Other Operating Expenses – Expenditures for street operations, infrastructure improvements, and plant operations in FY 2012 were $77.3 million, a decrease from the FY 2011 total of $78.0 million. The FY 2011 total of $78.0 million was $5.6 million higher than the FY 2010 total of $72.4 million as a result of higher costs associated with maintenance of mains and gas operations.

Additionally, expenses of $111.3 million related to, collection and account management, customer services, marketing, and the administrative area increased by $5.7 million or 5.4% in FY 2012 primarily due to costs related to the implementation of the demand side management program and higher costs associated with Workers' Compensation expenses. This category increased by $1.7 million or 1.6% in FY 2011 compared to FY 2010 primarily due to expenses related to the higher cost of healthcare and administrative costs.

Pension costs increased due to higher payments to retirees. Pension costs increased by $1.4 million to $24.0 million in FY 2012 as compared to FY 2011. Pension costs decreased by $2.0 million to $22.6 million in FY 2011 as compared to FY 2010.

OPEB costs decreased by $2.4 million to $20.1 million in FY 2012. OPEB costs decreased by $4.8 million to $22.5 million in FY 2011 as compared to FY 2010. OPEB costs decreased in these fiscal years due to funding of the OPEB Trust.

The net OPEB obligation was $111.1 million for the fiscal year ended August 31, 2012, a $1.7 million increase over the $109.4 million obligation at August 31, 2011. This was a $4.0 million increase over the net OPEB obligation of $105.5 million at August 31, 2010.

Provision for Uncollectible Accounts – The provision for uncollectible accounts in FY 2012 totaled $36.7 million, an increase of $0.7 million or 1.9% higher than FY 2011. The provision for uncollectible accounts in FY 2011 totaled $36.0 million, an increase of $1.0 million or 2.9% higher than FY 2010. The accumulated provision for uncollectible accounts at August 31, 2012 reflects a balance of $97.8 million, compared to the $99.9 million balance in FY 2011 and $103.6 million in FY 2010. PGW is committed to continuing its collection efforts in an attempt to reduce outstanding delinquent account balances and to provide assistance to those customers who qualify for low-income grants and payment programs to help those customers maintain their gas service.

Depreciation Expense – Depreciation expense increased by $1.3 million in FY 2012 compared with FY 2011. Depreciation expense increased by $0.4 million in FY 2011 compared with FY 2010. The effective composite depreciation rates for FY 2012, FY 2011, and FY 2010 were 2.3%, 2.5%, and 2.3%, respectively. Cost of removal is charged to expense as incurred.

Interest and Other Income – Interest and other income in FY 2012 was $0.4 million higher than FY 2011, due to an increase in capacity release revenue. Interest and other income in FY 2011 was $1.0 million lower than FY 2010. The year-to-year decrease is the result of a continual decline in interest rates coupled with lower restricted fund balances for most of the fiscal year.

Interest Expense –Total Interest expense decreased by $6.2 million or 8.2% in FY 2012 when compared with FY 2011 and increased $4.6 million or 6.4% in FY 2011 compared with FY 2010. In FY 2012, interest on long-term debt was lower due to the defeasance of $29.5 million of the Eighth Series B, C, D, and E Bonds and the refunding of $93.6 million of fixed rate bonds at lower interest rates. In FY 2011, interest on long-term debt was higher as a result of the full year effect of the issuance of the Ninth Series Bonds in August 2010. In FY 2010, interest on long-term debt was lower due to both the reduction in long-term debt for the majority of the fiscal year and declining interest costs associated with PGW's variable rate demand notes. Other interest costs decreased in FY 2012 by $2.1 million or 11.1% due to the additional number of years the cost of refunding will be amortized. Other interest cost decreased by $0.1 million or 0.5% in FY 2011 compared with FY 2010 due to a decrease in the cost associated with the letters of credit that support PGW's variable rate demand notes.

Excess of Revenues over Expenses – In FY 2012, the Company's excess of revenues over expenses was $29.8 million, a decrease of $23.5 million from FY 2011. The Company had an excess of revenues over expenses of $53.3 million in FY 2011, an increase of $22.5 million from FY 2010.

Condensed Balance Sheets

(Thousands of U.S. dollars)

	Years ended August 31		
Assets	**2012**	**2011**	**2010**
Utility plant, net	1,125,650	1,111,078	1,094,009
Restricted investment funds	199,969	236,966	284,813
Current assets:			
Accounts receivable (net of accumulated provision for uncollectible accounts of $97,758, $99,932, and $103,600 for 2012, 2011, and 2010, respectively)	81,997	98,925	92,173
Other current assets and deferred debits, cash and cash equivalents, gas inventories, materials, and supplies	183,851	226,902	209,397
Total current assets	265,848	325,827	301,570
Other assets and deferred debits, unamortized bond issuance costs, and unamortized losses on reacquired debt	107,209	117,264	120,864
Total assets	1,698,676	1,791,135	1,801,256
Deferred outflows of resources			
Accumulated fair value of hedging derivatives	34,712	25,360	25,906
Total assets and deferred outflows of resources	1,733,388	1,816,495	1,827,162

Condensed Balance Sheets

(Thousands of U.S. dollars)

Net Position and Liabilities	Years ended August 31 2012	2011	2010
Net position	321,500	309,740	274,435
Total long-term debt	1,086,502	1,166,992	1,224,987
Current liabilities:			
Current portion of long-term debt	30,545	50,549	42,537
Other current liabilities and deferred credits	88,396	91,336	95,229
Total current liabilities	118,941	141,885	137,766
Other liabilities and deferred credits	206,445	197,878	189,974
Total net position and liabilities	1,733,388	1,816,495	1,827,162

Assets

Utility Plant – Utility plant, net of depreciation, totaled $1,125.7 million in FY 2012, an increase of $14.6 million or 1.3% compared with the FY 2011 balance of $1,111.1 million. The FY 2011 balance increased by $17.1 million or 1.6% compared with the FY 2010 balance of $1,094.0 million. Capital expenditures for construction of distribution facilities, purchase of equipment, information technology enhancements, and other general improvements were $54.7 million in FY 2012 compared to $58.8 million in FY 2011 and $59.1 million in FY 2010. PGW funded capital expenditures through drawdowns from the Capital Improvement Fund in the amounts of $34.0 million, $48.1 million, and $41.0 million in FY 2012, FY 2011, and FY 2010, respectively. The major capital expenditures are associated with PGW's gas supply infrastructure, namely, gas mains, and customer service lines.

Restricted Investment Funds – Restricted investment funds decreased by $37.0 million in FY 2012 primarily due to proceeds being drawn from the Capital Improvement Fund to fund capital expenditures in the amount of $33.5 million. A drawdown from the Sinking Fund in the amount of $6.7 million was utilized for payment of debt service of which $2.0 million was principal and $4.7 million was interest income. Interest income, to the extent not drawn, is reflected as an increase of $0.6 million in FY 2012, $1.2 million in FY 2011, and $1.7 million in FY 2010. There was no drawdown of interest from the Capital Improvement Fund in FY 2010. A drawdown from the accrued interest in the Capital Improvement Fund in the amount of $9.4 million was utilized for working capital purposes in FY 2011. Effective September 1, 2011, PGW self-insures the healthcare for active employees and retirees under the age of 65. Retirees over the age of 65 are insured on an experience rated basis. Prior to September 1, 2011, the Company had entered into several one-year contracts to provide healthcare for both active and retired employees that are experience rated, and premiums were adjusted annually. Per the terms of the self-insured program PGW established a health insurance escrow fund that at August 31, 2012 was funded in the amount of $3.2 million.

(Continued)

Accounts Receivable – In FY 2012, accounts receivable (net) of $82.0 million decreased by $16.9 million, or 17.1%, from FY 2011 due to lower gas billings during FY 2012. In FY 2011, accounts receivable (net) of $98.9 million increased by $6.7 million, or 7.3%, from FY 2010 due to higher gas billings during FY 2011 and a lower collection rate experienced during FY 2011 as compared to FY 2010. The accumulated provision for uncollectible accounts, totaling $97.8 million decreased by $2.1 million in FY 2012 and totaled $99.9 million in FY 2011 and $103.6 million in FY 2010.

Cash and Cash Equivalents, Gas Inventories, Materials and Supplies and, Other Current Assets and Deferred Debits – In FY 2012, cash and cash equivalents were $75.8 million, a decrease of $29.6 million from $105.4 million in FY 2011 and totaled $79.1 million in FY 2010. In FY 2012, gas inventories, materials and supplies totaled $81.1 million, a decrease of $4.9 million from the FY 2011 total of $86.0 million. Gas inventories, materials and supplies totaled $103.1 million in FY 2010. In FY 2012, gas storage decreased by $5.5 million or 7.0% when compared to FY 2011. The decrease in gas inventory reflects a decrease in the gas cost per Mcf. In FY 2011, gas storage decreased by $17.5 million or 18.2% compared to FY 2010. The decrease in gas inventory for FY 2011 reflects a decrease in the gas cost per Mcf. Other current assets and deferred debits totaled $26.9 million in FY 2012, a decrease of $8.6 million from FY 2011, primarily as a result of a decrease in the pension receivable from the City of Philadelphia. This was partially offset by a $4.7 million increase in deferred GCR. In FY 2011 other current assets and deferred debits totaled $35.5 million, an increase of $8.3 million from FY 2010 primarily as a result of an increase in the deferred GCR of $7.8 million. Other current assets and deferred debits totaled $27.2 million in FY 2010.

Other Assets and Deferred Debits – In FY 2012, other assets and deferred debits including unamortized bond issuance costs, unamortized loss on reacquired debt, and a deferred regulatory asset for environmental expenses totaled $141.9 million, a decrease of $0.7 million from FY 2011. This decrease was primarily due to the decrease in unamortized bond issuance costs and unamortized losses on reacquired debt of $10.4 million which was offset by the increase in other assets and deferred debits of $9.7 million. In FY 2011, the total was $142.6 million, a decrease of $4.2 million from FY 2010.

Liabilities

Long-Term Debt – Long-term debt, including the current portion and unamortized discount and premium, totaled $1,117.0 million in FY 2012, $100.5 million less than the previous year primarily as a result of normal debt principal payments and a defeasance of principal in the amount of $49.7 million. This represents 77.7% of total capitalization in FY 2012. Long-term debt, including the current portion and unamortized discount and premium, totaled $1,217.5 million in FY 2011, $50.0 million less than the previous year primarily as a result of normal debt principal payments. Long-term debt, including the current portion and unamortized discount and premium, totaled $1,267.5 million in FY 2010. Long-term debt represented 79.7% of total capitalization in FY 2011 and 82.2% of total capitalization in FY 2010.

Debt Service Coverage Ratio and Ratings – PGW has a mandatory debt service coverage ratio of 1.50 times debt service on both the 1975 and 1998 Ordinance Bonds. In FY 2012, the debt service coverage was at 4.75 times debt service on the outstanding 1975 Ordinance Bonds and 1.75 times debt service on the Senior 1998 Ordinance Bonds compared to debt service coverage ratios of 6.06 and 2.15 times, respectively, in FY 2011 and 6.28 and

2.44 times, respectively, in FY 2010. PGW's current bond ratings are "Baa2" from Moody's Investors Service (Moody's), "BBB+" from Standard & Poor's Ratings Service (S&P), and "BBB" from Fitch Ratings (Fitch).

Short-Term Debt – Due to the highly seasonal nature of PGW's business, short-term debt is utilized to meet working capital requirements. PGW, pursuant to the provisions of the City of Philadelphia Note Ordinance, may sell short-term notes in a principal amount, which together with interest, may not exceed $150.0 million outstanding at any one time. These notes are supported by two irrevocable letters of credit and a security interest in PGW's revenues. The letters of credit supporting PGW's commercial paper program fixed the maximum level of outstanding notes plus interest at $60.0 million in FY 2012, $90.0 million in FY 2011 and $120.0 million in FY 2010.

In August 2012, PGW renewed two of the letters of credit supporting the commercial paper program at $30.0 million each for a total of $60.0 million.

In September 2011, PGW requested that each of the three banks reduce the stated amounts of their respective letters of credit for the commercial paper Series F-1, F-2, and F-3 from $30.0 million to $20.0 million. As a result of the reduction of each of the letters of credit, PGW's commercial paper program was reduced from $90.0 million to $60.0 million. There were no notes outstanding at August 31, 2012 and 2011. The Company has not utilized commercial paper for working capital since May 2009.

Other Current Liabilities – In FY 2012, other current liabilities and deferred credits totaled $10.3 million, a decrease of $1.8 million from FY 2011, mainly due to the decrease in the environmental remediation liability, which was partially offset by an increase in the injuries and damages reserve. In FY 2011, the total was $12.1 million a decrease of $1.1 million from FY 2010.

Liquidity/Cash Flow – At December 3, 2012, $60.0 million was available from the commercial paper program. Additionally, PGW had $88.8 million available in its Capital Improvement Fund to be utilized for construction expenditures. These funding sources may be utilized during the fall and early winter period to provide liquidity until billings from the winter heating season are collected. The cash balance at December 3, 2012 was $31.0 million.

Accounts Payable – In FY 2012, accounts payable totaled $57.1 million, an increase of $1.2 million or 2.1% compared with FY 2011 primarily due to an increase in trade payables of $9.0 million, which was partially offset by a decrease of natural gas payables of $7.7 million. In FY 2011, accounts payables totaled $55.9 million, a decrease of $3.4 million or 5.8% compared with FY 2010 primarily due to a decrease in trade payables of $2.6 million and a decrease in natural gas payables of $1.6 million.

Other Liabilities – In FY 2012, other liabilities and deferred credits totaling $206.4 million increased $8.5 million compared to FY 2011. The increase in FY 2012 is primarily due to the effect of recording an increase in the liability for GASB 53 in the amount of $5.7 million, and an increase in deferred environmental liability in the amount of $4.9 million. This was partially offset by a decrease in workers' compensation liability of $3.9 million. In FY 2011, other liabilities and deferred credits totaling $197.9 million increased $7.9 million compared to FY 2010. The increase in FY 2011 is primarily due to the effect of recording an additional liability for OPEB in the amount of $3.9 million and an increase in deferred environmental liability in the amount of $3.0 million.

Other Financial Factors

The City granted back PGW's annual $18.0 million payment in FY 2010. The City did not grant back the $18.0 million payment in FY 2012 and FY 2011, respectively.

The Mayor announced that the City would explore the possibility of selling PGW. Subsequent to this announcement, the City solicited and engaged various professional advisors to assist the City through a potential sale process. As of December 20, 2012, the City is in the process of selecting a sale broker, but no final decision regarding sale has been made.

Recent Rate Filings

On December 18, 2009, PGW submitted a base rate filing with the PUC (1) to maintain the $60.0 million base rate increase that the PUC granted in 2008; and (2) to fund PGW's OPEB liability in the amount of $42.5 million. PGW also moved to consolidate the Company's Demand Side Management Plan, an energy efficiency and conservation plan, into the base rate filing. On May 19, 2010, PGW, along with all active parties to the proceeding, submitted a Petition for Proposed Settlement of the proceeding (the Settlement) and the PUC approved the Settlement on July 29, 2010. Under the Settlement, PGW will be permitted to maintain virtually all of the extraordinary base rate relief, will receive an incremental rate increase of $16.0 million annually, and will be required to fund $18.5 million of the OPEB liability in each of the years 2011 through 2015. The Settlement also permitted the implementation of the Demand Side Management Program.

Establishment of OPEB Trust Fund

As part of the July 29, 2010, rate case settlement, which provided for the establishment of an irrevocable trust for the deposit of funds derived through a rider from all customer classes to fund OPEB liabilities, PGW established the trust in July 2010 and began funding the trust in accordance with the settlement agreement in September 2010. The settlement provides that PGW shall deposit $15.0 million annually towards the Annual Required Contributions (ARC) and an additional $3.5 million annually, which represents a 30-year amortization of the OPEB liability at August 31, 2010. These deposits will be funded primarily through increased rates of $16.0 million granted in the settlement.

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excesses) over a period of 30 years.

The actuarial accrued liability as of August 31, 2012 was $444.0 million a $41.7 million decrease from the $485.7 million actuarial accrued liability at August 31, 2011, which is a $168.4 million decrease from the $654.1 million actuarial accrued liability at August 31, 2010. The foregoing assumes that the Company will continue to fund its OPEB obligations of $18.5 million per year on an ongoing basis.

Defeasance and Remarketing of Debt

On August 28, 2012, the Company defeased $20.2 million of principal for bonds issued under the 1998 General Ordinance with internally generated resources. The defeased bonds were for these respective series and amounts: Fourth Series – $3.1 million, Fifth Series – $2.9 million, Seventh Series – $6.1 million, Eighth Series A – $5.3 million and Ninth Series – $2.8 million.

On September 1, 2011, the City defeased $29.5 million of the Eighth Series variable rate Bonds utilizing internally generated funds. As a result of this defeasance, a portion of the related interest rate swap agreement was terminated. The termination payment was approximately $7.0 million. Concurrently, the letters of credit for the Eighth Series B, C, and D Bonds were extended and the Series E letter of credit was replaced. The remaining Eighth Series Bonds in the amount of $225.5 million were then remarketed, with the remaining aggregate principal being reallocated among the Eighth Series B Bonds ($50.3 million), the Eighth Series C Bonds ($50.0 million), the Eighth Series D Bonds ($75.0 million), and Eighth Series E Bonds ($50.2 million). The related swap agreement was amended to reflect these new notional amounts for each of the issuances.

Refunding of Bonds

On September 28, 2011, the City issued Gas Works Revenue Bonds, Twentieth Series (1975 General Ordinance) in the amount of $16.2 million for the purpose of refunding the entire Sixteenth Series Bond (1975 General Ordinance), and paying the costs of issuing the bonds. The Twentieth Series Bonds, with fixed interest rates that range from 2.0% to 5.0%, have maturity dates through 2015.

On September 28, 2011, the City issued Gas Works Revenue Bonds, Tenth Series (1998 General Ordinance) in the amount of $72.6 million for the purpose of refunding the entire First Series A, First Series C, Second Series, and Third Series Bonds (1998 General Ordinance), and paying the costs of issuing the bonds. The Tenth Series Bonds, with fixed interest rates that range from 3.0% to 5.0%, have maturity dates through 2026.

Contacting the Company's Financial Management

This financial report is designed to provide the citizens of Philadelphia, customers, investors, and creditors with a general overview of PGW's finances and to demonstrate PGW's accountability for the money it receives. If you have questions pertaining to this report or need additional financial information, please contact Philadelphia Gas Works, 800 W. Montgomery Avenue, Philadelphia, PA 19122 or on the Web at www.pgworks.com.

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)

Balance Sheets

August 31, 2012 and 2011

(Thousands of U.S. dollars)

Assets	**2012**	**2011**
Utility plant, at original cost:		
In service	1,894,129	1,856,303
Under construction	53,851	40,555
Total	1,947,980	1,896,858
Less accumulated depreciation	822,330	785,780
Utility plant, net	1,125,650	1,111,078
Restricted investment funds:		
Sinking fund, revenue bonds	105,312	112,038
Capital improvement fund	88,838	122,332
Workers' compensation escrow fund	2,597	2,596
Health insurance escrow fund	3,222	—
Total restricted investment funds	199,969	236,966
Current assets:		
Cash and cash equivalents	75,826	105,386
Accounts receivable (net of provision for uncollectible accounts of $97,757 and $99,932 for 2012 and 2011, respectively)	81,997	98,925
Gas inventories, materials, and supplies	81,086	85,993
Other current assets and deferred debits	26,939	35,523
Total current assets	265,848	325,827
Unamortized bond issuance costs	22,972	24,585
Unamortized losses on reacquired debt	53,241	62,039
Other assets and deferred debits	30,996	30,640
Total assets	1,698,676	1,791,135
Deferred outflows of resources		
Accumulated fair value of hedging derivatives	34,712	25,360
Total assets and deferred outflows of resources	1,733,388	1,816,495

(Continued)

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)

Balance Sheets

August 31, 2012 and 2011

(Thousands of U.S. dollars)

Liabilities	**2012**	**2011**
Long-term debt:		
Revenue bonds	1,086,502	1,166,992
Current liabilities:		
Current portion of revenue bonds	30,545	50,549
Accounts payable	57,127	55,893
Customer deposits	2,449	2,869
Other current liabilities and deferred credits	10,265	12,098
Accrued accounts:		
Interest, taxes, and wages	15,555	17,476
Distribution to the City	3,000	3,000
Total current liabilities	118,941	141,885
Other liabilities and deferred credits	206,445	197,878
Total liabilities	1,411,888	1,506,755
Net position		
Excess of net investment in capital assets	97,442	15,869
Restricted	111,131	114,634
Unrestricted	112,927	179,237
Total net position	321,500	309,740
Total liabilities and net position	1,733,388	1,816,495

See accompanying notes to financial statements.

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)

Statements of Revenues and Expenses

Years ended August 31, 2012 and 2011

(Thousands of U.S. dollars)

	2012	2011
Operating revenues:		
Gas revenues:		
Nonheating	37,054	51,437
Gas transport service	29,324	28,700
Heating	562,009	669,131
Total gas revenues	628,387	749,268
Appliance and other revenues	8,240	8,400
Other operating revenues	8,356	8,611
Total operating revenues	644,983	766,279
Operating expenses:		
Natural gas	233,713	330,932
Gas processing	15,640	16,097
Field services	33,883	33,950
Distribution	27,750	27,990
Collection and account management	11,491	11,765
Provision for uncollectible accounts	36,702	36,027
Customer services	11,946	12,532
Marketing	6,664	4,378
Administrative and general	81,161	76,850
Pensions	23,972	22,597
Other postemployment benefits	20,119	22,472
Taxes	7,122	7,135
Total operating expenses before depreciation	510,163	602,725
Depreciation	45,045	43,629
Less depreciation expense included in operating expenses above	4,870	4,714
Total depreciation	40,175	38,915
Total operating expenses	550,338	641,640
Operating income	94,645	124,639
Interest and other income	4,659	4,348
Income before interest expense	99,304	128,987
Interest expense:		
Long-term debt	53,012	57,225
Other	16,824	18,884
Allowance for funds used during construction	(292)	(427)
Total interest expense	69,544	75,682
Excess of revenues over expenses	29,760	53,305

See accompanying notes to financial statements.

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)

Statements of Cash Flows

Years ended August 31, 2012 and 2011

(Thousands of U.S. dollars)

	2012	2011
Cash flows from operating activities:		
Receipts from customers	633,500	731,500
Payments to suppliers	(369,955)	(466,394)
Payments to employees	(105,681)	(106,125)
Claims paid	(3,320)	(3,468)
Other receipts	9,000	9,800
Net cash provided by operating activities	163,544	165,313
Cash flows from noncapital financing activities:		
Interest and fees	(185)	(6,337)
Distribution to the City of Philadelphia	(18,000)	(18,000)
Net cash used in noncapital financing activities	(18,185)	(24,337)
Cash flows from capital and related financing activities:		
Redemption of long-term debt	(93,580)	—
Proceeds from long-term debt issued	94,616	—
Long-term debt issuance costs	(1,523)	—
Purchases of capital assets	(54,746)	(58,825)
Principal paid on long-term debt	(97,608)	(40,459)
Interest paid on long-term debt	(63,386)	(64,493)
Drawdowns on capital improvement fund	33,494	48,130
Interest income on capital improvement fund	290	617
Interest income on sinking fund	332	564
Sinking fund withdrawals (deposits)	6,900	(603)
Other investment income	292	427
Net cash used in capital and related financing activities	(174,919)	(114,642)
Net (decrease) increase in cash and cash equivalents	(29,560)	26,334
Cash and cash equivalents at the beginning of the year	105,386	79,052
Cash and cash equivalents at the end of the year	75,826	105,386
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	94,645	124,639
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	42,561	41,756
Provision for uncollectible accounts	36,702	36,027
Change in assets and liabilities:		
Receivables, net	(19,774)	(42,779)
Gas inventories, materials, and supplies	4,907	17,140
Other current assets and deferred debits	8,584	(8,311)
Other assets and deferred debits	(9,708)	(7,169)
Accounts payable	1,234	(3,410)
Customer deposits	(420)	(1,129)
Other current liabilities and deferred credits	(1,833)	(88)
Accrued accounts	(1,921)	733
Other liabilities and deferred credits	8,567	7,904
Net cash provided by operating activities	163,544	165,313

See accompanying notes to financial statements.

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)

Statements of Changes in Net Position

Years ended August 31, 2012 and 2011

(Thousands of U.S. dollars)

	2012	2011
Net position, beginning of the year	309,740	274,435
Excess of revenues over expenses	29,760	53,305
Distribution to the City of Philadelphia	(18,000)	(18,000)
Net position, end of the year	321,500	309,740

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

The accounting methods employed by the Philadelphia Gas Works (the Company or PGW) are in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and are in conformity with City of Philadelphia (the City) reporting requirements.

As described in note 2, the Company is a component unit of the City, and consequently follows accounting principles promulgated by the Governmental Accounting Standards Board (GASB) as they apply to proprietary fund-type activities. Under the Regulated Operations guidance within GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62), assets or liabilities may be created by certain actions of regulatory bodies.

The principal accounting policies within this framework are described as follows:

(a) Regulation

Prior to July 1, 2000, the Company was under the regulatory jurisdiction of the Philadelphia Gas Commission (PGC). The PGC had the authority to set the Company's rates and tariffs. The PGC also approved the Company's annual Operating Budget and reviewed the Company's Capital Budget prior to approval by the City Council of the City (City Council).

Effective July 1, 2000, and pursuant to the passage of the Pennsylvania Natural Gas Choice and Competition Act (the Act), the Company came under the regulatory jurisdiction of the Pennsylvania Public Utility Commission (PUC). Under the PUC's jurisdiction, the Company filed a restructuring plan on July 1, 2002, which among other things, provided for an unbundled tariff permitting customer choice of the commodity supplier by September 1, 2003. Under the Act, the PUC is required to follow the "same ratemaking methodology and requirements" that were previously applicable to the PGC when determining the Company's revenue requirements and approving overall rates and charges. The PGC continues to approve the Company's Operating Budget and review its Capital Budget. The Company's Capital Budget must be approved by City Council.

The Company, as of September 1, 2003, is operating under its Restructuring Compliance Tariff. The Restructuring Compliance Tariff Rates are designed to maintain revenue neutrality and the Tariff Rules and Regulations are designed to comport with the Pennsylvania Public Utility Code.

(b) Operating Budget

On May 24, 2012, PGW filed a proposed fiscal year (FY) 2013 Operating Budget. The PGC conducted informal discovery sessions beginning on June 7, 2012. Additional meetings took place in June 2012. On July 12, 2012, a public hearing was convened. On August 9, 2012, a recommended decision was rendered. However, since the record regarding a proposed $2.5 million expense for Sale/Merger & Acquisition cost was incomplete there was no specific recommendation on this issue. At the PGC meeting of September 25, 2012, interim spending authority not to exceed $93.2 million for nonfuel operating expenses for the period September 1 through December 31, 2012 was approved. In addition, PGW was directed not to commit to make or expand expenditures for any line items, programs, projects or initiatives beyond what was contained in the approved FY 2012

Operating Budget (including but not limited to the proposed Sale/Merger & Acquisition advisor and consultant costs) without the PGC's prior approval, unless necessary to protect health or safety or comply with PUC orders and/or regulations.

On June 15, 2011, PGW filed a proposed FY 2012 Operating Budget. After appropriate discovery and hearings the PGC approved the FY 2012 Operating Budget on October 11, 2011.

On June 23, 2010, PGW filed a proposed FY 2011 Operating Budget. After appropriate discovery and hearings the PGC approved the FY 2011 Operating Budget on November 16, 2010.

(c) Capital Budget

On January 3, 2012, PGW filed with the PGC a proposed FY 2013 Capital Budget of $93.3 million. At a public meeting held on April 19, 2012, the PGC endorsed a proposed FY 2013 Capital Budget in the amount of $90.9 million. City Council approved PGW's FY 2013 Capital Budget on June 21, 2012. The Mayor signed the ordinance on June 27, 2012.

On September 30, 2011, PGW submitted a request to amend the FY 2012 Capital Budget by $1.9 million to replace PGW's Mobile Radio System. At a public meeting on February 7, 2012, the PGC endorsed a proposed amendment to the FY 2012 Capital Budget that would increase the budget by $1.7 million to $82.5 million. City Council passed the amendment on March 22, 2012. The ordinance was signed by the Mayor on April 10, 2012.

On January 4, 2011, PGW filed a proposed FY 2012 Capital Budget in the amount of $80.9 million. On April 27, 2011, the PGC, after review and evaluation, approved a recommendation to City Council for a budget of $80.8 million. City Council approved the FY 2012 Capital Budget on June 2, 2011. The Mayor signed the ordinance on June 15, 2011.

On January 4, 2010, PGW filed a proposed FY 2011 Capital Budget in the amount of $67.7 million. On January 26, 2010, the PGC, after review and evaluation, approved a recommendation to City Council for a budget of $67.7 million. City Council approved the FY 2011 Capital Budget on June 17, 2010. The Mayor signed the ordinance on March 23, 2011.

(d) Base Rates

On December 18, 2009, PGW submitted a base rate filing with the PUC (1) to maintain the $60.0 million base rate increase that the PUC granted in 2008 and (2) to fund PGW's Other Postemployment Benefits (OPEB) liability in the amount of $42.5 million. PGW also moved to consolidate the Company's Demand Side Management Plan, an energy efficiency and conservation plan, into the base rate filing. On May 19, 2010, PGW, along with all active parties to the proceeding, submitted a Petition for Proposed Settlement of the proceeding (the Settlement) and the PUC approved the Settlement on July 29, 2010. Under the Settlement, PGW will be permitted to maintain virtually all of the extraordinary base rate relief, will receive an incremental rate increase of $16.0 million annually, and will be required to fund $18.5 million of the OPEB liability in each of the years 2011 through 2015. The new rates were effective September 1, 2010. The Settlement also permitted the implementation of the Demand Side Management Program.

(e) Weather Normalization Adjustment Clause

The Weather Normalization Adjustment Clause (WNA) was approved by PUC Order dated August 8, 2002. The purpose of the WNA is to neutralize the impact of weather on the Company's revenues. This allows the Company to achieve the recovery of appropriate costs as authorized by the PUC. The WNA results in neither a rate increase nor a rate decrease, but acts as a billing adjustment. The main benefits of the WNA are the stabilization of cash flow and the reduction of the need for short-term borrowing from year to year. The WNA is applied to customer invoices rendered during the period of October 1 through May 31 of each year for each billing cycle. The adjustments for the years ended August 31, 2012 and 2011, were an increase in billings of $45.4 million and $1.8 million, respectively.

(f) Gas Cost Rate

The Company's single greatest operating expense is the cost of natural gas. The rate charged to the Company's customers to recover these costs is called the Gas Cost Rate (GCR). The GCR reflects the increases or decreases in natural gas costs and other costs. This GCR mechanism provides the flexibility to rapidly reflect current conditions without the time delay inherent in full base rate alteration. The intent is to achieve an annual balance between the costs incurred for fuel and their pass through to customers.

At the end of the fiscal year, costs recovered through the GCR are compared to the actual cost of fuel and other specific costs. Customers are then credited or charged for over–recovery or under–recovery of costs. The GCR may be adjusted quarterly or in the subsequent fiscal year to reflect the under–recovery or over–recovery. Changes in the GCR impact the reported amounts of gas revenues, but do not affect operating income or net income. The Company at August 31, 2012 deferred approximately $22.0 million for GCR under–recovery in other current assets and deferred debits. At August 31, 2011, the Company deferred approximately $17.4 million for GCR under–recovery.

GCR effective dates and rates
(Amounts in U.S. dollars)

Effective date	GCR rate per Mcf*	Change
September 1, 2012	5.2247	0.5118
June 1, 2012	4.7129	(0.2654)
March 1, 2012	4.9783	(1.1487)
December 1, 2011	6.1270	0.0676
September 1, 2011	6.0594	(0.0336)
June 1, 2011	6.0930	(0.4470)
March 1, 2011	6.5400	0.2647
December 1, 2010	6.2753	(0.6297)
September 1, 2010	6.9050	0.3911

* Mcf – thousand cubic feet

(g) Utility Plant

Utility plant is stated at original cost. The cost of additions, replacements, and betterments of units of property is capitalized and included in the utility plant accounts. The cost of property sold or retired is removed from the utility plant accounts and charged to accumulated depreciation. Normal repairs, maintenance, the cost of minor property items, and expenses associated with retirements are charged to operating expenses as incurred.

In a previous rate order, the PGC disallowed the accrual of the net negative salvage component in depreciation. Cost of removal in the amounts of \$2.5 million and \$1.9 million was charged to expense as incurred in FY 2012 and FY 2011, respectively, and is included in depreciation expense in the statements of revenues and expenses. Depreciation is calculated on an asset-by-asset basis on the estimated useful lives of plant and equipment on a straight-line method. The composite rate for FY 2012 and FY 2011 was 2.3% and 2.5%, respectively. The composite rates are supported by a depreciation study of utility plant as of August 2009. The effective composite depreciation rates, as a percentage of cost, for FY 2012 were as follows:

Production plant	2.32%
Transmission, distribution, and storage	2.10
General plant	3.22

The next depreciation study is scheduled to be completed in FY 2014.

Allowance for funds used during construction (AFUDC) is an estimate of the cost of funds used for construction purposes. The AFUDC, as calculated on borrowed funds, reduces interest expense. The AFUDC rate applied to construction work in progress was 5.32% and 5.41% in FY 2012 and FY 2011, respectively.

The following is a summary of utility plant activity for the fiscal years ended August 31, 2012 and 2011 (thousands of U.S. dollars):

	August 31, 2012			
	Beginning balance	**Additions and transfers**	**Retirements and transfers**	**Ending balance**
Land	5,595	—	—	5,595
Distribution and collection systems	1,400,570	37,823	(3,040)	1,435,353
Buildings and equipment	450,138	6,236	(3,193)	453,181
Total utility plant, at historical cost	1,856,303	44,059	(6,233)	1,894,129
Under construction	40,555	57,355	(44,059)	53,851
Less accumulated depreciation for:				
Distribution and collection systems	(663,268)	(30,735)*	2,852	(691,151)
Buildings and equipment	(122,512)	(11,825)*	3,158	(131,179)
Utility plant, net	1,111,078	58,854	(44,282)	1,125,650

* Cost of removal in the amount of $2,484 was charged to expense as incurred in FY 2012 and is not included in accumulated depreciation.

	August 31, 2011			
	Beginning balance	**Additions and transfers**	**Retirements and transfers**	**Ending balance**
Land	5,595	—	—	5,595
Distribution and collection systems	1,355,984	46,119	(1,533)	1,400,570
Buildings and equipment	432,698	18,602	(1,162)	450,138
Total utility plant, at historical cost	1,794,277	64,721	(2,695)	1,856,303
Under construction	46,339	58,937	(64,721)	40,555
Less accumulated depreciation for:				
Distribution and collection systems	(635,269)	(29,833)*	1,834	(663,268)
Buildings and equipment	(111,338)	(11,923)*	749	(122,512)
Utility plant, net	1,094,009	81,902	(64,833)	1,111,078

* Cost of removal in the amount of $1,873 was charged to expense as incurred in FY 2011 and is not included in accumulated depreciation.

(h) Revenue Recognition

The Company is primarily a natural gas distribution company. Operating revenues include revenues from the sale of natural gas to residential, commercial, and industrial heating and nonheating customers. The Company also provides natural gas transportation service. Appliance and other revenues primarily consist of revenue from the Company's parts and labor repair program. Revenue from this program is recognized on a monthly basis for the life of the individual parts and labor plans. Additional revenue is generated from collection fees and reconnection charges. Other operating revenues primarily consist of finance charges assessed on delinquent accounts.

The Company bills customers for the cost of natural gas and the related costs incurred through the processing, distribution, and delivery of natural gas to residential, commercial, and industrial heating and nonheating customers.

Revenue includes amounts related to gas that has been used by customers but has not yet been billed. Revenues are recognized as gas is distributed. Estimated revenues from gas distributed and unbilled, less estimated uncollectible amounts, are accrued and included in operating revenues and were $5.9 million and $12.1 million for the years ended August 31, 2012 and 2011, respectively.

(i) Customers (Unaudited)

The Company's service territory encompasses the City. Of the Company's approximately 503,000 and 503,000 customers at August 31, 2012 and 2011, respectively, nearly 95.0% were residential.

The Company offers a discounted payment plan for current receivables with a possible forgiveness of arrearages in three years. The total number of customers with discounted payment plans as of both August 31, 2012 and 2011 was approximately 80,000 and 84,000, respectively.

The Senior Citizen Discount also provides customers with a discounted payment plan. The total number of customers receiving the discount as of August 31, 2012 and 2011 was approximately 27,000 and 31,000, respectively.

(j) Provision for Uncollectible Accounts

The Company estimates its accumulated provision for uncollectible accounts based on a financial analysis and a collectibility study performed as of the fiscal year-end. The methodology used in performing the collectibility study has been reviewed with the PGC. For FY 2012 and FY 2011, management has provided an accumulated provision for uncollectible accounts in excess of the collectibility study results based on its analysis of historical aging data. The actual results of the Company's collection efforts could differ significantly from the Company's estimate.

Due to the seasonal nature of the business, the Company carries credit balances in accounts receivable primarily as a result of prepayment by budget customers. Credit balances of $24.0 million and $23.3 million for FY 2012 and FY 2011, respectively, have been reclassified to accounts payable.

(k) Gas Inventories, Materials, and Supplies

Gas inventories, materials, and supplies, consisting primarily of fuel stock, gases stored to meet peak demand requirements, and spare parts, are stated at average cost at August 31, 2012 and 2011, as follows (thousands of U.S. dollars):

	2012	2011
Gas inventory	73,086	78,579
Material and supplies	8,000	7,414
Total	81,086	85,993

(l) Bond Issuance Costs, Debt Discount, and Premium

Discounts or premiums and bond issuance costs arising from the sale of revenue bonds are amortized using the interest method over the term of the related bond issue.

(m) Losses on Reacquired Debt

Losses on reacquired debt are deferred and amortized, using the interest method, to interest expense over the shorter of the life of the refunding bond issue or the remaining original amortization period.

(n) Pensions and Postemployment Benefits

The City sponsors a public employee retirement system (PERS), Philadelphia Gas Works Pension Plan (the Pension Plan), a single-employer defined-benefit plan, to provide pension benefits for all of its employees. In December 2011, the Pension Plan was amended by Ordinance and a new deferred compensation plan was authorized by Ordinance as well. Newly hired employees will have an irrevocable option to join either a new deferred compensation plan created in accordance with Internal Revenue Code Section 401 or the existing defined benefit plan. The deferred compensation plan provides for an employer contribution equal to 5.5% of applicable wages. The defined benefit plan provides for a newly hired employee contribution equal to 6.0% of applicable wages. The Ordinance did not affect the retirement benefits of active employees, current retirees and beneficiaries, or terminated employees entitled to benefits but not yet receiving them. The Pension Plan covers all employees and provides for retirement payments for vested employees at age 65 or earlier under various options, which includes a disability pension provision, a preretirement spouse or domestic partner's death benefit, a reduced pension for early retirement, various reduced pension payments for the election of a survivor option, and a provision for retirement after 30 years of service without penalty for reduced age. In accordance with Resolutions of the PGC, Ordinances of City Council, and as prescribed by the City's Director of Finance, the Pension Plan is being funded with contributions by the Company to the Sinking Fund Commission of the City. Management believes that the Pension Plan is in compliance with all applicable laws.

The Company sponsors a single employer defined benefit healthcare plan and provides postemployment healthcare and life insurance benefit in accordance with their retiree medical program to approximately 2,018 and 2,002 participating retirees, their beneficiaries, and dependents for FY 2012 and FY 2011, respectively. The Company also provides such benefits to approximately 1,660 and 1,671 active employees and their dependents for FY 2012 and FY 2011, respectively, by charging the annual insurance premiums to expense.

The difference between the annual OPEB cost (AOC) and the Company's contributions results in an increase or decrease to the net OPEB obligation, which is recorded in other liabilities and deferred credits and expensed.

(o) Cash Equivalents

For the purpose of reporting cash equivalents, all highly liquid investments with original maturities of three months or less are considered cash equivalents, except those held for long-term purposes in the Sinking Fund, Capital Improvement Fund, Workers' Compensation Escrow Fund, and Health Insurance Escrow Fund as described in note 3.

(p) Reserve for Injuries and Damages

The Company is principally insured through insurance carriers. However, the Company is required to cover settlement of claims, which are excluded under the provisions of such insurance policies. An estimated liability has been established, in accordance with PGC regulations, for settlements to be paid by the Company in the next fiscal year.

 (Continued)

Estimated losses from claims for occurrences not covered by insurance, which will not be paid in the next fiscal year, have been accrued and deferred. Such liabilities have been established based upon Company history and consultation with counsel. Such expenses are expected to be recovered through future rates. Charges against the reserve are made as claims are settled.

(q) Segment Information

All of the Company's assets and operations are employed in only one segment, local transportation and distribution of natural gas in the City.

(r) Estimates

In preparing the financial statements in conformity with U.S. GAAP, management uses estimates. The Company has disclosed in the financial statements all estimates where it is reasonably possible that the estimate will change in the near term and the effect of the change could be material to the financial statements.

(s) Pollution Remediation

Under Pennsylvania Act 2, *Land Recycling and Environmental Remediation Standards Act of 1995* (Act 2), the Notice of Intent to Remediate (NIR) process was conducted by the Company in October 2004 and a total of four Public Involvement Plan meetings were conducted at multiple City Recreation Centers throughout Philadelphia during February and March 2005. In March 2005 (after the public meetings were conducted), the Company submitted a series of five Remedial Investigation Reports (RIRs) to the Act 2 for review. In July 2005, the Act 2 program approved all five RIRs submitted in March 2005.

The Company estimates its pollution remediation obligations using the effective cash flow method, in which measurement is based on the outlays expected to be incurred as a sum of probability-weighted amounts in a range of possible estimated amounts. The Company's liability is based on a combination of internal and external cost estimates for the specific remediation activities agreed to as part of Act 2 and Pennsylvania Act 32, *Storage Tank and Spill Prevention Act of 1989* (Act 32).

Estimated site liabilities are determined based upon existing remediation laws and technologies, specific site consultants' engineering studies, or by extrapolating experience with environmental issues at comparable sites. Estimates may change substantially as additional information becomes available regarding the level of contamination at specific sites, available remediation methods, and changes in price, technology, proposed land use, or applicable regulations.

The Company recorded an additional liability for pollution remediation obligations of $2.2 million and $3.5 million for FY 2012 and FY 2011, respectively. The pollution remediation liability is reflected in other liabilities and deferred credits and in other current liabilities and deferred credits. In accordance with U.S. GAAP for regulated entities, the Company has also recognized the long-term portion of its environmental remediation liability as a regulatory asset because based on available evidence it is probable that the previously incurred costs will be recovered through rates.

(t) New Accounting Pronouncements

The Company adopted the provisions of GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63), for the year ended August 31, 2012.

The GASB 63 objective is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The adoption of GASB 63 did not have a significant impact on the financial statements as the underlying accounting and financial reporting guidance has not changed.

(2) Ownership and Management and Related-Party Transactions and Balances

The Company is a component unit of the City. As of January 1, 1973, under the terms of a two-year agreement automatically extended for successive two-year periods unless canceled upon 90 days' notice by the City, the Company is being managed by the Philadelphia Facilities Management Corporation (PFMC). The agreement, as amended, provides for reimbursement to PFMC of actual costs incurred in managing the Company, not to exceed a total of the prior fiscal year's maximum amount adjusted to reflect the percentage change in the Consumer Price Index for All Urban Consumers (CPI-U) All Items Index, Philadelphia, Pennsylvania, United States Department of Labor, Bureau of Labor Statistics, as most recently published and available to the Director of Finance of the City on March 1 of each such fiscal year. In FY 2012, the applicable maximum amount was calculated to be $1.1 million. In FY 2011, the applicable maximum amount was calculated to be $1.1 million. The agreement requires the Company to make annual payments of $18.0 million to the City. In FY 2012 and FY 2011, the Company made the annual payment of $18.0 million to the City.

The Company engages in various other transactions with the City. The Company provides gas service to the City. Operating revenues include $6.4 million and $7.7 million in FY 2012 and FY 2011, respectively, relating to sales to the City. Net amounts receivable from the City were $0.2 million and $0.1 million at August 31, 2012 and 2011, respectively. Water and sewer services and licenses are purchased from the City. Such purchases totaled $0.6 million and $0.7 million in FY 2012 and FY 2011, respectively.

Certain activities of the PGC are paid for by the Company. Such payments totaled $0.7 million and $0.8 million in FY 2012 and FY 2011, respectively.

(3) Cash and Cash Equivalents, and Investments

(a) Cash and Cash Equivalents

Cash and cash equivalents consist primarily of bank deposits, money market accounts, and investments purchased through various brokerage relationships. Bank balances of such deposits, accounts, and investments at August 31, 2012 and 2011 were $75.8 million and $110.1 million respectively. Book balances of such deposits and accounts at August 31, 2012 and 2011 were $75.8 million and $105.4 million, respectively. Federal depository insurance on these balances at August 31, 2012 and 2011 was unlimited. The remaining balances are not insured. Excess cash balances are invested in money market accounts, U.S. Treasury bills, U.S. government agencies and instrumentalities, and corporate obligations (short term investments).

The highest balance of short term investments during FY 2012 and FY 2011 was $141.0 million and $159.0 million, respectively. Short term investments with a carrying amount (at fair value) of $74.5 million and $108.1 million at August 31, 2012 and 2011, respectively, are included in the balances presented above.

(b) Restricted Investment Funds

The investments in the Company's Sinking Fund, Capital Improvement Fund, Workers' Compensation Escrow Fund, and Health Insurance Escrow Fund consist primarily of a Guaranteed Investment Contract (GIC), U.S. Treasury and government agency obligations, corporate obligations, and money market accounts. These investments are maintained by the City or in the Company's name by its agent. The balance of the Capital Improvement Fund at August 31, 2012 and 2011 was $88.8 million and $122.3 million respectively. The unexpended Capital Improvement Fund proceeds are restricted to the purchase of utility plant. In FY 2012 and FY 2011, the Company utilized the Capital Improvement Fund to provide liquidity for the additions to utility plant.

Investments are recorded at fair value except for certain money market funds recorded at amortized cost and guaranteed investment contracts recorded at contract value. The adjustment to market value for the Capital Improvement Fund resulted in a gain of $0.3 million in FY 2012 and a loss of $0.4 million in FY 2011. The adjustment to market value for the Sinking Fund resulted in a loss of $0.2 million in FY 2012 and a gain of less than $0.1 million in FY 2011.

Pursuant to the Pennsylvania Department of Labor and Industry Bureau of Workers' Compensation Self-Insurance policy, the Company has to establish and maintain a restricted trust account. As of August 31, 2012 and 2011, the trust account balances were $2.6 million.

Effective September 1, 2011, PGW self-insures the healthcare for active employees for active employees and retirees under the age of 65. Retirees over the age of 65 are insured on an experience rated basis. Prior to September 1, 2011, the Company had entered into several one-year contracts to provide healthcare for both active and retired employees that are experience rated, and premiums were adjusted annually. As a result of transitioning to the self-insured model, the Company was required to establish and maintain a restricted escrow account. As of August 31, 2012, the balance in the Health Insurance Escrow Fund was $3.2 million.

The following is a schedule that details the Company's investments in the Capital Improvement Fund (thousands of U.S. dollars):

	August 31, 2012			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
U.S. government obligations:				
U.S. Treasury notes	5,264	0.7419	AAA/AA+	Moody's/S&P
Total U.S. government obligations	5,264			
U.S. government agencies and instrumentalities:				
Federal National Mortgage Association medium term notes	20,645	0.2317	AAA/AA+	Moody's/S&P
Federal Home Loan Bank bonds	15,639	0.5879	AAA/AA+	Moody's/S&P
Federal Home Loan Mortgage Corporation medium term notes	12,596	0.3311	AAA/AA+	Moody's/S&P
Federal Farm Credit Bank Bonds	1,950	0.9167	AAA/AA+	Moody's/S&P
Federal Home Loan Mortgage Corporation discount note	1,498	0.8833	AAA/AA+	Moody's/S&P
Total U.S. government agencies and instrumentalities	52,328			
Corporate obligations:				
New York Life Global Funding	566	0.6917	AAA/AA+	Moody's/S&P
Berkshire Hathaway Financial	1,331	0.2183	AA2/AA+	Moody's/S&P
General Electric Capital Corporation	553	0.1361	A1/AA+	Moody's/S&P
Total corporate obligations	2,450			
Total fair value of investments	60,042			

	August 31, 2012			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Cash and cash equivalents:				
Bank of Nova Scotia commercial paper	749	0.3528	A-1+/P-1	Moody's/S&P
Toyota Motor Credit Company commercial paper	897	0.4472	A-1+/P-1	Moody's/S&P
UBS Finance Delaware commercial paper	959	0.1402	A-1/P-1	Moody's/S&P
Total cash and cash equivalents	2,605			
Money market:				
Fidelity Governmental Fund 57				
First American Prime	13,152		N/A	N/A
Obligations Class Z	12,825		N/A	N/A
Morgan Stanley Prime Portfolio Institutional Class	100		N/A	N/A
Total money market	26,077			
Other	114			
Total fair value of investments, including cash deposits	88,838			
Portfolio weighted modified duration		0.4265		

	August 31, 2011			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
U.S. government obligations:				
U.S. Treasury notes	18,979	0.4747	AAA/N/A	Moody's/S&P
U.S. government agencies and instrumentalities:				
Federal Home Loan Mortgage Corporation medium term notes	42,444	0.9733	AAA/AA+	Moody's/S&P
Federal National Mortgage Association medium term notes	17,645	0.8156	AAA/AA+	Moody's/S&P
Federal Home Loan Bank bonds	8,233	0.9115	AAA/AA+	Moody's/S&P
Federal National Mortgage Association debentures	1,486	0.5417	AAA/AA+	Moody's/S&P
Federal Home Loan Mortgage Corporation golden partner certificate	68	0.2528	AAA/AA+	Moody's/S&P
Federal Home Loan Mortgage Corporation partner certificate	667	0.2528	AAA/AA+	Moody's/S&P
Federal National Mortgage Association gtd REMIC pass through	745	0.6528	AAA/AA+	Moody's/S&P
Total U.S. government agencies and instrumentalities	71,288			

	August 31, 2011			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Corporate obligations:				
Johnson & Johnson	2,027	0.4696	AAA/AAA	Moody's/S&P
XTO Energy Inc.	291	0.0440	AAA/AAA	Moody's/S&P
XTO Energy Inc.	1,538	0.2323	AAA/AAA	Moody's/S&P
XTO Energy Inc.	281	0.0425	AAA/AAA	Moody's/S&P
Total	4,137			
General Electric Capital Corp	287	0.0274	AA2/AA+	Moody's/S&P
General Electric Capital Corp	1,832	0.4341	AA2/AA+	Moody's/S&P
General Electric Capital Corp	282	0.0132	AA2/AA+	Moody's/S&P
Berkshire Hathaway Financial	250	0.0193	AA2/AA+	Moody's/S&P
Berkshire Hathaway Financial	296	0.0386	AA2/AA+	Moody's/S&P
Berkshire Hathaway Financial	1,563	0.3393	AA2/AA+	Moody's/S&P
Berkshire Hathaway Financial	286	0.0373	AA2/AA+	Moody's/S&P
Total	4,796			
Shell International Financial	290	0.0068	AA1/AA	Moody's/S&P
Shell International Financial	290	0.0068	AA1/AA	Moody's/S&P
Chevron Corporation	294	0.0571	AA1/AA	Moody's/S&P
Chevron Corporation	1,463	0.2837	AA1/AA	Moody's/S&P
Chevron Corporation	285	0.0551	AA1/AA	Moody's/S&P
Total	2,622			
Pfizer	296	0.2756	A1/AA	Moody's/S&P
Pfizer	286	0.2661	A1/AA	Moody's/S&P
Total	582			
Total corporate obligations	12,137			
Total fair value of investments	102,404			

(Continued)

	August 31, 2011			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Cash and cash equivalents:				
HSBC Finance Corporation Commercial Paper	300	0.0233	P-1/A-1	Moody's/S&P
HSBC Finance Corporation Commercial Paper	290	0.0225	P-1/A-1	Moody's/S&P
UBS Finance (Delaware) Commercial Paper	299	0.0776	P-1/A-1	Moody's/S&P
John Deere Credit Inc. Commercial Paper	290	0.0348	P-1/A-1	Moody's/S&P
Total cash and Cash equivalents	1,179			
Money market:				
Fidelity Governmental Fund 57	13,927	N/A	N/A	
First American Prime Obligations Class Z	3,176	N/A	N/A	
Morgan Stanley Prime Portfolio Institutional Class	100	N/A	N/A	
Total money market	17,203			
Other	1,546			
Total fair value of investments, including cash deposits	122,332			
Portfolio weighted modified duration		0.7973		

The following is a schedule that details the Company's investments in the Sinking Fund (thousands of U.S. dollars):

	August 31, 2012			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Guaranteed investment contracts	41,829	8.5028	*	*
U.S. government obligations:				
U.S. Treasury notes	41,791	1.1852	AAA/AA+	Moody's/S&P
Total U.S. government obligations	41,791			
U.S. government agencies and instrumentalities:				
Federal National Mortgage Association medium term notes	8,796	0.7892	AAA/AA+	Moody's/S&P
Federal Home Loan Bank bonds	6,448	0.9504	AAA/AA+	Moody's/S&P
Federal Home Loan Mortgage Corporation medium term notes	942	0.2167	AAA/AA+	Moody's/S&P
Total U.S. government agencies and instrumentalities	16,186			
Total fair value of investments	99,806			

	August 31, 2012			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Cash and cash equivalents:				
Toyota Motor Credit Company commercial paper	1,193	0.6944	P-1/A-1+	Moody's/S&P
Total cash and cash equivalents	1,193			
Money market:				
Fidelity Governmental Fund 57	4,313			
Total money market	4,313		N/A	N/A
Total fair value of investments, including cash deposits	105,312			
Portfolio weighted modified duration		1.0755		

* The credit rating of this investment is unrated.

	August 31, 2011			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Guaranteed investment contracts	44,257	9.5028		
U.S. government obligations:				
asury notes	32,405	0.8664	AAA/N/A	Moody's/S&P
Total U.S. government obligations	32,405			
U.S. government agencies and instrumentalities:				
Federal National Mortgage Association medium term notes	11,166	1.3140	AAA/A+	Moody's/S&P
Federal Home Loan Bank bonds	6,887	1.5100	AAA/A+	
Federal Farm Credit Banks bonds	7,807	0.7306	AAA/A+	Moody's/S&P
Total U.S. government agencies and instrumentalities	25,860			
Corporate obligations:				
General Electric Capital Corporation	4,586	0.8403	AA2/AA+	Moody's/S&P
Total corporate obligations	4,586			
Total fair value of investments	107,108			

	August 31, 2011			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Cash and cash equivalents:				
Bnp Paribas Financial Corporation Inc. commercial paper	1,000	0.4353	P-1/A-1+	Moody's/S&P
Credit Agicole N.A. commercial paper	1,310	0.5703	P-1/A-1+	
Total cash and cash equivalents	2,310			
Money market:				
Fidelity Governmental Fund	2,620			
Total money market	2,620		N/A	N/A
Total fair value of investments, including cash deposits	112,038		N/A	N/A
Portfolio weighted modified duration		0.9804		

The following is a schedule that details the Company's investments in the Workers' Compensation Escrow Fund (thousands of U.S. dollars):

	August 31, 2012			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Money market:				
Fidelity Governmental Fund	2,597	N/A	N/A	N/A
Total fair value of investments, including cash deposits	2,597			

Investment type	Fair value	August 31, 2011 Weighted average modified duration (years)	Credit rating	Rating agency
Money market:				
Fidelity Governmental Fund 57	2,596	N/A	N/A	N/A
Total money market	2,596			
Total fair value of investments, including cash deposits	2,596			

The following is a schedule that details the Company's investments in the Health Insurance Escrow Fund (thousands of U.S. dollars):

Investment type	Fair value	August 31, 2012 Weighted average maturity (years)	Credit rating	Rating agency
Money market:				
Fidelity Governmental Fund	3,222	N/A	N/A	N/A
Total fair value of investments, including cash deposits	3,222			

(c) *Interest Rate Risk*

It is the policy of the City to diversify its investment portfolios. Portfolio diversification is employed as a way to control risk. Investments shall be diversified as to maturities, and as to kind of investments to minimize the risk of loss, which might result from over concentration of assets in a specific maturity, in a specific kind of a security, or from a specific issuer or industry.

(d) *Credit Risk*

The City has adopted an investment policy relating to the investments of the Company. Per the investment policy, the Company's allowable investments are: (1) bonds or notes of the U.S. government; (2) U.S. Treasury obligations, including STRIPs; receipts indicating an undivided interest in such U.S. Treasury obligations; and stripped coupons held under book-entry with the New

York Federal Reserve Bank; (3) obligations of the following U.S. government-sponsored agencies; Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), Federal Farm Credit System, Federal Home Loan Bank, Resolution Funding Corporation, and Tennessee Valley Authority; (4) collateralized banker's acceptances and certificate of deposit denominated in U.S. dollars and issued by a city code authorized depository certificate of deposit must be secured by acceptable collateral with a total market value equal to 102.0% of the deposit; (5) commercial paper with a stated maturity of 270 days or less, which is rated P1 by Moody's or A1+ by Standard & Poor's (S&P). The senior long-term debt of the commercial paper issuer, or the entity providing and explicit guarantee, must be rated not lower than A2 by Moody's or A by S&P; (6) asset backed commercial paper (ABCP), which does not have a long-term rating, is an allowable investment if it meets the short-term rating requirements but is only allowed up to the ABCP sublimit; (7) general obligation bonds of corporations rated Aa2 or better by Moody's or AA or better by S&P with a final maturity of two years or less; (8) collateralized mortgage obligations and pass-through securities directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States and with a final maturity of two years or less, the rating must be no lower than Aa2 by Moody's or AA by S & P; (9) money market mutual funds, as defined by the Securities and Exchange Commission money markets funds must have assets over $15 billion, have the highest rating from Moody's, S&P, and Fitch, and contain only government securities; (10) repurchase agreements that are fully collateralized in bonds or notes of the U.S. government pledged to the City and held in the City's name and deposited at the time the investment is made with an entity or a third party selected and approved by the City the market value of the collateral shall be at least 102.0% of the funds being disbursed; and (11) obligations of the Commonwealth of Pennsylvania (the Commonwealth) or any municipality or other political subdivision of the Commonwealth with a final maturity of two years or less and a rating of at least AA by Moody's or S&P.

Authorized investments for Sinking Fund Portfolios are dictated by the First Class City Revenue Bond Act of the General Assembly of the Commonwealth of Pennsylvania, approved October 18, 1972. This also includes any investment vehicle permitted for any Commonwealth state agency.

(e) Custodial Credit Risk

The Company has selected custodian banks that are members of the Federal Reserve System to hold its investments. Delivery of the applicable investment documents to the Company's custodian is required for all investments. For secured transactions, such as repurchase agreements, either the title to or a perfected security interest in the securities, along with any necessary transfer documents, must be transferred to the custodian. Such transactions will always use delivery versus payment procedures.

(f) Concentration of Credit Risk

The Company's investment policy provides for the following percentage limitations of authorized investments, valued at market:

	Percent of portfolio allowed	Percent of portfolio per issuer	Percent of outstanding securities per issuer
U.S. government	100%	100%	N/A
U.S. Treasury	100	100	N/A
U.S. Agencies	100	33	N/A
Certificates of Deposit			
Banker's Acceptances, Eurodollar Deposits, and Euro Certificates of Deposit	15	3	—
Commercial Paper	25	3	3%
Corporate Bonds	25	3	3
Collateralized Mortgage Obligation and Passthroughs	5	3	3
Money Market Mutual Funds	25	10	3
Repurchase Agreements	25	10	N/A
Commonwealth of PA and subdivisions of Commonwealth PA	—	—	—

More than 5.0% of the Company's investments as of August 31, 2012 are in the following; United States Treasury notes (23.5%), a GIC with Assured Guaranty Ltd. (20.9%), Federal National Mortgage Corporation Medium Term notes (14.7%), Fidelity Governmental Fund (11.7%), Federal Home Loan Bank bonds (11.1%), Federal Home Loan Mortgage Corporation Medium Term notes (6.8%), and First American Prime Obligations (6.4%). These investments are in accordance with the City's investment policy.

(4) Deferred Costs

In compliance with orders issued by the PGC, the cost of projects that produce benefits over an extended period is deferred. Such costs are being amortized to expense over a period matching their useful lives, which range from two to ten years. There is no return on the asset being charged to the customers. The unamortized costs included in other assets and deferred debits were $0.2 million and $0.5 million as of August 31, 2012 and 2011, respectively. The unamortized costs included in other current assets and deferred debits were $0.3 million as of August 31, 2012 and 2011.

In accordance with U.S. GAAP for regulated entities, the Company has recognized the long-term portion of its environmental remediation liability as a regulatory asset because based on available evidence it is probable that the previously incurred costs will be recovered through rates. In FY 2012, settlements by the Company's insurance carriers provided less than $0.1 million associated with environmental remediation

Company's insurance carriers provided less than $0.1 million associated with environmental remediation costs. Environmental remediation costs of approximately $0.8 million in FY 2012 were offset by these insurance settlements, and the remainder was deferred. The Company estimates additional expenditures to be approximately $30.3 million.

(5) Deferred Compensation Plan

The Company offers its employees a deferred compensation plan (the Plan) created in accordance with Internal Revenue Code Section 457. The Plan, available to all Company employees with six months of service, permits them to defer a portion of their salary until future years. The Company provides an annual 10.0% matching contribution of applicable wages that immediately vests to the employee. The Company contributed $0.3 million in FY 2012 and FY 2011.

(6) Notes Payable

Pursuant to the provisions of certain ordinances and resolutions of the City, the Company may sell short-term notes in a principal amount that, together with interest, may not exceed $150.0 million outstanding at any one time. These notes are intended to provide additional working capital. They are supported by irrevocable letters of credit and a subordinated security interest in the Company's revenues.

The commitment amount is $60.0 million under the current credit agreements. The expiration date of the credit agreements is March 17, 2015.

There were no outstanding notes payable at August 31, 2012 and 2011.

Commercial paper activity for the years ended August 31, 2012 and 2011 was as follows (thousands of U.S. dollars):

	Year ended August 31, 2012			
	Beginning balance	Additions	Deletions	Ending balance
Commercial paper	—	200	200	—

	Year ended August 31, 2011			
	Beginning balance	Additions	Deletions	Ending balance
Commercial paper	—	—	—	—

(7) GCR Tariff Reconciliation

During the fiscal years ended August 31, 2012 and 2011 the Company's actual gas costs were below its billed gas costs by approximately $4.7 million and $0.1 million, respectively.

Natural Gas Pipeline Supplier Refund

The Company received refunds including interest of less than $0.1 million in FY 2012 and FY 2011, related to Federal Energy Regulatory Commission (FERC)/Pipeline Rate Cases. This amount was utilized as a reduction in the cost of gas for reconciliation purposes in the calculation of the applicable GCR.

(8) Long-Term Debt and Other Liabilities

The following summary of long-term debt consists primarily of bonds issued by the City under agreements whereby the Company must reimburse the City for the principal and interest payments required by the bond ordinances for the fiscal years ended August 31, 2012 and 2011 (thousands of U.S. dollars):

	August 31, 2012			August 31, 2011		
	Current portion	Long-term	Total	Current portion	Long-term	Total
Revenue bonds	27,720	1,065,720	1,093,440	48,513	1,147,260	1,195,773
Unamortized discount	(293)	(2,375)	(2,668)	(322)	(2,653)	(2,975)
Unamortized premium	3,118	23,157	26,275	2,358	22,385	24,743
Total revenue bonds	30,545	1,086,502	1,117,047	50,549	1,166,992	1,217,541

The following is a summary of activity related to revenue bonds and other liabilities and deferred credits and the respective balances for the fiscal years ended August 31, 2012 and 2011 (thousands of U.S. dollars):

	Year ended August 31, 2012			
	Beginning balance	Additions	Reductions	Ending balance
Revenue bonds	1,195,773	88,855	(191,188)	1,093,440
Other liabilities and deferred credits:				
Unamortized balance of Guaranteed Investment Contract in Sinking Fund	5,933	—	(624)	5,309
Claims and judgments	6,557	—	(3,119)	3,438
Environmental clean-up	24,269	4,926	—	29,195
Other postemployment benefits	109,448	1,620	—	111,068
Interest rate swap liability	51,671	5,764	—	57,435
Total other liabilities and deferred credits	197,878	12,310	(3,743)	206,445

	Year ended August 31, 2011			
	Beginning balance	**Additions**	**Reductions**	**Ending balance**
Revenue bonds	1,243,733	—	(47,960)	1,195,773
Other liabilities and deferred credits:				
Unamortized balance in Guaranteed Investment Contract in Sinking Fund	6,558	—	(625)	5,933
Claims and judgments	4,486	2,071		6,557
Environmental clean-up	21,237	3,032	—	24,269
Other postemployment benefits	105,476	3,972	—	109,448
Interest rate swap liability	52,217	—	(546)	51,671
Total other liabilities and deferred credits	189,974	9,075	(1,171)	197,878

Liability amounts due within one year are reflected in the other current liabilities and deferred credits line of the balance sheet, and are not included in the tables above.

Principal maturities and scheduled interest payments for revenue bonds and estimated payments on the interest rate swaps are as follows (thousands of U.S. dollars):

	Revenue bonds			
	Principal	**Interest**	**Net swap amount**	**Total**
Fiscal year ending August 31:				
2013*	27,720	50,644	7,923	86,287
2014	49,800	49,201	7,923	106,924
2015	50,975	46,756	7,923	105,654
2016	49,155	44,091	7,923	101,169
2017	49,895	41,723	7,923	99,541
2018 – 2022	255,355	172,714	34,122	462,191
2023 – 2027	267,750	112,814	17,610	398,174
2028 – 2032	173,145	59,734	982	233,861
2033 – 2037	130,175	24,250	—	154,425
2038 – 2040	39,470	3,190	—	42,660
Total	1,093,440	605,117	92,329	1,790,886

* Tax Exempt Capital Accumulator (TECA) accretions for the 11th “C” Series in the amount of $327 are not included in the principal amount in FY 2012.

Future debt service is calculated using rates in effect at August 31, 2012 for variable rate bonds. As described in note 8(c), the variable rate received under the swaps is the lesser of the actual bond rate and the SIFMA Municipal Swap Index until September 1, 2011, when the variable rate received changed to 70% of LIBOR until maturity. Therefore, through August 31, 2011, the net swap amounts were calculated by subtracting swap receipts payments based on the lesser of the bond rate or 70% of LIBOR from the payments related to the fixed rate of the swaps. Subsequent to August 31, 2011, swap receipts payments are based on 70% of LIBOR.

(a) Bond Issuances – Refunding of Bonds and Defeasance of Bonds

1975 Ordinance Twentieth Series Bonds

On September 28, 2011, the City issued Gas Works Revenue Bonds, Twentieth Series in the amount of $16.2 million for the purpose of refunding the entire Sixteenth Series Bond (1975 General Ordinance), and paying the costs of issuing the bonds. The Twentieth Series Bonds, with fixed interest rates that range from 2.0% to 5.0%, have maturity dates through 2015. The cost of issuance related to this transaction was approximately $0.2 million. The loss on refunding the Sixteenth Series bonds and issuing the Twentieth Series bonds of $0.6 million was deferred and will be amortized over the life of the Twentieth Series bonds. This transaction provided debt service savings of $1.4 million on a 3.0% net present value basis.

1998 Ordinance Tenth Series Bonds

On August 28, 2012, the Company defeased $20.2 million of principal for bonds issued under the 1998 General Ordinance. The defeased bonds were for these respective series and amounts: Fourth Series – $3.1 million, Fifth Series – $2.9 million, Seventh Series – $6.1 million, Eighth Series A – $5.3 million and Ninth Series – $2.8 million.

On September 28, 2011, the City issued Gas Works Revenue Bonds, Tenth Series in the amount of $72.6 million for the purpose of refunding the entire First Series A, First Series C, Second Series, and Third Series Bonds (1998 General Ordinance), and paying the costs of issuing the bonds. The Tenth Series Bonds, with fixed interest rates that range from 3.0% to 5.0% have maturity dates through 2026. The cost of issuance related to this transaction was approximately $1.3 million. The loss on refunding the First Series A, First Series C, Second Series, and Third Series bonds and issuing the Tenth Series bonds of $3.9 million was deferred and will be amortized over the life of the Tenth Series bonds. This transaction provided debt service savings of $6.2 million on a 3.0% net present value basis.

On September 1, 2011, the City defeased $29.5 million of the Eighth Series variable rate Bonds utilizing internally generated funds. As a result of this defeasance, a portion of the related interest rate swap agreement was terminated. The termination payment was approximately $7.0 million. Concurrently, the letters of credit for the Eighth Series B, C, and D Bonds were extended and the Series E letter of credit was replaced. The remaining Eighth Series Bonds in the amount of $225.5 million were then remarketed, with the remaining aggregate principal being reallocated among the Eighth Series B Bonds ($50.3 million), the Eighth Series C Bonds ($50.0 million), the

Eighth Series D Bonds ($75.0 million), and Eighth Series E Bonds ($50.2 million). The related swap agreement was amended to reflect these new notional amounts for each of the issuances.

Interest rates and maturities of the outstanding revenue bonds are detailed as follows (thousands of U.S. dollars):

	Interest rates	Maturity date (fiscal year)	Balance outstanding August 31, 2012	Balance outstanding August 31, 2011
Series 11C	6.80%	2012	—	13,679
1st Series A	4.50% – 5.50%	2026	—	65,350
1st Series C	3.85% – 5.00%	2014	—	5,410
16th Series	4.00% – 5.50%	2015	—	16,915
2nd Series	4.63% – 5.38%	2012	—	2,925
3rd Series	4.25% – 5.50%	2012	—	2,980
4th Series	4.00% – 5.25%	2032	81,075	87,110
17th Series	4.00% – 5.38%	2026	121,700	126,560
5th Series	4.00% – 5.25%	2034	109,310	114,915
5th Series A-2	Variable	2035	30,000	30,000
18th Series	5.00% – 5.25%	2021	33,525	36,575
19th Series	5.00%	2024	14,450	14,450
20th Series	2.00% – 5.00%	2015	16,215	–
7th Series	4.00% – 5.00%	2038	183,460	190,484
7th Series Refunding	5.00%	2029	28,385	30,900
8th Series A	4.00% – 5.25%	2017	48,035	55,055
8th Series B	Variable	2031	50,260	105,000
8th Series C	Variable	2031	50,000	50,000
8th Series D	Variable	2031	75,000	50,000
8th Series E	Variable	2031	50,260	50,000
9th Series	2.00% – 5.25%	2040	141,835	147,465
10th Series	3.00% – 5.00%	2026	59,930	—
			1,093,440	1,195,773

(b) Debt Coverage and Sinking Fund Requirements

Under the terms of both general ordinances, the City is required to maintain rates to allow the Company to satisfy 1975 and 1998 revenue bond debt coverage ratio requirements.

Also provided by both general ordinances is the establishment of a sinking fund into which deposits are made sufficient to meet all principal and interest requirements of the bonds as they become due. Both general ordinances also provide that sinking fund reserves be maintained as part of the Sinking Fund Reserve, which have previously been funded from the proceeds of each series of bonds in an amount equal to the maximum annual debt service requirement on the bonds of each respective general ordinance in any fiscal year.

Funds in the Sinking Fund Reserve are to be applied to the payment of debt service if, for any reason, other funds in the Sinking Fund should be insufficient.

The revenue bonds are, and will be, equally and ratably collateralized by a security interest in all of the Company's project revenues, as defined in the general ordinances, and monies in the Sinking Fund.

Portions of certain revenue bonds were issued as zero-coupon securities. Interest on these securities is accrued and compounded on the payment dates of the current interest bonds within the issue. The accrued interest is reported as long-term debt.

(c) Interest Rate Swap Agreements

Objective– In January 2006, the City entered into a fixed rate payer, floating rate receiver swap to create a synthetic fixed rate for the Sixth Series Bonds. The variable rate/swap structure was used as a means to increase the City's savings, when compared with fixed-rate refunding bonds at the time of issuance. The Company's swaps are utilized to hedge interest rate risk.

Terms – The swap was originally executed with the counterparty on January 26, 2006 and will mature on August 1, 2031. Under the swap, the City paid a fixed rate of 3.6745% and received a variable rate computed as the lesser of (i) the actual bond rate and (ii) the SIFMA Municipal Swap Index until September 1, 2011 on which date the variable interest rate received switched to 70.0% of one month LIBOR until maturity.

In August 2009, the City terminated approximately $54.8 million of the notional amount of the swap, issued fixed rate refunding bonds related to that portion and kept the remaining portion of the swap to hedge the Eight Series variable rate refunding bonds backed with letters of credit. The Company paid a swap termination payment of $3.8 million to the counterparty to partially terminate the swap.

The original swap confirmation was amended and restated on August 12, 2009 to reflect the principal amount of the Eighth Series B Bonds, with all other terms remaining the same. The remainder of the notional amount was divided among separate trade confirmations with the same terms as the original swap that was executed with the counterparty for the Eighth Series C through E.

In September 2011, the underlying variable rate bonds were remarketed with new letters of credit. During the remarketing, PGW partially redeemed portions of the bonds, and re-allocated remaining principal amongst the bond subseries. At the same time, the City terminated an aggregate notional amount of $29.5 million of the swaps, keeping the remaining portion of the swap to hedge the remaining variable rate bonds backed with letters of credit. The partial termination was competitively bid, with the winning swap counterparty providing the lowest cost of termination/assignment. PGW paid a swap termination payment of $7.0 million to partially terminate the swaps. The remaining notional amounts of each of the swaps were adjusted to match the reallocation of the underlying bonds.

As of August 31, 2012, the swaps had a notional amount of $225.5 million and the associated variable rate debt had a $225.5 million principal amount, broken down by series as follows:

- The Series B swap had a notional amount of $50.3 million and the associated variable rate bonds had a $50.3 million principal amount.
- The Series C swap had a notional amount of $50.0 million and the associated variable rate bonds had a $50.0 million principal amount.
- The Series D swap had a notional amount of $75.0 million and the associated variable rate bonds had a $75.0 million principal amount.
- The Series E swap had a notional amount of $50.2 million and the associated variable rate bonds had a $50.2 million principal amount.

The final maturity date for all swaps is on August 1, 2028.

Fair value – As of August 31, 2012, the swaps had a combined negative fair value for all series of $57.4 million. The fair values of the interest rate swaps were estimated using the zero coupon method. That method calculates the future net settlement payments required by the swap, assuming current forward rates are implied by the current yield curve for hypothetical zero coupon bonds due on the date of each future net settlement on the swaps.

Risks – As of August 31, 2012, the City is not exposed to credit risk because the swaps had a negative fair value. Should interest rates change and the fair value of the swaps become positive, the City would be exposed to credit risk in the amount of the swaps’ fair value. The swaps include a termination event additional to those in the standard ISDA master agreement based on credit ratings. The swaps may be terminated by the City if the rating of the counterparty falls below A3 or A- (Moody’s/S&P), unless the counterparty has: (i) assigned or transferred the swap to a party acceptable to the City; (ii) provided a credit support provider acceptable to the City whose obligations are pursuant to a credit support document acceptable to the City; or (iii) executed a credit support annex, in form and substance acceptable to the City, providing for the collateralization by the counterparty of its obligations under the swaps.

The swaps may be terminated by the counterparty if the rating on the Company’s bonds falls below Baa2 or BBB (Moody’s/S&P). However, because the City’s swap payments are insured by Assured Guaranty Municipal Corporation, as long as Assured Guaranty Municipal Corporation is rated at or above A2 or A (Moody’s/S&P), the termination event based on the City’s ratings is stayed. At the present time, the rating for Assured Guaranty Municipal Corporation is at Aa3/AA+ (Moody’s/S&P).

The City is exposed to (i) basis risk, as reflected by the relationship between the rate payable on the bonds and 70.0% of one month LIBOR received on the swap, and (ii) tax risk, a form of basis risk, where the City is exposed to a potential additional interest cost in the event that changes in the federal tax system or in marginal tax rates cause the rate paid on the outstanding bonds to be greater than the 70.0% of one month LIBOR received on the swap.

The impact of the interest rate swaps on the financial statements for the year ended August 31, 2012 and 2011 is as follows (thousands of U.S. dollars):

	Interest rate swap liability	Deferred outflow of resources
Balance August 31, 2011	51,671	25,360
Change in fair value through August 31, 2012	5,764	5,764
Balance August 31, 2012	57,435	31,124

	Interest rate swap liability	Deferred outflow of resources
Balance August 31, 2010	52,217	25,906
Change in fair value through August 20, 2011	(546)	(546)
Balance August 31, 2011	51,671	25,360

The interest rate swap liability is included in other liabilities on the balance sheet.

There are no collateral posting requirements associated with the swap agreements.

(d) Guaranteed Investment Contracts in Sinking Fund

On August 23, 2002, the City entered into GICs in connection with a portion of its 1975 and 1998 Ordinance Sinking Fund Reserves for the Company. At settlement, approximately 65.0% of the Sinking Fund Reserves, from the two ordinances, totaling $61.4 million were invested in the GICs. In exchange for this investment, the Company received an up-front payment of $21.8 million in lieu of receiving interest payments over the life of the GICs. The life of the GIC is 18 1/2 years, with 8 1/2 years remaining at August 31, 2012.

The Company also paid $1.7 million to terminate an existing agreement as part of this transaction. Of the remaining net proceeds of $20.2 million, $8.6 million was allocated to the 1975 Sinking Fund Reserve and $11.6 million was allocated to the 1998 Sinking Fund Reserve. For debt service coverage purposes, the $20.2 million was considered “project revenues” in FY 2002. For financial statement purposes, the $8.6 million was recorded as revenue in FY 2002 in the category of interest and other income. This amount is nonrefundable and was granted to the Company by the City.

The GICs are recorded at contract value in the Sinking Fund and had contract values of $41.8 million and $44.3 million at August 31, 2012 and 2011, respectively.

Under the 1998 General Ordinance, the Company is entitled to the earnings on the portion of the Sinking Fund allocated to bonds issued under the 1998 General Ordinance. Therefore, the $11.6 million received under the 1998 ordinance was deferred and is being amortized on a straight-line basis over the life of the agreement. The unamortized balance of the proceeds was $5.3 million and $5.9 million at August 31, 2012 and 2011, respectively.

(9) Defeased Debt

Defeased debt of the Company (bonds issued by the Company payable from the proceeds of irrevocably pledged assets) at August 31, 2012 was as follows (thousands of U.S. dollars):

	Latest date maturing to	Interest rate	Bonds outstanding
5th Series A-1	9/1/12	4.00%	2,865
8th Series A	8/1/13	5.00	5,315
9th Series	8/1/13	3.00	2,855
7th Series	3/15/13	6.00	16,780
12th Series B	5/15/20	7.00	36,020
4th Series	8/1/20	5.25	23,095

The investments held by the trustee and the defeased bonds are not recognized on the Company's balance sheets in accordance with the terms of the Indentures of Defeasance. The investments pledged for the redemption of the defeased debt have maturities and interest payments scheduled to coincide with the trustee cash requirements for debt service.

The assets pledged, primarily noncallable U.S. government securities, had a market value of $90.8 million at August 31, 2012, bearing interest on face value from 0.0% to 7.2%.

(10) Pension Costs

(a) Plan Description

The Pension Plan sponsored by the City provides pension benefits for all eligible employees of the Company and other eligible class employees of PFMC and the PGC. The Company's annual covered payroll (which was substantially equal to total payroll) was $106.3 million and $106.1 million at August 31, 2012 and 2011, respectively.

At September 1, 2011, the beginning of the plan year of the last actuarial valuation, the Pension Plan membership consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving them	2,326
Participants:	
Vested	1,221
Nonvested	341
Total participants	1,562
Total membership	3,888

The Pension Plan provides retirement benefits as well as death and disability benefits. Retirement benefits vest after five years of credited service. Employees who retire at or after age 65 are entitled to receive an annual retirement benefit, payable monthly, in an amount equal to the greater of:

- 1.25% of the first $6,600 of Final Average Earnings plus 1.75% of the excess of Final Average Earnings over $6,600, times years of credited service, with a maximum of 60.0% of the highest annual earnings during the last 10 years of credited service, or
- 2.0% of total earnings received during the period of credited service plus 22.5% of the first $1,200 annual amount, applicable only to participants who were employees on or prior to March 24, 1967.

Final Average Earnings are the employee's average pay, over the highest five years of the last ten years of credited service. Employees with 15 years of credited service may retire at or after age 55 and receive a reduced retirement benefit. Employees with 30 years of service may retire without penalty for reduced age.

Covered employees are not required to contribute to the Pension Plan. The Company is required by statute to contribute the amounts necessary to fund the Pension Plan. Benefit and contribution provisions are established by City Ordinance and may be amended only as allowed by City Ordinance.

In December 2011, the Pension Plan sponsored by the City was amended by Ordinance and a new deferred compensation plan was authorized by Ordinance as well. Newly hired employees will have an irrevocable option to join either a new deferred compensation plan created in accordance with Internal Revenue Code Section 401 or the existing defined benefit plan. The deferred compensation plan provides for an employer contribution equal to 5.5% of applicable wages. The defined benefit plan provides for a newly hired employee contribution equal to 6.0% of applicable wages. The Ordinance did not affect the retirement benefits of active employees, current retirees and beneficiaries, or terminated employees entitled to benefits but not yet receiving them.

The City issues a publicly available financial report that includes financial statements and required supplementary information for the Pension Plan. The report may be obtained by writing to the Office of the Director of Finance of the City.

(b) Annual Pension Cost, Contributions Required, and Contributions Made

The normal cost, amortization of the unfunded balance, and annual required and actual contributions for FY 2012 and the two preceding fiscal years were as follows (thousands of U.S. dollars):

	Normal cost	Amortization of the underfunded balance	Annual required and actual contributions
Fiscal year ended August 31:			
2012	8,171	15,801	23,972
2011	8,499	14,098	22,597
2010	8,292	16,341	24,633

Beneficiary payments of $40.1 million were made in FY 2012. Withdrawals from the pension assets of $16.0 million were utilized to meet these beneficiary payments. Additionally, $14.0 million due to the Company from the pension fund at the end of FY 2011 was received in FY 2012.

The Company's annual pension cost is equal to its annual required contribution (ARC). The ARCs were determined based on an actuarial study, or updates thereto, using the projected unit credit method. Significant actuarial assumptions used for the above valuation include a rate of return on the investment of present and future assets of 8.15% per year compounded annually; projected salary increases of 3.0% of the salary at the beginning of the next three years, then 4.5% of the salary at the beginning of the fourth and subsequent year; and retirements that are assumed to occur prior to age 62, at a rate of 10.0% at ages 55 to 61 and 100.0% at age 62. The assumptions did not include postretirement benefit increases. These actuarial assumptions are consistent with the prior fiscal year.

The actuarial asset value is equal to the value of the fund assets as reported by the City with no adjustments. The unfunded actuarial accrued liability is being amortized over 20 years.

The Pension Plan funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay benefits when due. Level percentages of payroll employer contribution rates are determined using the Projected Unit Credit actuarial funding method. The actuarial value of assets, actuarial accrued liability, unfunded actuarial accrued liability, funded ratio, covered payroll and the unfunded actuarial accrued liability of covered payroll for FY 2012, and the two preceding fiscal years were as follows (thousands of U.S. dollars):

Actuarial valuation date	(a) Actuarial value of assets	(b) Actuarial accrued liability (AAL)	(b)-(a) Unfunded AAL (UAAL)	(a/b) Funded ratio	Covered payroll	UAAL as a percent of covered payroll
September 1, 2011	421,949	572,190	150,241	73.7%	106,308	141.3%
September 1, 2010	381,975	533,630	151,655	71.6	106,125	142.9
September 1, 2009	355,499	519,773	164,274	68.4	106,003	155.0

The ARCs, contributions made, and net pension obligation for FY 2012 and the two preceding fiscal years were as follows (thousands of U.S. dollars):

	2012	2011	2010
Annual required contribution	23,972	22,597	24,633
Contributions made	(23,972)	(22,597)	(24,633)
Net pension obligation	—	—	—

(c) Historical Trend Information (Unaudited)

Historical trend information reflecting funding progress and contributions made by the Company is presented in the supplemental schedule of pension funding progress (unaudited).

(11) Other Postemployment Benefits

(a) Plan Description

The Company sponsors a single employer defined benefit healthcare plan and provided postemployment healthcare and life insurance benefits to approximately 2,018 and 2,002 participating retirees and their beneficiaries and dependents in FY 2012 and FY 2011, respectively, in accordance with their retiree medical program. The annual covered payroll (which was substantially equal to total payroll) was $106.3 million and $106.1 million at August 31, 2012 and 2011, respectively.

The Company pays the full cost of medical, basic dental, and prescription coverage for employees who retired prior to December 1, 2001. Employees who retire after December 1, 2001 are provided a choice of three plans at the Company's expense and can elect to pay toward a more expensive plan. Retirees may also contribute toward enhanced dental plan and life insurance coverage. PGW pays 100% of the cost for the prescription drug plan after drug co-pays. Union employees hired on or after

May 21, 2011 and Non-Union employees hired on or after December 21, 2011 are entitled to receive post-retirement medical, prescription, and dental benefits for five years only. Currently, the Company provides for the cost of healthcare and life insurance benefits for retirees and their beneficiaries on a pay-as-you-go basis.

Total expense incurred for healthcare and life insurance related to retirees amounted to $26.0 million and $23.2 million, in FY 2012 and FY 2011, respectively. In addition, the Company expensed $18.5 million of funding for the OPEB Trust. Retirees contributed $0.4 million towards their healthcare in both FY 2012 and FY 2011. These contributions represent the additional cost of healthcare plans chosen by retirees above the basic plan offered by the Company. Total premiums for group life insurance were $2.1 million, and $2.0 million in FY 2012 and FY 2011, respectively which included $1.6 million and $1.5 million for retirees. Retirees contributed $0.1 million towards their life insurance in both FY 2012 and FY 2011. The plan does not issue a stand-alone report.

(b) Annual Postemployment Benefit Cost, Contributions Required, and Contributions Made

The amount paid by the Company for retiree benefits in FY 2012 was $44.5 million, consisting of $24.5 million of healthcare expenses, $1.5 million of life insurance expenses, and $18.5 million contributed to the OPEB trust. In FY 2011 the Company paid $41.7 million, consisting of $21.8 million of healthcare expenses, $1.4 million of life insurance expenses, and $18.5 million contributed to the OPEB trust. The difference between the AOC and the Company’s contributions resulted in an increase in the OPEB obligation of $1.6 million and $4.0 million in FY 2012 and FY 2011, respectively, which was recorded to other liabilities and deferred credits and expensed. The actuarial accrued liability for benefits at August 31, 2012 and August 31, 2011 was $444.0 million and $485.7 million, respectively. The ratio of the unfunded actuarial accrued liability to the covered payroll was 381.1% as of August 31, 2012 and 440.8% as of August 31, 2011. Historical trend information reflecting funding progress and contributions made by the Company is presented in the Schedule of Other Postemployment Benefits Funding Progress (unaudited).

The valuation was prepared utilizing certain assumptions, including the following:

- Economic assumptions – the discount rate and healthcare cost trend rates

The report utilized an 8.0% discount rate for purposes of developing the liabilities and ARC on the Plan for FY 2012. This rate is based on the expected return of the investments of the OPEB Trust.

	Healthcare cost trend rates			
Year	**Medical (pre-65)**	**Medical (post-65)**	**Prescription**	**Dental**
1	11.0%	9.0%	9.0%	4.5%
2	10.0	8.0	8.0	4.5
3	9.0	7.0	7.0	4.5
4	8.0	6.0	6.0	4.5
5	7.0	5.0	5.0	4.5
6	6.5	4.5	4.5	4.5
7	6.0	4.5	4.5	4.5
8	5.5	4.5	4.5	4.5
9	5.0	4.5	4.5	4.5
10 and beyond	4.5	4.5	4.5	4.5

- Benefit assumptions – the initial per capita cost rates for medical coverage, and the face amount of Company-paid life insurance
- Demographic assumptions – including the probabilities of retiring, dying, terminating (without a benefit), becoming disabled, recovery from disability, election (participation rates), and coverage levels

The following table shows the components of the Company's annual OPEB cost for FY 2012 and FY 2011, the amount actually contributed to the plan, and the Company's net OPEB obligation (thousands of U.S. dollars):

	2012	**2011**
Annual required contribution	47,071	46,622
Interest on net OPEB obligation	8,756	8,438
Adjustment to the annual required contribution	(9,722)	(9,369)
Annual OPEB cost	46,105	45,691
Contributions made	(44,486)	(41,719)
Net OPEB obligation as of prior year	109,448	105,476
Net OPEB obligation as of August 31,	111,067	109,448

The difference between the AOC and benefit payments made is recorded as other postemployment benefits expense on the statement of revenues and expenses. Contributions made are allocated to operating expense line items along with salaries and other employee benefit costs.

The Company's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for FY 2012 and the two preceding fiscal years were as follows (thousands of U.S. dollars):

	Annual OPEB cost	**Percentage of annual OPEB cost contributed**	**Net OPEB obligation**
Fiscal year ended August 31:			
2012	46,105	96.50%	111,067
2011	45,691	91.30	109,448
2010	48,975	53.70	105,476

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

(c) Other Coverage Information

Effective September 1, 2011, PGW self-insures the healthcare for active employees and retirees under the age of 65. Retirees over the age of 65 are insured on an experience rated basis. Prior to September 1, 2011, the Company had entered into several one-year contracts to provide healthcare for both active and retired employees that are experience rated, and premiums were adjusted annually. In addition, the Company has in place approximately $181.5 million of group life insurance coverage for both active and retired employees, which is retrospectively rated on a monthly basis.

(12) Pollution Remediation

The pollution remediation obligations at August 31, 2012 and 2011 were $30.3 million and $28.1 million respectively, which reflect the impact of GASB 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

(13) Risk Management

The Company is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. While self-insured for many risks, the Company purchases insurance coverage where appropriate. The Company's real and personal property is insured against the risk of loss or damage in the amount of $250.0 million, subject to a $0.5 million per accident deductible at the Richmond and Passyunk Plants and a $0.1 million per accident deductible at all other locations. There are separate sub limits for flood and earth movement at select locations. The

Company's Property Insurance includes coverage for damage incurred from a terrorist attack. In addition, the Company maintains Blanket Crime, which is a form of Property Insurance.

The Company maintained $210.0 million in liability (including terrorism) coverage, insuring against the risk of damage to property or injury to the public with a per occurrence self-insured retention of $1.0 million.

The Company maintains statutory limits for Workers' Compensation (including terrorism) with a $0.5 million per occurrence self-insured retention.

The Company maintains a $30.0 million Public Officials Liability (Directors and Officers Liability) policy with a $0.5 million retention as well as a $60.0 million Fiduciary Liability policy with a $0.2 million self-insured retention.

The Company has evaluated all open claims as of August 31, 2012 and has appropriately accrued for these claims on the balance sheet.

Claims and settlement activity for occurrences excluded under the provisions of insurance policies for injuries and damages are as follows (thousands of U.S. dollars):

	Beginning of year reserve	Current year claims and adjustments	Claims settled	End of year reserve	Current liability amount
Fiscal year ended August 31:					
2012	10,697	3,725	(3,320)	11,102	7,664
2011	9,866	4,299	(3,468)	10,697	4,141
2010	11,881	1,237	(3,252)	9,866	5,380

(14) Commitments and Contingencies

Commitments for major construction and maintenance contracts were approximately $10.7 million and $10.6 million, as of August 31, 2012 and August 31, 2011, respectively.

The Company is committed under various noncancelable operating lease agreements to pay minimum annual rentals as follows (thousands of U.S. dollars):

Fiscal year ending August 31:	
2013	662
2014	156
2015	70
2016	51

Rent expense for the fiscal years ended August 31, 2012 and 2011 amounted to $1.3 million and $1.1 million, respectively.

The Company, in the normal course of conducting business, has entered into long-term contracts for the supply of natural gas, firm transportation, and long-term firm gas storage service. The Company's cumulative obligations for demand charges for all of these services are approximately $6.5 million, per month.

The Company has entered into seasonal contracts with suppliers providing the Company the ability to fix the price of the purchase of natural gas during the period from November 1, 2012 through March 31, 2013.

The Company's FY 2013 Capital Budget was approved by City Council in the amount of $90.9 million. Within this approval, funding was provided to continue the implementation of an 18 mile Cast Iron Main Replacement Program. Main replacement cost for this program in FY 2013 is expected to be $20.4 million. The total six-year cost of the Cast Iron Main Program is forecasted to be $126.7 million. In addition to this program, the FY 2013 Capital Budget includes funding for an incremental Cast Iron Main Replacement Program for which PGW will request recovery through a Distribution System Improvement Charge (DSIC). This incremental program in FY 2013 is expected to cost $13.1 million. The total six-year cost of this incremental program is forecasted to be $84.5 million.

The FY 20 13 Capital Budget also includes $1.1 million for the purchase of replacement Automatic Meter Reading (AMR) units. The total six-year cost of this program to replace AMR units is approximately $7.8 million.

(15) Subsequent Events

The Company evaluated events and transactions that occurred between August 31, 2012 and December 20, 2012, the date the financial statements were originally available to be issued; and between December 20, 2012 and February 26, 2013, the date the financial statements were reissued, for possible disclosure and recognition in the financial statements and noted none.

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)

Required Supplementary Information (Unaudited)

Schedule of Pension Funding Progress

(Thousands of U.S. dollars)

Actuarial valuation date	(a) Actuarial value of assets	(b) Actuarial accrued liability (AAL)	(b)-(a) Unfunded AAL (UAAL)	(a/b) Funded ratio	Covered payroll	UAAL as a percent of covered payroll
September 1, 2011*	421,949	572,190	150,241	73.7%	106,308	141.3%
September 1, 2010**	381,975	533,630	151,655	71.6	106,125	142.9
September 1, 2009***	355,499	519,773	164,274	68.4	106,003	155.0
September 1, 2008+	430,390	495,155	64,765	86.9	107,918	60.0
September 1, 2007++	416,183	482,380	66,197	86.3	105,596	62.7
September 1, 2006+++	411,886	474,250	62,364	86.8	106,018	58.8

* The required supplementary information is based on a biennial actuarial valuation of the pension fund for the plan year September 1, 2011 through August 31, 2012.

** The required supplementary information is based on a biennial actuarial valuation of the pension fund for the plan year September 1, 2009 through August 31, 2010, updated for contributions and additional accrued benefits in the subsequent fiscal year.

*** The required supplementary information is based on a biennial actuarial valuation of the pension fund for the plan year September 1, 2009 through August 31, 2010.

+ The required supplementary information is based on a biennial actuarial valuation of the pension fund for the plan year September 1, 2007 through August 31, 2008, updated for contributions and additional accrued benefits in the subsequent fiscal year.

++ The required supplementary information is based on a biennial actuarial valuation of the pension fund for the plan year September 1, 2007 through August 31, 2008.

+++ The required supplementary information is based on a biennial actuarial valuation of the pension fund for the plan year September 1, 2005 through August 31, 2006, updated for contributions and additional accrued benefits in the subsequent fiscal year.

See accompanying independent auditors’ report.

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)

Required Supplementary Information (Unaudited)

Schedule of Other Postemployment Benefits Funding Progress

(Thousands of U.S. dollars)

Actuarial valuation date	(a) Actuarial value of assets	(b) Actuarial accrued liability (AAL)	(b)-(a) Unfunded AAL (UAAL)	(a/b) Funded ratio	Covered payroll	UAAL as a percent of covered payroll
August 31, 2012*	38,860	443,982	405,122	8.8%	106,308	381.1%
August 31, 2011**	17,886	485,722	467,836	3.7	106,125	440.8
August 31, 2010***	—	654,126	654,126	—	106,003	617.1
August 31, 2009****	—	635,792	635,792	—	107,918	589.1
August 31, 2008*****	—	591,599	591,599	—	105,596	560.2

* The required supplementary information is based on an actuarial valuation of the OPEB fund for the plan year September 1, 2011 through August 31, 2012.

** The required supplementary information is based on a biennial actuarial valuation of the OPEB fund for the plan year September 1, 2010 through August 31, 2011.

*** The required supplementary information is based on a biennial actuarial valuation of the OPEB fund for the plan year September 1, 2009 through August 31, 2010 updated for contributions and additional accrued benefits in the subsequent fiscal year.

**** The required supplementary information is based on a biennial actuarial valuation of the OPEB fund for the plan year September 1, 2008 through August 31, 2009.

***** The required supplementary information is based on a biennial actuarial valuation of the OPEB fund for the plan year September 1, 2007 through August 31, 2008 updated for contributions and additional accrued benefits in the subsequent fiscal year.

See accompanying independent auditors' report.

Statistical Section

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Statistical Section
Description of Schedules

This section of the Company's comprehensive annual financial report presents comparative information in order to better understand the financial statements, note disclosures, and required supplementary information and to more fully comprehend the Company's overall financial health.

Financial Trends

These schedules contain trend information to help the reader understand how the Company's financial performance and well being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the Company's revenue.

Debt Capacity

These schedules present information to help the reader assess the affordability of the Company's current levels of outstanding debt and its ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the Company's financial activities take place.

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the Company's financial report relates to the services the Company provides and the activities it performs.

Sources

Unless otherwise noted, the information in these schedules is derived from the audited financial statements for the relevant year.

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Balance Sheets
Fiscal Years 2003 through 2012
(Thousands of US dollars)

Assets	**2012**	**2011**	**2010**
Utility plant, at original cost:			
In service	1,894,129	1,856,303	1,794,277
Under construction	53,851	40,555	46,339
Total	1,947,980	1,896,858	1,840,616
Less accumulated depreciation	822,330	785,780	746,607
Utility plant, net	1,125,650	1,111,078	1,094,009
Restricted investment funds:			
Sinking fund, revenue bonds	105,312	112,038	111,409
Capital improvement fund	88,838	122,332	170,809
City of Philadelphia	-	-	-
Workers' compensation escrow fund	2,597	2,596	2,595
Health insurance escrow fund	3,222	-	-
Total restricted investment funds	199,969	236,966	284,813
Current assets:			
Cash and cash equivalents	75,826	105,386	79,052
Accounts receivable (net of provision for uncollectible accounts)	81,997	98,925	92,173
Gas inventories, materials, and supplies	81,086	85,993	103,133
Other current assets and deferred debits	26,939	35,523	27,212
Total current assets	265,848	325,827	301,570
Unamortized bond issuance costs	22,972	24,585	27,066
Unamortized losses on reacquired debt	53,241	62,039	70,873
Deferred arrearages	-	-	-
Other assets and deferred debits	30,996	30,640	22,925
Total assets	1,698,676	1,791,135	1,801,256
Deferred outflows of resources			
Accumulated fair value of hedging derivatives (1)	34,712	25,360	25,906
Total assets and deferred outflows of resources	1,733,388	1,816,495	1,827,162

See accompanying notes to financial statements.

(1) PGW adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* for the year ended August 31, 2012.

Source - PGW's Audited Financial Statements

2009	2008	2007	2006	2005	2004	2003
1,754,297	1,685,593	1,633,300	1,555,669	1,515,463	1,473,519	1,429,623
30,953	46,969	48,013	65,122	57,883	43,527	37,953
1,785,250	1,732,562	1,681,313	1,620,791	1,573,346	1,517,046	1,467,576
708,783	670,467	640,940	613,143	591,624	566,310	539,132
1,076,467	1,062,095	1,040,373	1,007,648	981,722	950,736	928,444
110,227	106,198	102,438	94,352	104,530	95,929	96,020
62,714	111,207	172,134	39,636	102,701	40,494	99,409
-	-	643	-	-	-	-
2,593	2,383	1,924	1,637	1,579	-	-
-	-	-	-	-	-	-
175,534	219,788	277,139	135,625	208,810	136,423	195,429
13,750	49,338	51,698	6,697	15,221	3,666	380
105,496	99,304	88,618	74,360	87,634	93,124	92,860
125,023	187,539	147,770	149,438	129,984	98,467	74,029
4,895	5,626	5,615	25,259	2,632	14,017	20,230
249,164	341,807	293,701	255,754	235,471	209,274	187,499
27,516	38,738	42,086	42,089	39,094	32,718	35,247
79,945	47,902	53,359	55,859	38,494	39,439	44,036
-	-	-	-	-	-	3,750
23,465	33,125	8,282	9,035	16,231	9,591	10,570
1,632,091	1,743,455	1,714,940	1,506,010	1,519,822	1,378,181	1,404,975
-	-	-	-	-	-	-
1,632,091	1,743,455	1,714,940	1,506,010	1,519,822	1,378,181	1,404,975

(Continued)

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Balance Sheets
Fiscal Years 2003 through 2012
(Thousands of US dollars)

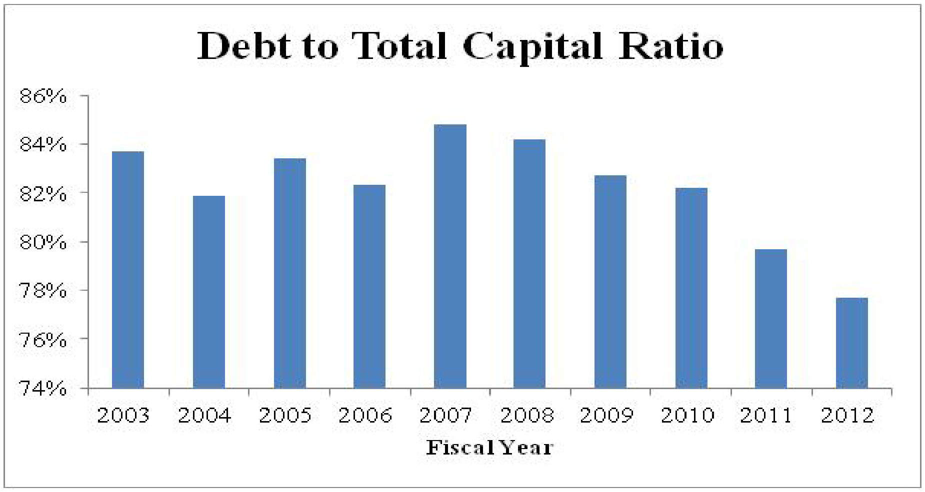
Fund Equity and Liabilities	**2012**	**2011**	**2010**
Fund equity:			
Excess (deficiency) of capital assets, net of related debt (1)	-	-	-
Restricted (1)	-	-	-
Unrestricted (1)	-	-	-
Total fund equity (1)	-	-	-
Long-term debt:			
Revenue bonds	1,086,502	1,166,992	1,224,987
Subordinate lease obligations	-	-	-
Note payable – City Loan	-	-	-
Total long-term debt	1,086,502	1,166,992	1,224,987
Current liabilities:			
Note payable	-	-	-
Current portion of revenue bonds	30,545	50,549	42,537
Subordinate lease obligations	-	-	-
Note payable – City Loan	-	-	-
Accounts payable	57,127	55,893	59,303
Customer deposits	2,449	2,869	3,998
Other current liabilities and deferred credits	10,265	12,098	12,185
Accrued accounts:			
Interest, taxes, and wages	15,555	17,476	16,743
Distribution to the City	3,000	3,000	3,000
Total current liabilities	118,941	141,885	137,766
Other liabilities and deferred credits	206,445	197,878	189,974
Total liabilities	1,411,888	1,506,755	1,552,727
Total fund equity and liabilities			
Net position			
Excess (deficiency) of net investment in capital assets	97,442	15,869	(2,706)
Restricted	111,131	114,634	114,004
Unrestricted	112,927	179,237	163,137
Total net position	321,500	309,740	274,435
Total liabilities and net position	1,733,388	1,816,495	1,827,162

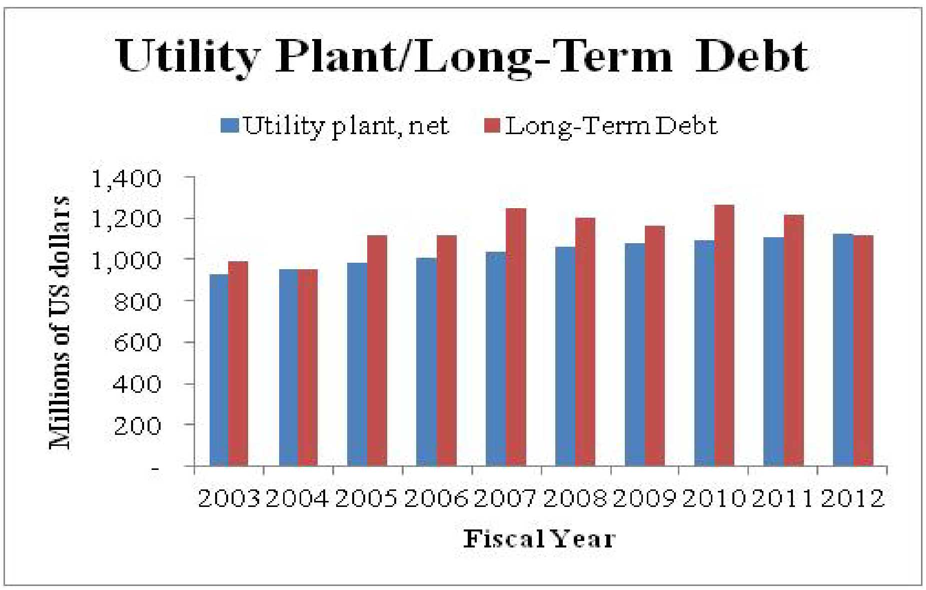
(1) PGW adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* for the year ended August 31, 2012.

Source - PGW's Audited Financial Statements

	2009	2008	2007	2006	2005	2004	2003
	1,019	(4,466)	(5,690)	(7,754)	24,739	35,903	33,905
	112,820	108,581	105,005	95,989	106,109	95,929	96,020
	129,780	122,293	123,986	151,170	91,798	79,542	64,290
	243,619	226,408	223,301	239,405	222,646	211,374	194,215
	1,114,488	1,127,163	1,201,792	1,031,131	1,030,830	913,514	958,950
	-	-	-	-	-	-	1,947
	-	-	-	45,000	45,000	-	-
	1,114,488	1,127,163	1,201,792	1,076,131	1,075,830	913,514	960,897
	-	90,000	51,600	55,000	49,900	95,750	119,000
	48,175	76,030	43,995	39,591	42,271	39,866	34,405
	-	-	-	-	-	1,947	3,745
	-	-	43,000	-	-	-	-
	46,205	67,508	60,615	40,316	63,918	73,027	47,490
	4,224	7,325	9,049	8,628	6,280	1,694	1,016
	16,203	32,581	15,524	8,137	18,342	6,729	8,463
	15,948	15,821	15,088	13,773	13,452	9,693	9,167
	3,000	3,000	3,000	3,000	3,000	3,000	3,000
	133,755	292,265	241,871	168,445	197,163	231,706	226,286
	140,229	97,619	47,976	22,029	24,183	21,587	23,577
	1,388,472	1,517,047	1,491,639	1,266,605	1,297,176	1,166,807	1,210,760
	1,632,091	1,743,455	1,714,940	1,506,010	1,519,822	1,378,181	1,404,975

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Debt to Total Capital Ratio and Utility Plant/Long-Term Debt
Fiscal Years 2003 through 2012





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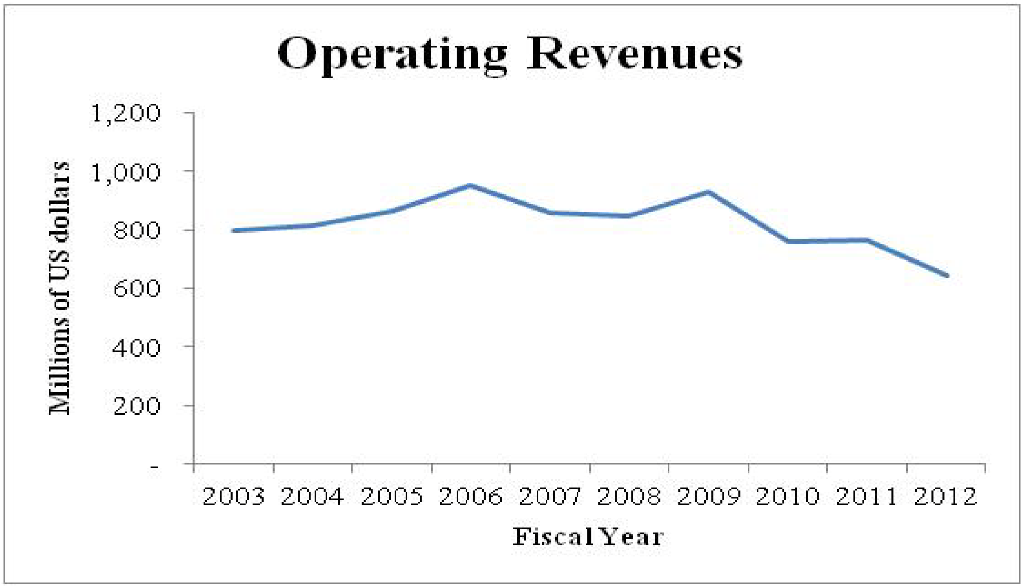
PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Statements of Revenues and Expenses
Fiscal Years 2003 through 2012
(Thousands of US dollars)

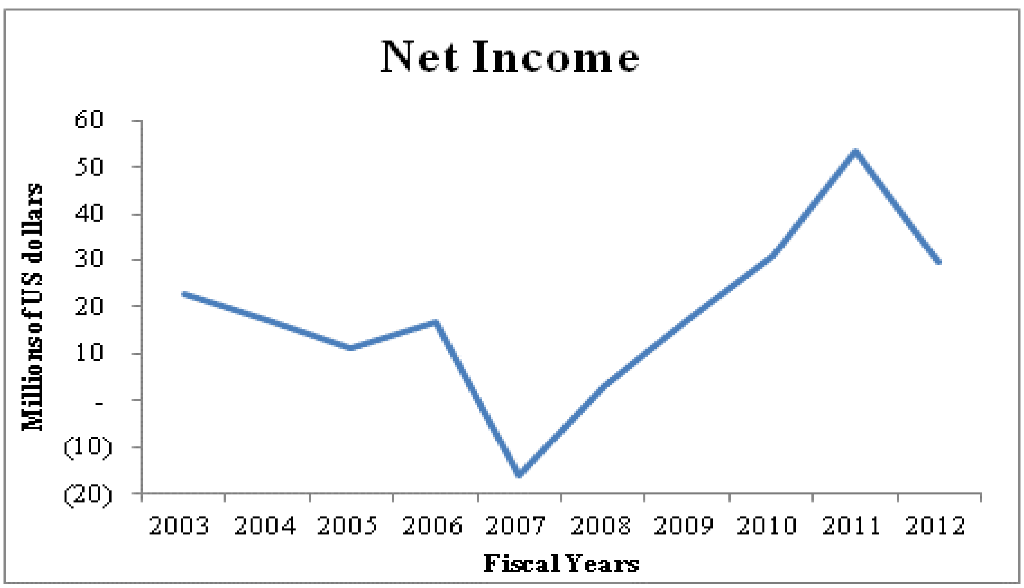
	2012	2011	2010
Operating revenues:			
Gas revenues:			
Nonheating	37,054	51,437	51,343
Gas transport service	29,324	28,700	26,860
Heating	562,009	669,131	664,139
Total gas revenues	628,387	749,268	742,342
Appliance and other revenues	8,240	8,400	8,959
Other operating revenues	8,356	8,611	7,931
Total operating revenues	644,983	766,279	759,232
Operating expenses:			
Natural gas	233,713	330,932	354,004
Gas processing	15,640	16,097	14,952
Field services	33,883	33,950	34,026
Distribution	27,750	27,990	23,426
Collection and account management	11,491	11,765	15,266
Provision for uncollectible accounts	36,702	36,027	35,000
Customer services	11,946	12,532	13,030
Marketing	6,664	4,378	3,900
Administrative and general	81,161	76,850	71,620
Pensions	23,972	22,597	24,633
Other postemployment benefits	20,119	22,472	27,269
Taxes	7,122	7,135	6,990
Total operating expenses before depreciation	510,163	602,725	624,116
Depreciation	45,045	43,629	43,168
Less depreciation expense included in operating expenses above	4,870	4,714	4,690
Total depreciation	40,175	38,915	38,478
Total operating expenses	550,338	641,640	662,594
Operating income	94,645	124,639	96,638
Interest and other income	4,659	4,348	5,301
Income before interest expense	99,304	128,987	101,939
Interest expense:			
Long-term debt	53,012	57,225	52,527
Other	16,824	18,884	18,986
Allowance for funds used during construction	(292)	(427)	(390)
Total interest expense	69,544	75,682	71,123
Excess (deficiency) of revenues over (under) expenses	29,760	53,305	30,816

Source - PGW's Audited Financial Statements

2009	2008	2007	2006	2005	2004	2003
67,295	78,687	90,798	113,356	114,880	99,074	102,345
24,913	19,215	12,949	6,459	4,679	2,945	2,560
818,249	733,526	736,358	810,146	710,991	681,337	661,630
910,457	831,428	840,105	929,961	830,550	783,356	766,535
9,311	8,607	9,398	10,482	10,895	10,065	11,669
9,673	9,592	9,848	13,525	21,912	18,889	18,956
929,441	849,627	859,351	953,968	863,357	812,310	797,160
545,846	511,976	539,300	625,093	509,704	450,868	427,436
16,779	14,436	16,240	15,234	18,584	17,284	16,952
37,727	37,126	36,100	35,667	28,455	29,557	29,906
21,059	17,319	17,119	15,179	15,115	15,778	16,804
16,248	15,447	15,221	17,289	18,666	18,226	15,480
42,000	37,000	40,000	40,132	70,424	71,000	85,000
12,897	12,305	11,783	11,083	12,512	13,514	13,704
3,436	2,628	2,418	2,467	2,592	2,677	2,832
63,820	60,716	56,819	59,484	60,995	64,670	61,186
15,425	14,258	26,421	17,563	14,702	14,973	13,013
25,952	25,834	15,217	-	-	-	-
6,588	5,677	6,730	6,124	6,218	6,638	7,941
807,777	754,722	783,368	845,315	757,967	705,185	690,254
42,200	42,868	39,708	37,955	39,547	38,868	36,068
4,419	3,344	3,328	3,230	4,502	4,902	4,887
37,781	39,524	36,380	34,725	35,045	33,966	31,181
845,558	794,246	819,748	880,040	793,012	739,151	721,435
83,883	55,381	39,603	73,928	70,345	73,159	75,725
12,240	15,732	13,073	8,518	4,778	3,580	3,753
96,123	71,113	52,676	82,446	75,123	76,739	79,478
63,602	56,075	52,146	51,799	53,856	50,837	49,192
15,558	12,269	17,042	14,869	10,902	9,650	8,446
(248)	(338)	(408)	(981)	(907)	(907)	(910)
78,912	68,006	68,780	65,687	63,851	59,580	56,728
17,211	3,107	(16,104)	16,759	11,272	17,159	22,750

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Operating Revenues and Net Income
Fiscal Years 2003 through 2012





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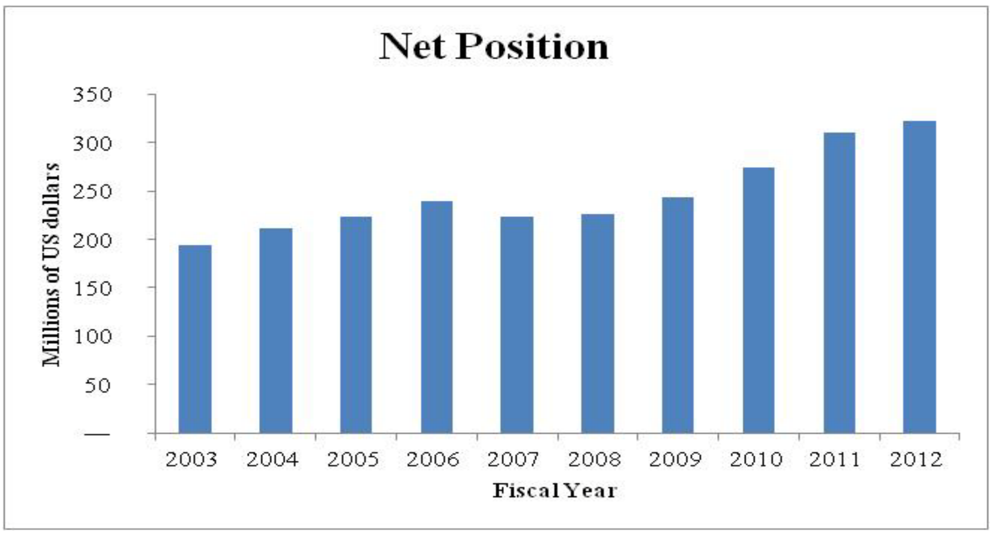
PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Statements of Changes in Net Position
Fiscal Years 2003 through 2012
(Thousands of US dollars)

	2012	2011	2010
Net position, beginning of the year	309,740	274,435	243,619
Excess (deficiency) of revenues over (under) expenses	29,760	53,305	30,816
Distribution to the City of Philadelphia	(18,000)	(18,000)	(18,000)
Grant back of distribution from the City of Philadelphia	-	-	18,000
Net position, end of the year	321,500	309,740	274,435

Source - PGW's Audited Financial Statements



2009	2008	2007	2006	2005	2004	2003
226,408	223,301	239,405	222,646	211,374	194,215	189,465
17,211	3,107	(16,104)	16,759	11,272	17,159	22,750
(18,000)	(18,000)	(18,000)	(18,000)	(18,000)	-	(18,000)
18,000	18,000	18,000	18,000	18,000	-	-
243,619	226,408	223,301	239,405	222,646	211,374	194,215

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Average Number of Customers Billed by System
Fiscal Years 2003 through 2012

	2012	**2011**	**2010**
Residential	477,300	477,300	476,200
Commercial	25,000	25,000	25,000
Industrial	700	700	800
Total	503,000	503,000	502,000

Source - PGW Records

2009	2008	2007	2006	2005	2004	2003
478,200	479,200	480,100	460,000	471,000	472,000	471,000
25,000	25,000	25,000	25,000	25,000	26,000	26,000
800	800	900	1,000	1,000	1,000	1,000
504,000	505,000	506,000	486,000	497,000	499,000	498,000

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Operating Revenues
Fiscal Years 2003 through 2012
(Thousands of US dollars)

	2012	2011	2010
Firm non-heat	33,282	36,779	37,932
Interruptible gas sales	3,338	14,431	12,503
Billed non-heating	36,620	51,210	50,435
GCR non-heating adjustment	434	228	908
Total non-heating	37,054	51,438	51,343
Billed heating	519,950	659,681	630,970
GCR heating adjustment	4,244	5,360	16,742
Gas Commission adjustment	-	-	-
Total billed heating	524,194	665,041	647,712
Weather normalization adjustment (WNA)	44,016	1,696	12,970
Total heating	568,210	666,737	660,682
Total gas sold	605,264	718,175	712,025
Firm transportation (FT) non-heat (1)	3,861	4,582	3,306
FT heating (1)	14,037	14,541	13,254
WNA - FT (1)	1,412	128	455
Total heating FT (1)	15,449	14,669	13,709
Total FT (1)	19,310	19,251	17,015
Unbilled adjustment	(6,201)	2,393	3,457
GTS: transportation	1,086	1,147	1,928
GTS - customer/customer choice	7,955	8,333	7,421
GTS - supplier/customer choice	170	(790)	(105)
GTS - firm supplier	803	759	601
Total gas revenues	628,387	749,268	742,342

(1) Firm transportation (FT) program began in FY 2007

Source - PGW records

2009	2008	2007	2006	2005	2004	2003
50,172	52,528	61,729	76,865	71,415	66,998	62,409
16,493	26,679	31,439	33,509	44,678	32,404	39,390
66,665	79,207	93,168	110,374	116,093	99,402	101,799
631	(521)	(2,037)	2,210	(1,212)	(329)	546
67,296	78,686	91,131	112,584	114,881	99,073	102,345
810,704	731,942	756,032	768,935	727,322	681,951	661,590
8,991	(8,407)	(23,948)	24,792	(14,164)	(4,182)	7,054
-	-	-	-	-	-	-
819,695	723,535	732,084	793,727	713,158	677,769	668,644
445	11,923	6,438	13,406	(1,365)	2,109	(10,029)
820,140	735,458	738,522	807,133	711,793	679,878	658,615
887,436	814,144	829,653	919,717	826,674	778,951	760,960
2,857	2,120	928	-	-	-	-
12,265	8,205	3,111	-	-	-	-
60	315	60	-	-	-	-
12,325	8,520	3,171	-	-	-	-
15,182	10,640	4,099	-	-	-	-
(1,893)	(1,931)	(2,497)	3,785	(803)	1,460	3,016
1,948	2,228	2,480	2,335	2,249	2,301	2,217
6,813	6,177	6,017	4,115	2,407	636	331
842	85	220	9	23	8	11
129	85	133	-	-	-	-
910,457	831,428	840,105	929,961	830,550	783,356	766,535

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Sales Volumes
Fiscal Years 2003 through 2012
(Sales in Mcf)*

	2012	2011	2010
Firm non-heat	2,148,736	2,218,768	2,186,030
Interruptible gas sales	192,058	1,004,185	1,049,318
Billed non-heating	2,340,794	3,222,953	3,235,348
GCR non-heating adjustment	-	-	-
Total non-heating	2,340,794	3,222,953	3,235,348
Billed heating	36,196,469	45,795,915	42,604,640
GCR heating adjustment	-	-	-
Gas Commission adjustment	-	-	-
Total billed heating	36,196,469	45,795,915	42,604,640
Weather normalization adjustment (WNA)	-	-	-
Total heating	36,196,469	45,795,915	42,604,640
Total gas sold	38,537,263	49,018,868	45,839,988
Firm transportation (FT) non-heat (1)	542,271	629,683	456,675
FT heating (1)	1,941,019	2,038,726	1,848,085
WNA - FT (1)	-	-	-
Total heating FT (1)	1,941,019	2,038,726	1,848,085
Total FT (1)	2,483,290	2,668,409	2,304,760
Unbilled adjustment	(633,531)	204,694	276,161
GTS: transportation	11,429,993	12,024,712	12,390,748
GTS - customer/customer choice	10,459,723	10,581,753	8,440,368
GTS - supplier/customer choice	-	-	-
GTS - firm supplier	-	-	-
Utility Use	394,574	465,505	632,040
Unaccounted for	2,067,268	2,563,662	2,097,817
Total sendout	64,738,580	77,527,603	71,981,882
Unaccounted as a % of total sendout	3.2%	3.3%	2.9%

(1) Firm transportation (FT) program began in FY 2007
* Mcf = Thousand cubic feet

Source - PGW Records

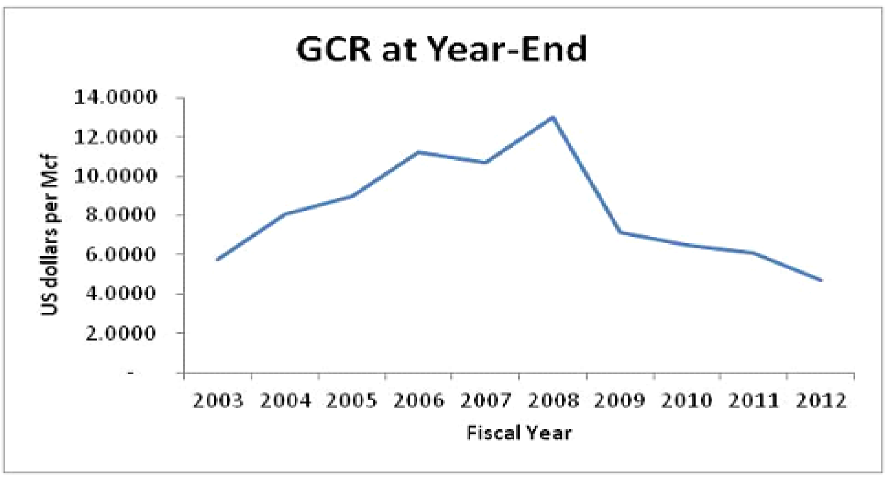
2009	2008	2007	2006	2005	2004	2003
2,440,758	2,585,001	3,104,220	3,745,664	4,314,816	4,406,671	4,698,021
1,170,128	1,790,721	2,704,526	2,425,862	4,510,515	4,103,424	6,093,984
3,610,886	4,375,722	5,808,746	6,171,526	8,825,331	8,510,095	10,792,005
-	-	-	-	-	-	-
3,610,886	4,375,722	5,808,746	6,171,526	8,825,331	8,510,095	10,792,005
45,584,417	42,940,365	44,812,203	42,497,852	49,492,929	51,761,937	57,347,588
-	-	-	-	-	-	-
-	-	-	-	-	-	-
45,584,417	42,940,365	44,812,203	42,497,852	49,492,929	51,761,937	57,347,588
-	-	-	-	-	-	-
45,584,417	42,940,365	44,812,203	42,497,852	49,492,929	51,761,937	57,347,588
49,195,303	47,316,087	50,620,949	48,669,378	58,318,260	60,272,032	68,139,593
392,965	333,800	134,583	-	-	-	-
1,700,319	1,272,881	434,865	-	-	-	-
-	-	-	-	-	-	-
1,700,319	1,272,881	434,865	-	-	-	-
2,093,284	1,606,681	569,448	-	-	-	-
(12,364)	61,729	(130,643)	116,676	628,810	(52,902)	263,927
12,651,292	9,928,058	7,144,953	7,279,955	9,014,203	8,243,357	10,434,275
7,879,560	7,497,327	5,424,466	3,447,532	2,610,192	703,090	393,707
-	-	-	-	-	-	-
-	-	-	-	-	-	-
737,720	716,683	859,493	680,633	94,731	98,718	112,738
2,357,825	1,476,092	2,552,999	1,940,046	2,037,791	2,672,534	2,144,616
74,902,620	68,602,657	67,041,665	62,134,220	72,703,987	71,936,829	81,488,856
3.1%	2.2%	3.8%	3.1%	2.8%	3.7%	2.6%

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Gas Cost Rate
Fiscal Years 2003 through 2012
(US dollars)

	2012	2011	2010
June 1	4.7129	6.0930	6.5139
April 11	—	—	—
March 1	4.9783	6.5400	7.3455
January 1	—	—	—
December 1	6.1270	6.2753	7.2497
October 7	—	—	—
September 1	6.0594	6.9050	7.0900

Shown in dollars per thousand cubic feet

Source - PGW Records



2009	2008	2007	2006	2005	2004	2003
7.1815	13.0236	10.7251	11.2558	8.9980	8.0699	5.7687
—	—	—	—	—	—	5.0600
8.4192	10.7226	10.4338	12.5632	8.1120	7.9254	4.2350
10.7007	—	—	—	—	—	—
—	10.5779	10.9119	12.5632	9.8857	7.6313	—
—	—	—	12.5632	—	—	—
12.6527	10.1108	11.2558	9.7056	8.3085	7.8670	3.5917

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Ratios of Outstanding Debt by Type
Fiscal Years 2003 through 2012
(Thousands of US dollars)

	Revenue bonds	**Subordinate lease obligations**	**Commercial paper**	**City loan**	**Grand total**	**Ratio to operating revenue**	**Operating revenue**
2012	1,117,047	-	-	-	1,117,047	173%	644,983
2011	1,217,541	-	-	-	1,217,541	159%	766,279
2010	1,267,524	-	-	-	1,267,524	167%	759,232
2009	1,162,663	-	-	-	1,162,663	125%	929,441
2008	1,203,193	-	90,000	-	1,293,193	152%	849,627
2007	1,245,787	-	51,600	43,000	1,340,387	156%	859,351
2006	1,070,722	-	55,000	45,000	1,170,722	123%	953,968
2005	1,073,101	-	49,900	45,000	1,168,001	135%	863,357
2004	953,380	1,947	95,750	-	1,051,077	129%	812,310
2003	993,355	3,745	119,000	-	1,116,100	140%	797,160

Source - PGW's Audited Financial Statements

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PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Scheduled Debt Principal Payments
Through Fiscal Year 2040
(Thousands of US dollars)

Year	17th Series	18th Series	19th Series	20th Series	Total 1975 ordinance	4th Series	5th Series	5th Series variable
2013	10,760	3,165	-	6,620	20,545	-	-	-
2014	9,780	3,310	-	6,870	19,960	3,250	3,000	-
2015	8,760	7,820	-	2,725	19,305	3,425	3,150	-
2016	13,280	2,745	-	-	16,025	-	3,315	-
2017	12,440	2,915	-	-	15,355	-	3,485	-
2018	11,555	3,095	-	-	14,650	-	3,665	-
2019	10,615	3,290	-	-	13,905	-	3,865	-
2020	9,625	3,485	-	-	13,110	-	4,075	-
2021	8,585	3,700	-	-	12,285	4,655	4,285	-
2022	7,490	-	4,065	-	11,555	4,900	4,505	-
2023	6,335	-	5,065	-	11,400	5,155	4,735	-
2024	5,095	-	5,320	-	10,415	5,415	4,980	-
2025	3,790	-	-	-	3,790	5,685	5,235	-
2026	3,590	-	-	-	3,590	5,970	5,505	-
2027	-	-	-	-	-	6,265	5,785	-
2028	-	-	-	-	-	6,580	6,085	-
2029	-	-	-	-	-	6,910	6,395	-
2030	-	-	-	-	-	7,255	6,725	-
2031	-	-	-	-	-	7,615	7,070	-
2032	-	-	-	-	-	7,995	7,430	-
2033	-	-	-	-	-	-	7,810	-
2034	-	-	-	-	-	-	8,210	-
2035	-	-	-	-	-	-	-	30,000
2036	-	-	-	-	-	-	-	-
2037	-	-	-	-	-	-	-	-
2038	-	-	-	-	-	-	-	-
2039	-	-	-	-	-	-	-	-
2040	-	-	-	-	-	-	-	-
Total	121,700	33,525	14,450	16,215	185,890	81,075	109,310	30,000

Source - PGW Records

7th Series new money	7th Series refunding	8th Series A	8th Series B-E	9th Series	10th Series	Total 1998 ordinance	Grand total
-	-	-	-		7,175	7,175	27,720
3,775	25	10,130	-	2,940	6,720	29,840	49,800
3,970	25	13,770	-	3,060	4,270	31,670	50,975
4,175	3,725	12,295	-	3,210	6,410	33,130	49,155
4,390	3,910	11,840	1,710	3,310	5,895	34,540	49,895
4,615	4,110	-	13,485	3,445	5,385	34,705	49,355
4,850	4,320	-	14,755	3,580	4,915	36,285	50,190
5,100	4,545	-	16,070	3,755	4,410	37,955	51,065
5,360	5	-	17,450	3,945	3,885	39,585	51,870
5,635	5	-	18,885	4,105	3,285	41,320	52,875
5,925	5	-	20,355	4,310	2,715	43,200	54,600
6,225	1,030	-	21,180	4,490	2,100	45,420	55,835
6,545	1,135	-	22,820	4,700	1,445	47,565	51,355
6,880	1,235	-	23,960	4,910	1,320	49,780	53,370
7,235	1,285	-	26,860	5,160	-	52,590	52,590
7,605	1,435	-	27,990	5,415	-	55,110	55,110
7,995	1,590	-	-	5,685	-	28,575	28,575
8,405	-	-	-	5,970	-	28,355	28,355
8,835	-	-	-	6,270	-	29,790	29,790
9,290	-	-	-	6,600	-	31,315	31,315
9,765	-	-	-	6,945	-	24,520	24,520
10,270	-	-	-	7,310	-	25,790	25,790
10,795	-	-	-	-	-	40,795	40,795
11,350	-	-	-	7,695	-	19,045	19,045
11,930	-	-	-	8,095	-	20,025	20,025
12,540	-	-	-	8,520	-	21,060	21,060
-	-	-	-	8,970	-	8,970	8,970
-	-	-	-	9,440	-	9,440	9,440
183,460	28,385	48,035	225,520	141,835	59,930	907,550	1,093,440

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Debt Service Coverage
Fiscal Years 2003 through 2012
(Thousands of US dollars)

	2012	**2011**	**2010**
Funds Provided			
Total gas revenues	628,387	749,268	742,342
Other operating revenues	16,596	17,011	16,890
Total operating revenues	644,983	766,279	759,232
Other income increase restricted funds	8,311	13,175	3,660
City grant	-	-	18,000
AFUDC (Interest)	292	427	390
Total funds provided	653,586	779,881	781,282
Funds Applied			
Fuel costs	233,713	330,932	354,004
Other operating costs	316,625	310,708	308,590
Total operating expenses	550,338	641,640	662,594
Capital lease cost			
Less: non-cash expenses	47,619	47,854	70,404
Total funds applied	502,719	593,786	592,190
Funds available to cover debt service	150,867	186,095	189,092
Add-back lease costs	-	-	-
Funds available excluding lease costs	150,867	186,095	189,092
1975 ordinance bonds debt service	31,754	30,691	30,101
Debt service coverage 1975 bonds	**4.75**	**6.06**	**6.28**
Net available after prior debt service	119,113	155,404	158,991
PMA & other capital leases	-	-	-
Net available after prior capital leases	119,113	155,404	158,991
1998 ordinance bonds debt service	67,874	72,274	65,095
Debt service coverage 1998 bonds	**1.75**	**2.15**	**2.44**
Net available after 1998 debt service	51,239	83,130	93,896
1998 ordinance subordinate bond debt service	-	1,988	1,986
Debt service coverage subordinate bonds	**-**	**41.82**	**47.28**

Source - PGW Records

2009	2008	2007	2006	2005	2004	2003
910,457	831,428	840,105	929,961	830,550	783,356	766,535
18,984	18,199	19,246	24,007	32,807	28,954	30,625
929,441	849,627	859,351	953,968	863,357	812,310	797,160
12,434	3,881	6,423	11,969	1,513	3,814	2,893
18,000	18,000	18,000	18,000	18,000	-	-
247	338	408	981	907	907	910
960,122	871,846	884,182	984,918	883,777	817,031	800,963
545,846	511,976	539,300	625,093	509,704	450,868	427,436
299,711	282,270	280,448	254,947	283,308	288,283	293,999
845,557	794,246	819,748	880,040	793,012	739,151	721,435
					3,997	3,997
67,897	68,898	66,246	38,197	39,338	38,401	35,824
777,660	725,348	753,502	841,843	753,674	704,747	689,608
182,462	146,498	130,680	143,075	130,103	112,284	111,355
-	-	-	-	-	3,997	3,997
182,462	146,498	130,680	143,075	130,103	116,281	115,352
32,313	34,225	35,359	41,949	38,806	48,630	44,063
5.65	**4.28**	**3.70**	**3.41**	**3.35**	**2.39**	**2.62**
150,149	112,273	95,321	101,126	91,297	67,651	71,289
-	-	-	-	1,998	3,997	3,997
150,149	112,273	95,321	101,126	89,299	63,654	67,292
70,569	59,695	47,611	32,838	45,999	39,655	40,201
2.13	**1.88**	**2.00**	**3.08**	**1.94**	**1.61**	**1.67**
79,580	52,578	47,710	68,288	43,300	23,999	27,091
1,990	1,986	1,987	1,986	1,987	1,988	1,988
39.99	**26.47**	**24.01**	**34.38**	**21.79**	**12.07**	**13.63**

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Demographic and Economic Information
Principal Employers
Current Calendar Year and Nine Years Ago

2012	2003
Albert Einstein Medical	Albert Einstein Medical
Children's Hospital of Philadelphia	City of Philadelphia
City of Philadelphia	First Union Services, Inc.
Comcast Corporation	School District of Philadelphia
Hospital of the University of Pennsylvania	SEPTA
School District of Philadelphia	Temple University
SEPTA	Tenet Health System
Temple University	United States Postal Service
Thomas Jefferson University Hospitals	University Of Pennsylvania
University Of Pennsylvania	Verizon Corporation

Listed Alphabetically
Source - provided by the City of Philadelphia

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Demographic and Economic Information
Calendar Years 2002 through 2011

Calendar year	Population (1)	Personal income (Thousands of US Dollars) (2)		Per capita personal income (US Dollars)	Unemployment rate (3)
2011	1,536,471	60,035,440	(4)	39,074	10.8%
2010	1,526,006	56,970,074		37,333	10.8%
2009	1,547,297	54,061,223		34,939	9.6%
2008	1,540,351	54,262,716		35,228	7.1%
2007	1,530,031	50,672,227		33,118	6.0%
2006	1,520,251	47,566,075		31,288	6.2%
2005	1,517,628	44,944,207		29,615	6.7%
2004	1,514,658	43,463,015		28,695	7.3%
2003	1,510,068	42,198,628		27,945	7.5%
2002	1,510,550	40,731,865		26,965	7.3%

Source(s):
(1) US Census Bureau
(2) US Department of Commerce, Bureau of Economic Analysis
(3) US Department of Labor, Bureau of Labor Statistics
(4) Estimated using the rate of growth for the previous year

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Budgeted Full-Time Personnel by Department
Fiscal Years 2003 through 2012

Departments	**2012**	**2011**	**2010**
President and Chief Executive Officer	3	2	2
Chief Operating Officer	2	3	2
Chief Financial Officer	2	-	-
Gas processing	119	119	119
Field services	371	371	341
Distribution	467	467	467
Collection	35	36	91
Customer service	198	207	207
Marketing	41	34	34
Administrative and general	454	463	459
PGW Total	1,692	1,702	1,722
Personnel savings	(37)	(32)	(42)
Philadelphia Gas Commission	5	5	5
Grand Total	1,660	1,675	1,685

Source - PGW's Annual Operating Budget

2009	2008	2007	2006	2005	2004	2003
2	2	2	3	4	2	2
2	2	7	5	6	6	2
-	-	-	-	-	-	-
123	133	133	141	141	147	154
342	342	342	359	359	375	379
467	470	470	476	476	476	469
104	110	92	132	128	126	92
208	194	214	199	193	194	188
30	30	30	32	30	36	35
460	465	463	457	451	516	514
1,738	1,748	1,753	1,804	1,788	1,878	1,835
(38)	(18)	(23)	(65)	(48)	(73)	-
5	5	5	5	5	7	7
1,705	1,735	1,735	1,744	1,745	1,812	1,842

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Operating Indicators
Fiscal Years 2003 through 2012

	2012	2011	2010
Financial			
Debt service ratio (1975 Ordinance)	4.75	6.06	6.28
Debt service ratio (1998 Ordinance)	1.75	2.15	2.44
Debt to total capital ratio	77.7%	79.7%	82.2%
Payroll			
Total payroll (Thousands of US dollars)	106,308	106,125	106,003
Overtime (Thousands of US dollars)	7,948	9,700	8,494
Overtime as a % of Total Payroll	7.5%	9.1%	8.0%
Liquefied Natural Gas (LNG)			
LNG to storage (Mcf)*	1,422,440	1,286,742	1,354,605
LNG from storage (Mcf)	974,238	1,428,896	1,117,628
Net to (from) storage (Mcf)	448,202	(142,154)	236,977
Off-system sales contributed to GCR (Thousands of US dollars)	748	867	274
Natural Gas Cost			
Gas utilized (Mcf)	43,017,936	55,023,503	51,820,468
Gas utilized (Thousands of US dollars)	233,709	330,926	353,998
Cost per Mcf ($)	5.43	6.01	6.83
Natural Gas Sales Information			
Firm gas sold (Mcf)	38,345,205	48,014,683	44,790,670
Interruptible gas sold (Mcf)	192,058	1,004,185	1,049,318
Total gas sold (Mcf)	38,537,263	49,018,868	45,839,988
Transportation gas - GTS (Mcf)	24,373,006	25,274,874	23,135,876
Other (Mcf)	1,828,311	3,233,861	3,006,018
Total gas sendout (Mcf)	64,738,580	77,527,603	71,981,882
Unaccounted for gas as a % of total gas sendout	3.2%	3.3%	2.9%
Transportation gas - GTS as a % of total gas sendout	37.6%	32.6%	32.1%
Firm gas sold as a % of total gas sold	99.5%	98.0%	97.7%
Degree Days			
Fiscal Year	3,037	4,005	3,730

* Mcf = Thousand cubic feet.

Source - PGW Records

2009	2008	2007	2006	2005	2004	2003
5.65	4.28	3.70	3.41	3.35	2.39	2.62
2.13	1.88	2.00	3.08	1.94	1.61	1.67
82.7%	84.2%	84.8%	81.7%	82.8%	81.9%	83.7%
107,918	105,596	106,018	102,544	102,500	101,200	98,300
10,171	10,115	10,684	10,342	10,239	9,720	10,704
9.4%	9.6%	10.1%	10.1%	10.0%	9.6%	10.9%
562,629	2,034,715	1,831,202	1,471,653	1,988,627	2,394,449	2,614,520
1,545,034	1,280,180	1,948,310	1,083,873	2,199,046	2,609,230	3,335,380
(982,405)	754,535	(117,108)	387,780	(210,419)	(214,781)	(720,860)
27	887	148	298	-	-	-
55,471,710	53,516,593	58,089,383	55,106,496	64,967,340	64,070,459	76,231,646
545,859	511,938	539,296	625,076	509,701	450,868	428,152
9.84	9.57	9.28	11.34	7.85	7.04	5.62
48,025,175	45,525,366	47,916,423	46,243,516	53,807,745	56,168,608	62,045,609
1,170,128	1,790,721	2,704,526	2,425,862	4,510,515	4,103,424	6,093,984
49,195,303	47,316,087	50,620,949	48,669,378	58,318,260	60,272,032	68,139,593
22,624,136	19,032,066	13,138,867	10,727,487	11,624,395	8,946,447	10,827,982
3,083,181	2,254,504	3,281,849	2,737,355	2,761,332	2,718,350	2,481,281
74,902,620	68,602,657	67,041,665	62,134,220	72,703,987	71,936,829	81,448,856
3.1%	2.2%	3.8%	3.1%	2.8%	3.7%	2.6%
30.2%	27.7%	19.6%	17.3%	16.0%	12.4%	13.3%
97.6%	96.2%	94.7%	95.0%	92.3%	93.2%	91.1%
4,190	3,746	3,773	3,819	4,333	4,300	4,825

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Capital Asset Information
Calendar Years 2003 through 2012

	2012*	2011	2010
Gas main (Miles)	3,027	3,027	3,029
Services (Miles)	2,772	2,772	2,815
Number of meters			
Residential	501,274	497,151	502,145
Large diaphragm	2,402	2,298	2,245
Rotary	9,690	9,551	9,513
Turbine	289	287	297
Total	513,655	509,287	514,200

** 2012 - Data Estimated*

Source - PGW's Annual Pennsylvania Public Utility Commission Report

2009	2008	2007	2006	2005	2004	2003
3,029	3,022	3,023	3,019	3,016	3,013	3,011
2,984	2,829	2,794	2,699	2,775	3,029	3,021
503,201	497,472	503,757	505,716	503,879	501,031	504,343
2,185	2,113	2,047	2,040	2,753	3,276	3,578
9,479	9,322	9,336	9,256	8,541	8,053	7,698
291	291	290	286	291	296	295
515,156	509,198	515,430	517,298	515,464	512,656	515,914

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Ten Largest Customers
Current Fiscal Year and Nine Years Ago
(Thousands of US dollars)

2012		2003	
Customer 1 (B)	9,800	Customer 1 (A)	7,875
Customer 2 (C)	8,626	Customer 2 (B)	6,115
Customer 3 (A)	4,784	Customer 3 (C)	4,229
Customer 4	3,923	Customer 4	2,859
Customer 5	3,414	Customer 5 (D)	1,964
Customer 6 (E)	2,903	Customer 6 (E)	1,131
Customer 7 (D)	1,519	Customer 7	1,097
Customer 8	977	Customer 8	989
Customer 9	952	Customer 9	932
Customer 10	939	Customer 10	867
Total	37,837	Total	28,058

Note - A letter designation indicates a repeat customer from the fiscal year 2003 list identified on the fiscal year 2012 list.

Source - PGW Records