PATH TO A CLEANER FUTURE

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 Years Ended August 31, 2014 and 2013

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PATH TO A CLEANER FUTURE

Benjamin Franklin Parkway

Philadelphia Gas Works
(A Component Unit of the City of Philadelphia)
Comprehensive Annual Financial Report
For Fiscal Years Ended August 31, 2014 and 2013

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

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

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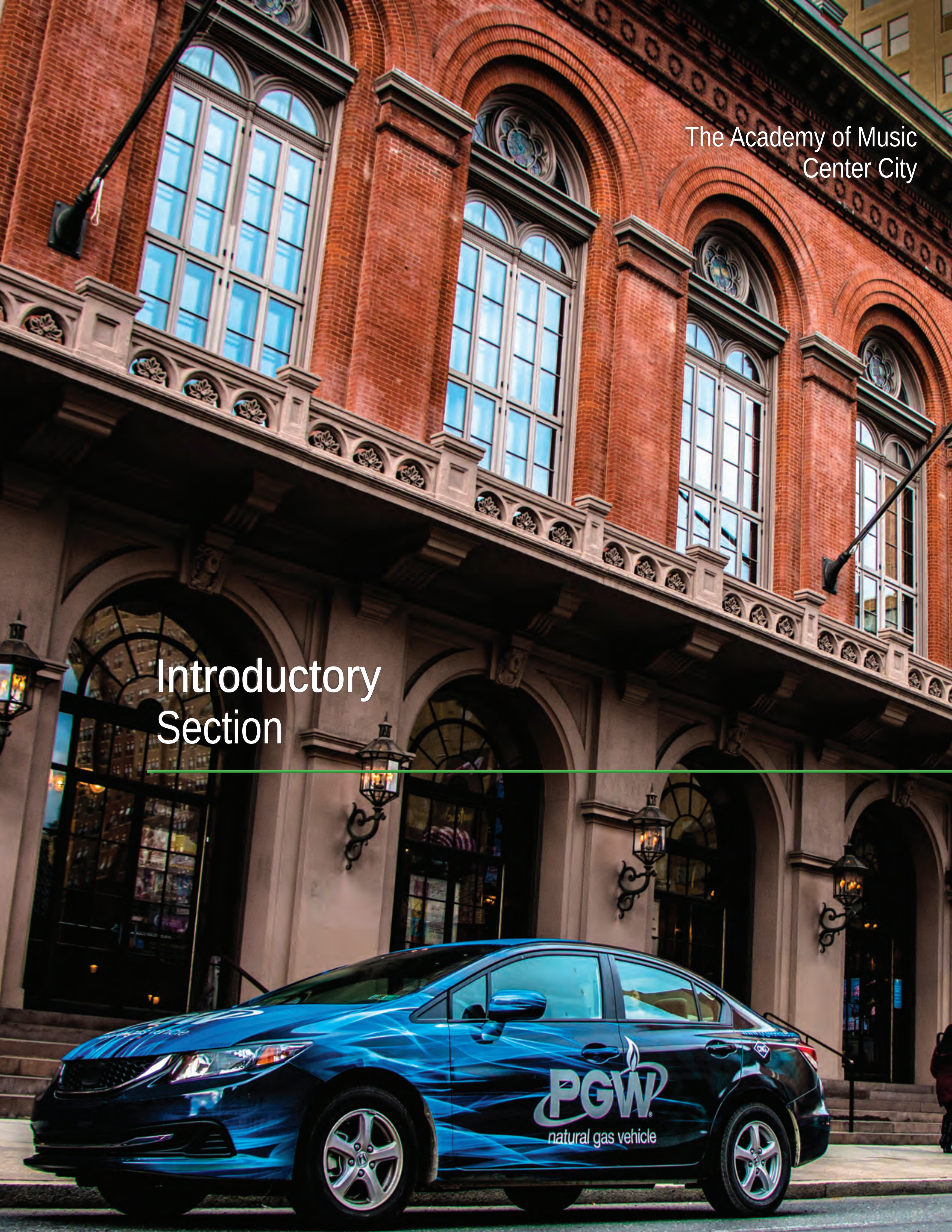


The Academy of Music
Center City

Introductory Section

PHILADELPHIA GAS WORKS
Joseph F. Golden, Jr. • Executive Vice President and Acting Chief Financial Officer
800 West Montgomery Avenue • Philadelphia, PA 19122
Phone: 215-684-6464 • Fax: 215-684-6564
Email: JGolden@pgworks.com

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

The Comprehensive Annual Financial Report (CAFR) of the Philadelphia Gas Works (PGW or the Company) for the years ended August 31, 2014 and 2013 is hereby submitted. The financial statements were prepared in accordance with Generally Accepted Accounting Principles in the United States of America (U.S. 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, a firm of licensed certified public accountants. The annual audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that KPMG 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, no such opinion was expressed. 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. The audit provides a reasonable basis for KPMG's opinion.

In KPMG's opinion, the financial statements present fairly, in all material respects, the financial position of PGW as of August 31, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. GAAP. Accordingly, an unmodified opinion was rendered. This independent auditor's 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 Philadelphia (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 U.S. GAAP. The internal controls are subject to periodic evaluation by management in order to determine their 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 21,000 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 were approximately 62,000 customers enrolled in this program at the end of Fiscal Year (FY) 2014.

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 full base rate alteration. The intent is to achieve an annual balance between the costs incurred for fuel and their pass through to customers. In FY 2014, the average commodity price of natural gas was $4.63 per thousand cubic feet (Mcf). This marks an increase in price from prior fiscal years and is reflected in a higher 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 FY 2014, the temperature in Philadelphia was slightly colder than normal resulting in an increased demand for natural gas. This increased demand for natural gas resulted in higher 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 October 1 through May 31 of each year for each billing cycle.

At the end of FY 2014, PGW reported a net income of $49 million, 15.7% greater than net income reported in FY 2013. PGW also saw further reductions to long-term debt, and a 31.9 % decrease in Other Postemployment Benefits expense (OPEB), primarily due to continued funding of the OPEB trust. The challenge going forward is reducing the dependency on heating degree days, while continuing to increase revenue and positive cash flow. PGW intends to drive demand for natural gas in new markets, and capitalize on new revenue streams.

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 provide for new load additions 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, or DSIC) for costs related to incremental/accelerated distribution system repair, improvement and replacement. Act 11 permits gas utilities to recover 5.0% 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 submitted its LTIIP on December 3, 2012, and filed its DSIC petition on January 18, 2013. The PUC approved PGW's DSIC petition with an effective date of June 1, 2013 and PGW implemented the DSIC surcharge on July 1, 2013. This mechanism allows PGW to its main replacement program by approximately $22 million without being dependent on long term debt to finance the entire amount.

MARKETING EFFORTS

PGW's Marketing department is focused on natural gas market growth and retention in the City of Philadelphia. Natural gas is Philadelphia's clean energy solution and Marketing is dedicated to promoting natural gas as the best value in today's competitive energy market. PGW supports and promotes viable solutions to the energy needs of all our customers.

Large commercial and industrial sales are managed by the Major Accounts sales group, responsible for 1.6 Bcf of new natural gas load in FY 2014. Major Accounts is focused on pursuing and developing new business and dedicated to developing energy solutions with operational and economic advantages. Major Accounts' management of a project for a leading manufacturer of petroleum and petrochemical products added approximately 0.5 Bcf of new load and was a significant highlight in FY 2014.

Small commercial and residential sales are managed by the Residential & Commercial sales group and are responsible for approximately 325,000 Mcf of new load in FY 2014. A highpoint for FY 2014 was the Residential & Commercial group's management of a new residential high rise project which added 27,000 Mcf of new load. The project consists of 98 luxury apartments containing natural gas heaters, ranges, grills, and a heated pool.

The Marketing department is also responsible for the advertising and sales of the Parts & Labor Plan (PLP) and residential conversion incentives. 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. The program generated $6 million in revenue with over 44,000 plans sold in FY 2014. The residential conversion program incentivizes customers to convert their home heaters from an alternative fuel to natural gas. The program accounted for approximately 20,000 Mcf in new load for FY 2014.

ACKNOWLEDGEMENTS

PGW was awarded the prestigious Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA) for its FY 2013 CAFR. This was the second straight year that PGW received this prestigious award. This report for FY 2014 is PGW's third submission to the program. The preparation of the CAFR 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.

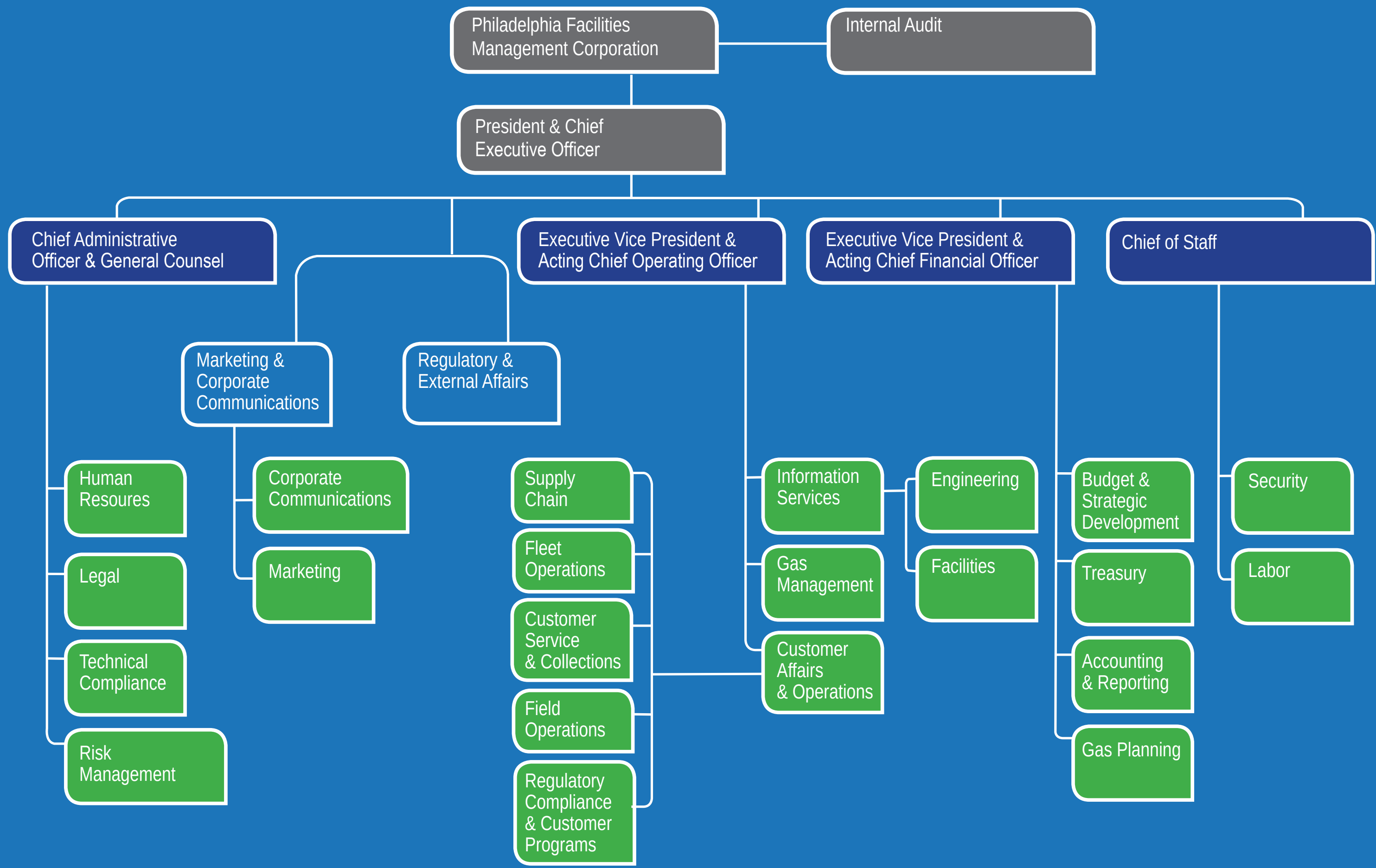
Respectfully submitted,

Joseph F. Golden, Jr.

Joseph F. Golden, Jr.
Executive Vice President and Acting Chief Financial Officer
February 23, 2015

Philadelphia Gas Works

ORGANIZATIONAL CHART



LEADERSHIP

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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

Daniel P. Murray
Senior Vice President,
Customer Affairs & Operations

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

Denise Adamucci
Vice President,
Regulatory Compliance &
Customer Programs

Bernard L. Cummings
Vice President,
Customer Service & Collections

William J. Gallagher
Vice President,
Budget & Strategic Development

Charles J. Grant
Chief of Staff

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

Steven P. Hershey
Vice President,
Regulatory & External Affairs

Michael H. Jones
Vice President,
Technical Compliance

Paul A. Mondimore
Vice President,
Field Operations

Raymond M. Snyder
Vice President,
Gas Management

Lorraine S. Webb
Vice President,
Human Resources

Eloise N. Young
Vice President &
Chief Information Officer

John C. Zuk
Vice President,
Marketing

Philadelphia Facilities Management Corporation

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Chair, Business Development Committee
Finance Committee
Chair, Workforce Development Committee

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President, Girard College
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Suzanne R. Biemiller
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Sharmain Matlock-Turner
President and CEO,
Urban Affairs Coalition
Workforce Development Committee

Andrew Stober
Chief of Staff,
Office of Transportation & Utilities,
City of Philadelphia
Business Development Committee
Workforce Development Committee

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Philadelphia Gas Works

Pennsylvania

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

August 31, 2013

Executive Director/CEO

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Financial Section

The Italian Market
South Philadelphia

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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 financial statements of Philadelphia Gas Works (the Company), a component unit of the City of Philadelphia, Pennsylvania, as of and for the years ended August 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2014 and 2013, and the changes in its financial position, and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3-14 and the schedules of pension funding progress and other postemployment benefits funding progress on pages 57 and 58 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 audits 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.

Other Information

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

KPMG LLP

Philadelphia, Pennsylvania
December 23, 2014, except for note 15, as to which the date is February 23, 2015

The narrative overview and analysis of the financial statements of Philadelphia Gas Works (the Company or PGW) for the years ended August 31, 2014 and 2013 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) 2014 reflected a 3.2% colder than normal winter. The FY 2014 period was 13.3% colder than the prior year and firm gas sales increased by 3.8 billion Cubic Feet (Bcf). In addition, the Weather Normalization Adjustment (WNA), which was in effect from October 2013 through May 2014, resulted in heating customers receiving credits totaling $12.3 million as a result of the temperatures experienced during the period. FY 2013 was 10.2% warmer than normal. However, the FY 2013 period was 28.1% colder than the prior year and firm gas sales increased by 6.4 Bcf. In addition, the WNA, which was in effect from October 2012 through May 2013, resulted in heating customers receiving charges totaling $8.4 million as a result of the temperatures experienced during the period.
- PGW achieved a collection rate of 94.9% in the current period, 91.9% in FY 2013, and 96.6% in FY 2012. The increase in the collection rate of 3.0% between FY 2014 and FY 2013 was a return to normal historic levels after a brief dip in FY 2013. The collection rate is calculated by dividing the total gas receipts collected in FY 2014 by the total gas billings that were applied to PGW customers' accounts from September 1, 2013 through August 31, 2014. The same methodology was utilized in FY 2013 and FY 2012.
- 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 2014 and FY 2013, had no tax-exempt commercial paper outstanding and a cash balance of $105.7 million and $100.9 million, respectively. This reflects overall increases of $4.8 million and $25.1 million at the end of FY 2014 and FY 2013, respectively. PGW had a cash balance of $75.8 million at the end of FY 2012.
- *Liquidity/Cash Flow* – At December 19, 2014, $120.0 million was available from the commercial paper program. The cash balance at December 19, 2014 was $80.6 million.
- The Company's FY 2015 Capital Budget was approved by the City Council of the City of Philadelphia and funding was provided to continue the implementation of an 18-mile Cast Iron Main Replacement Program. Main replacement cost for this program in FY 2015 is expected to be $21.4 million. The total six-year cost of the Cast Iron Main Replacement Program is forecasted to be $136.4 million.
- The Company's recent debt activity is as follows:
    - 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 funds. 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 of Philadelphia (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 GASB Statement No. 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, 2014, the change in the fair value of the swaps decreased $5.4 million for FY 2014 and 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, 2014 is $38.8 million, and the related deferred outflow of resources balance is $18.9 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 and Changes in Net Position 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 comprise the following:

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 three statements presented are as follows:

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

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

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

Condensed Statements of Revenues and Expenses

(Thousands of U.S. dollars)

		Years ended August 31		
		2014	**2013**	**2012**
Total gas revenues	$	736,138	675,154	628,387
Other revenues		22,998	18,317	16,596
Total operating revenues		759,136	693,471	644,983
Fuel expense		304,051	255,501	233,713
All other operating expenses		334,199	318,510	316,625
Total operating expenses		638,250	574,011	550,338
Operating income		120,886	119,460	94,645
Interest and other income		3,597	1,147	4,659
Total interest expense		(57,135)	(59,965)	(69,544)
Distribution to the City of Philadelphia		(18,000)	(18,000)	(18,000)
Excess of revenues over expenses	$	49,348	42,642	11,760

Operating Revenues

Operating revenues in FY 2014 were $759.1 million, an increase of $65.6 million or 9.5% from FY 2013. The increase in FY 2014 was mainly due to increased heating demand and increased revenues associated with gas transportation service. Operating revenues in FY 2013 were $693.5 million, an increase of $48.5 million or 7.5% from FY 2012. The increase in FY 2013 was due to increased heating demand. Please see the discussion of the cost of fuel in the Operating Expenses section below.

Total sales volumes, including gas transportation deliveries, in FY 2014 increased by 6.9 Bcf to 79.1 Bcf or 9.6% from FY 2013 sales volumes of 72.2 Bcf. In FY 2013, total sales volumes, including gas transportation deliveries, increased by 9.9 Bcf to 72.2 Bcf or 15.9% from FY 2012 sales volumes of 62.3 Bcf. In FY 2014, firm gas sales of 48.5 Bcf were 3.8 Bcf or 8.5% higher than FY 2013 firm gas sales of 44.7 Bcf, which were 6.4 Bcf, or 16.7% higher than FY 2012. Interruptible customer sales increased by 0.2 Bcf compared to FY 2013, which increased by 0.7 Bcf compared to FY 2012. Gas transportation sales in FY 2014 increased by 2.9 Bcf to 29.4 Bcf from the 26.5 Bcf level experienced in FY 2013. In FY 2013, the volume of gas transportation sales increased by 2.1 Bcf to 26.5 Bcf from the 24.4 Bcf level experienced in FY 2012.

In FY 2014, the number of customers served by PGW decreased from the previous year and was approximately 500,000 customers. The number of customers served by PGW at the end of FY 2013 and FY 2012 was approximately 501,000 and 503,000, respectively. Commercial accounts were approximately 25,000 customers, reflecting no change from the previous two fiscal years. Industrial accounts were unchanged, from the previous two fiscal years at 700 customers. The number of residential accounts in FY 2014 decreased to approximately 474,300 customers, a decrease of 1,000 customers from the FY 2013 level and 3,000 customers from the 2012 level.

Operating Expenses

Total operating expenses, including fuel costs, in FY 2014 were $638.3 million, an increase of $64.3 million or 11.2% from FY 2013. The increase for FY 2014 reflects higher natural gas demand and higher costs associated with the gas processing, field services, and distribution departments. Total operating expenses, including fuel costs, in FY 2013 were $574.0 million, an increase of $23.7 million or 4.3% from FY 2012. The increase for FY 2013 reflects higher natural gas demand.

Cost of Fuel – The cost of natural gas utilized increased by $48.6 million or 19.0% to $304.1 million in FY 2014 compared with $255.5 million in FY 2013. The average commodity price per Thousand Cubic Feet (Mcf) increased by $0.83 or $44.3 million, while the volume of gas utilized increased by 2.8 Bcf, 5.6% or $10.6 million. In addition, pipeline supplier refunds in FY 2014 increased by $4.4 million while demand charges decreased by $1.9 million, compared to FY 2013. Cost of fuel includes all commodity charges and demand charges net of pipeline refunds.

The cost of natural gas utilized increased by $21.8 million or 9.3% to $255.5 million in FY 2013 compared with $233.7 million in FY 2012. The average commodity price per Mcf decreased by $0.13 or $6.6 million, while the volume of gas utilized increased by 7.2 Bcf, 16.6%, or $28.1 million. In addition, pipeline supplier refunds in FY 2013 increased by $0.1 million while demand charges increased by $0.4 million, compared to FY 2012.

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 or other current liabilities, 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 2014, FY 2013, and FY 2012 were $4.63, $3.80, and $3.91 per Mcf, respectively.

Other Operating Expenses – Expenditures for street operations, infrastructure improvements, and plant operations in FY 2014 were $94.1 million, an $11.3 million or 13.6% increase from the FY 2013 total of $82.8 million. The increase in FY 2014 was caused by higher labor costs for distribution, field services, and higher costs associated with running the liquefied natural gas plants. The FY 2013 total of $82.8 million was $5.5 million higher than the FY 2012 total of $77.3 million as a result of higher labor costs for distribution and higher costs associated with running the liquefied natural gas plants.

Additionally, expenses of $116.1 million related to collection and account management, customer services, marketing, and the administrative area increased by $8.8 million or 8.2% in FY 2014 primarily due to higher healthcare expenses and an increase in insurance costs. This category decreased by $3.9 million or 3.5% in FY 2013 compared to FY 2012 primarily due to lower healthcare expenses and an increase in the credit to operating expenses associated with capital spending.

Pension costs increased in FY 2014 due to an increase in the factor utilized as a percentage of covered payroll to calculate pension expense. Additionally, the covered payroll reflected a decrease of $1.9 million from the FY 2013 level of $106.0 million. The new payroll factor is based on a new actuarial study applicable to FY 2014. Pension costs increased by $0.9 million or 3.8% to $24.5 million in FY 2014 as compared to FY 2013. Pension costs decreased $0.4 million to $23.6 million in FY 2013 as compared to FY 2012.

Other Postemployment Benefits (OPEB) costs decreased $3.1 million to $37.1 million in FY 2014 when compared to FY 2013. OPEB costs decreased $3.6 million to $40.2 million in FY 2013 when compared to FY 2012. OPEB costs decreased in both fiscal years due to lower normal cost, lower unfunded liabilities, which are amortized over a 30-year period, and lower interest on the net OPEB obligation. For FY 2014, the Company utilized a discount rate of 7.95%. For FY 2013, the Company utilized a discount rate of 8.0% which are both driven by higher balances in the OPEB Trust Fund (the Trust). The higher Trust balances created higher investment income and lower unfunded liabilities, which are amortized over a 30-year period. These factors lowered OPEB costs.

The annual OPEB cost is recorded in the Statements of Revenue and Expenses and Changes in Net Position. For the year ended August 31, 2014, approximately $11.2 million was recorded to other postemployment benefits expense and $25.9 million was recorded to administrative and general expense. For the year ended August 31, 2013, approximately $16.5 million was recorded to other postemployment benefits expense and $23.7 million was recorded to administrative and general expense.

The net OPEB obligation was $101.8 million for the fiscal year ended August 31, 2014, a $7.3 million decrease from the $109.1 million obligation at August 31, 2013. This decrease was caused by a decrease in the annual OPEB cost and an increase of contributions made during the year. The net OPEB obligation for the fiscal year ended August 31, 2012 was $111.1, which was $2.0 higher than the August 31, 2013 net OPEB obligation.

Provision for Uncollectible Accounts – The provision for uncollectible accounts in FY 2014 totaled $38.8 million, a decrease of $1.2 million or 3.0% lower than FY 2013. The decrease in the provision for uncollectible accounts is mainly due to higher collection rates achieved in FY 2014. The provision for uncollectible accounts in FY 2013 totaled $40.0 million, an increase of $3.3 million or 9.0% higher than FY 2012. The accumulated provision for uncollectible accounts at August 31, 2014 reflects a balance of $107.3 million, compared to the $105.6 million balance in FY 2013 and $97.8 million in FY 2012. 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.

Net Depreciation Expense – Net depreciation expense increased by $0.7 million in FY 2014 compared with FY 2013. Net depreciation expense increased by $0.9 million in FY 2013 compared with FY 2012. The effective composite depreciation rates for FY 2014, FY 2013, and FY 2012 were 2.2%, 2.2%, and 2.3%, respectively. Cost of removal is charged to expense as incurred.

Interest and Other Income – Interest and other income in FY 2014 was $2.5 million higher than FY 2013, primarily due to the loss in FY 2013 as a result of the termination of the Guaranteed Investment Contract related to the 1998 General Ordinance Bonds. Interest and other income in FY 2013 was $3.6 million lower than FY 2012 due to the termination of the Guaranteed Investment Contract related to the 1998 General Ordinance Bonds.

Interest Expense – Total interest expense was $57.1 million in FY 2014 a decrease of $2.9 million or 4.8% when compared with FY 2013. Interest expense was lower in FY 2014 primarily due to lower principal debt balances. Total interest expense was $60.0 million in FY 2013 a decrease of $9.5 million or 13.7% when compared with FY 2012. In FY 2013, interest expense was lower primarily due to a swap termination payment made in FY 2012. Other interest costs decreased in FY 2014 by $1.3 million or 12.1%, primarily due to the reduction of expenses for losses on reacquired debt and other variable bond fees. Other interest costs decreased in FY 2013 by $6.1 million or 36.3% due to the swap termination payments made in FY 2012.

(Continued)

Excess of Revenues over Expenses – In FY 2014, the Company's excess of revenues over expenses was $49.3 million, an increase of $6.7 million from FY 2013. The Company had an excess of revenues over expenses of $42.6 million in FY 2013, an increase of $30.8 million from FY 2012.

Condensed Balance Sheets

(Thousands of U.S. dollars)

		Years ended August 31		
Assets		**2014**	**2013**	**2012**
Current assets:				
Accounts receivable (net of accumulated provision for uncollectible accounts of $107,349, $105,577, and $97,758 for 2014, 2013, and 2012, respectively)	$	101,457	97,749	81,997
Restricted investment funds		5,820	49,875	94,657
Other current assets and deferred debits, cash and cash equivalents, cash designated for capital expenditures, gas inventories, materials, and supplies		204,944	197,363	183,851
Total current assets		312,221	344,987	360,505
Non-current assets:				
Utility plant, net		1,193,552	1,154,987	1,125,650
Unamortized bond insurance costs		14,136	15,736	17,417
Sinking fund, revenue bonds		105,909	105,280	105,312
Other assets		37,528	33,097	30,996
Total non-current assets		1,351,125	1,309,100	1,279,375
Total assets		1,663,346	1,654,087	1,639,880
Deferred outflows of resources				
Accumulated fair value of hedging derivatives		18,879	12,059	34,712
Unamortized losses on reacquired debt		37,051	44,868	53,241
Total assets and deferred outflows of resources	$	1,719,276	1,711,014	1,727,833

(Continued)

Condensed Balance Sheets

(Thousands of U.S. dollars)

Net Position and Liabilities		**Years ended August 31** 2014	2013	2012
Net position	$	407,935	358,587	315,945
Total long-term debt		980,749	1,033,976	1,086,502
Current liabilities:				
Current portion of long-term debt		53,227	52,406	30,545
Other current liabilities		98,100	88,614	88,396
Total current liabilities		151,327	141,020	118,941
Other non-current liabilities		179,265	177,431	206,445
Total net position and liabilities	$	1,719,276	1,711,014	1,727,833

Assets

Accounts Receivable – In FY 2014, accounts receivable (net) of $101.5 million increased by $3.8 million or 3.9%, from FY 2013 due to higher gas billings during FY 2014, which resulted from a robust winter heating season. In FY 2013, accounts receivable (net) of $97.7 million increased by $15.7 million or 19.1%, from FY 2012 due to higher gas billings during FY 2013, which resulted from colder winter heating conditions. The accumulated provision for uncollectible accounts, totaling $107.3 million increased by $1.7 million in FY 2014 and totaled $105.6 million in FY 2013 and $97.8 million in FY 2012.

Cash and Cash Equivalents, Cash Designated for Capital Expenditures, Gas Inventories, Materials, and Supplies, and Other Current Assets – In FY 2014, cash and cash equivalents totaled $105.7 million, an increase of $4.8 million from the FY 2013 total of $100.9 million and totaled $75.8 million in FY 2012. In FY 2014, gas inventories, materials, and supplies totaled $70.0 million, a decrease of $10.2 million from the FY 2013 total of $80.2 million. Gas inventories, materials, and supplies totaled $81.1 million in FY 2012. In FY 2014, gas storage decreased by $10.6 million or 14.9% when compared to FY 2013. The decrease in gas inventory reflects a decrease in the volume of gas in storage and a decrease in the cost per Mcf. In FY 2013, gas storage decreased by $2.4 million or 3.3% compared to FY 2012. The decrease in gas inventory for FY 2013 reflects a decrease in the volume of gas in storage. Other current assets totaled $19.2 million in FY 2014, an increase of $3.0 million from FY 2013, primarily as a result of an increase in the deferred GCR. In FY 2013, other current assets totaled $16.2 million, a decrease of $10.7 from FY 2012, primarily as a result of a decrease in the deferred GCR.

Cash designated for capital expenditures was created in FY 2014 by designating $10.0 million of cash for capital spending only.

Capital Improvement Fund, Workers' Compensation Escrow Fund, and Health Insurance Escrow Fund – The Capital Improvement Fund decreased by $44.1 million in FY 2014 due to proceeds being drawn from the Capital Improvement Fund to fund capital expenditures. A drawdown of the accrued interest in the Capital Improvement

Fund in the amount of $0.8 million was utilized for working capital purposes in FY 2014. Interest income on all funds, to the extent not drawn, is reflected as an increase of $0.4 million in FY 2014, $0.4 million in FY 2013, and $0.6 million in FY 2012. Pursuant to the Pennsylvania Department of Labor and Industry Bureau of Workers' Compensation Self Insurance policy, the Company has established and maintained a restricted trust account. As of August 31, 2014 and 2013, the trust account balances were $2.6 million. PGW is self-insured for the healthcare of active employees and retirees under the age of 65. Retirees over the age of 65 are insured on an experience rated basis. Per the terms of the self-insured program, PGW established a Health Insurance Escrow Fund that at August 31, 2014 was funded in the amount of $3.2 million.

Utility Plant, Non-Current Assets and Deferred Outflow of Resources – In FY 2014, non-current assets including utility plant, net, unamortized bond insurance costs, unamortized losses on reacquired debt and accumulated fair value of hedging derivatives totaled $1,407.1 million, an increase of $41.0 million from FY 2013. In FY 2013, non-current assets, including utility plant, net, unamortized bond insurance costs, unamortized losses on reacquired debt, and accumulated fair value of hedging derivatives totaled $1,366.1 million. Utility plant, net, totaled $1,193.6 million in FY 2014, an increase of $38.6 million or 3.3% compared with the FY 2013 balance of $1,155.0 million. The FY 2013 balance increased by $29.3 million or 2.6% compared with the FY 2012 balance of $1,125.7 million. Capital expenditures for construction of distribution facilities, purchase of equipment, information technology enhancements, and other general improvements were $80.2 million in FY 2014 compared to $70.4 million in FY 2013 and $54.7 million in FY 2012. PGW funded capital expenditures through drawdowns from the Capital Improvement Fund in the amounts of $34.1 million, $44.8 million, and $33.5 million in FY 2014, FY 2013, and FY 2012, respectively. The major capital expenditures are associated with PGW's gas supply infrastructure, namely, gas mains, and customer service lines, including capital expenditures for the Long-Term Infrastructure Improvement Plan for which PGW will request recovery through a Distribution System Improvement Charge (DSIC).

In early 2012, Act 11 was enacted by the Pennsylvania Legislature, which permitted public utilities to file a request with the PUC for the implementation of a DSIC. A DSIC permits natural gas distribution companies to recover the costs related to main and service replacement not already recovered in base rates. This legislation provides utility companies with a supplemental recovery mechanism for costs related to incremental/accelerated distribution system repair, improvement, and replacement. Act 11 permits gas utilities to recover 5.0% of their non-gas revenues via the recovery mechanism and permits greater percentage increases if the PUC so permits. The Company started billing customers a DSIC surcharge as of July 1, 2013. In FY 2014, the Company billed customers $19.4 million for the DSIC surcharge. In FY 2013, the Company billed customers $0.7 million for the DSIC surcharge. The DSIC surcharge is fully reconcilable on a calendar year basis and at the fiscal year-end the over-billed or under-billed amount is recorded as an adjustment to revenue. For additional information, see note 1(h) *Revenue Recognition* of the Financial Statements.

Liabilities

Long-Term Debt – Long-term debt, including the current portion and unamortized discount and premium, totaled $1,034.0 million in FY 2014. This was $52.4 million less than the previous year primarily as a result of normal debt principal payments. This represents 71.7% of total capitalization in FY 2014. Long-term debt, including the current portion and unamortized discount and premium, totaled $1,086.4 million in FY 2013, $30.6 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 $1,117.0 million in FY 2012. Long-term debt represented 75.2% of total capitalization in FY 2013 and 77.7% of total capitalization in FY 2012. For additional information see note 8, *Long-Term Debt and Other Liabilities* of the Financial Statements.

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 2014, the debt service coverage was at 6.15 times debt service on the outstanding 1975 Ordinance Bonds and at 2.11 times debt service on the Senior 1998 Ordinance Bonds compared to debt service coverage ratios of 5.58 and 2.90 times, respectively, in FY 2013, and 4.75 and 1.75 times, respectively, in FY 2012. PGW's current bond ratings are "Baa2" from Moody's Investors Service (Moody's), and "A-" from Standard & Poor's Rating Service (S&P).

Short-Term Debt – Pursuant to the provisions of the City of Philadelphia Note Ordinances, PGW may sell short-term notes to either support working capital requirements or pay the costs of certain capital projects and other project costs. PGW may sell short-term notes in a principal amount, which, together with interest, may not exceed $150.0 million outstanding to support working capital requirements. PGW may also sell additional short-term notes in an aggregate principal amount, which may not exceed $120.0 million outstanding at any time to pay the costs of certain capital projects and other project costs. All notes are supported by two irrevocable letters of credit and a security interest in PGW's revenues. The letters of credit supporting PGW's combined commercial paper programs fixed the maximum level of outstanding notes plus interest at $120.0 million in FY 2014. In FY 2013 and FY 2012, the letters of credit supporting PGW's working capital commercial paper program fixed the maximum level of outstanding notes plus interest at $60.0 million. There were no outstanding notes payable at August 31, 2014, 2013, and 2012.

Other Current Liabilities – In FY 2014, other current liabilities totaled $19.3 million, an increase of $10.2 million from FY 2013, mainly due to deposits from a third-party supplier and receipts for a project that will be paid for in FY 2015. In FY 2013, the total was $9.1 million, a decrease of $1.2 million from FY 2012.

Accounts Payable – In FY 2014, accounts payable totaled $58.9 million, a decrease of $0.5 million or 0.8% compared with FY 2013 primarily due to a decrease in natural gas payables of $4.5 million, which was offset by an increase in trade payables of $4.0 million. In FY 2013, accounts payable totaled $59.4 million, an increase of $2.3 million or 4.0% compared with FY 2012 primarily due to an increase in natural gas payables of $3.1 million, which was partially offset by a decrease in trade payables of $0.8 million.

Other Non-Current Liabilities – In FY 2014, other non-current liabilities totaling $179.3 million, an increase of $1.9 million compared to FY 2013. The increase in FY 2014 is primarily due to the change in the value of the swap. In FY 2013, other non-current liabilities totaling $177.4 million decreased $29.0 million compared to FY 2012. The decrease in FY 2013 is primarily due to the favorable change in the value of the swap.

Other Financial Factors

On March 2, 2014, following a competitive bidding process, the City entered into an agreement to sell PGW to UIL Holdings Corporation, subject to authorization by City Council and the Public Utility Commission. On December 4, 2014, UIL exercised its option to withdraw from the agreement after no authorizing ordinance was introduced in City Council.

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 Program, 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.

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 funds. 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.

Impact of New Accounting Pronouncement

As discussed in note 10 to the financial statements, the Company currently does not reflect a net pension obligation on its balance sheet because the annual required contribution has been made each year. GASB No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, is effective for the Company's fiscal year ending August 31, 2015. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. This Statement will result in the Company's net pension liability being reflected on the balance sheet, measured as the portion of the present value of projected benefit payments to be provided to current and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary net position. Under this new pronouncement, the unfunded actuarial liability for the plan is approximately $205.2 million at August 31, 2014.

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, 2014 and 2013

(Thousands of U.S. dollars)

Assets		**2014**	**2013**
Current assets:			
Cash and cash equivalents	$	105,734	100,933
Cash designated for capital expenditures		10,000	—
Accounts receivable (net of provision for uncollectible accounts of $107,349 and $105,577 for 2014 and 2013, respectively)		101,457	97,749
Gas inventories, materials, and supplies		69,989	80,234
Capital improvement fund		—	44,055
Workers’ compensation escrow fund		2,597	2,597
Health insurance escrow fund		3,223	3,223
Other current assets		19,221	16,196
Total current assets		312,221	344,987
Non-current assets:			
Utility plant, at original cost:			
In service		2,018,234	1,951,546
Under construction		57,206	44,409
Total		2,075,440	1,995,955
Less accumulated depreciation		881,888	840,968
Utility plant, net		1,193,552	1,154,987
Unamortized bond insurance costs		14,136	15,736
Sinking fund, revenue bonds		105,909	105,280
Other non-current assets		37,528	33,097
Total non-current assets		1,351,125	1,309,100
Total assets		1,663,346	1,654,087
Deferred outflows of resources			
Accumulated fair value of hedging derivatives		18,879	12,059
Unamortized losses on reacquired debt		37,051	44,868
Total assets and deferred outflows of resources	$	1,719,276	1,711,014

(Continued)

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

Balance Sheets

August 31, 2014 and 2013

(Thousands of U.S. dollars)

Liabilities and Net Position		**2014**	**2013**
Current liabilities:			
Current portion of revenue bonds	$	53,227	52,406
Accounts payable		58,888	59,379
Customer deposits		2,245	2,305
Other current liabilities		19,321	9,107
Accrued accounts:			
Interest, taxes, and wages		14,646	14,823
Distribution to the City		3,000	3,000
Total current liabilities		151,327	141,020
Non-current liabilities:			
Long-term revenue bonds		980,749	1,033,976
Other non-current liabilities		179,265	177,431
Total non-current liabilities		1,160,014	1,211,407
Net position:			
Net investment in capital assets		159,576	112,660
Restricted (debt service)		111,729	111,100
Unrestricted		136,630	134,827
Total net position		407,935	358,587
Total liabilities and net position	$	1,719,276	1,711,014

See accompanying notes to basic financial statements.

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

Statements of Revenues and Expenses and Changes in Net Position

Years ended August 31, 2014 and 2013

(Thousands of U.S. dollars)

		2014	2013
Operating revenues:			
Gas revenues:			
Non-heating	$	39,610	35,262
Gas transport service		41,217	37,078
Heating		655,311	602,814
Total gas revenues		736,138	675,154
Appliance and other revenues		8,317	8,333
Other operating revenues		14,681	9,984
Total operating revenues		759,136	693,471
Operating expenses:			
Natural gas		304,051	255,501
Gas processing		19,637	17,592
Field services		37,577	34,926
Distribution		36,929	30,259
Collection and account management		11,273	11,297
Provision for uncollectible accounts		38,848	39,971
Customer services		11,187	11,102
Marketing		7,783	6,789
Administrative and general		85,872	78,206
Pensions		24,521	23,614
Other postemployment benefits		11,228	16,492
Taxes		7,687	7,220
Total operating expenses before depreciation		596,593	532,969
Depreciation		47,428	45,912
Less depreciation expense included in operating expenses above		5,771	4,870
Net depreciation		41,657	41,042
Total operating expenses		638,250	574,011
Operating income		120,886	119,460
Interest and other income		3,597	1,147
Income before interest expense		124,483	120,607
Interest expense:			
Long-term debt		48,261	49,655
Other		9,380	10,740
Allowance for funds used during construction		(506)	(430)
Total interest expense		57,135	59,965
Distribution to the City of Philadelphia		(18,000)	(18,000)
Excess of revenues over expenses		49,348	42,642
Net position, beginning of year		358,587	315,945
Net position, end of year	$	407,935	358,587

See accompanying notes to basic financial statements.

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

Statements of Cash Flows

Years ended August 31, 2014 and 2013

(Thousands of U.S. dollars)

		2014	2013
Cash flows from operating activities:			
Receipts from customers	$	724,500	657,900
Payments to suppliers		(458,344)	(406,932)
Payments to employees		(114,366)	(109,260)
Claims paid		(2,965)	(3,307)
Other receipts		17,300	9,700
Net cash provided by operating activities		166,125	148,101
Cash flows from non-capital financing activities:			
Interest and fees		1,049	(2,084)
Distribution to the City of Philadelphia		(18,000)	(18,000)
Net cash used in non-capital financing activities		(16,951)	(20,084)
Cash flows from capital and related financing activities:			
Purchases of capital assets		(80,222)	(70,380)
Principal paid on long-term debt		(49,800)	(27,720)
Interest paid on long-term debt		(48,540)	(50,111)
Drawdowns on capital improvement fund		34,055	44,783
Interest income (loss) on capital improvement fund		(23)	132
Interest income (loss) on sinking fund		(349)	(44)
Other investment income		506	430
Net cash used in capital and related financing activities		(144,373)	(102,910)
Net increase in cash and cash equivalents		4,801	25,107
Cash and cash equivalents at the beginning of the year		100,933	75,826
Cash and cash equivalents at the end of the year	$	105,734	100,933
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	120,886	119,460
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization expense		41,658	41,042
Provision for uncollectible accounts		38,848	39,971
Change in assets and liabilities:			
Receivables, net		(42,556)	(55,723)
Gas inventories, materials, and supplies		10,245	852
Other current assets		(3,026)	10,744
Other assets		(11,250)	20,552
Accounts payable		(491)	2,253
Customer deposits		(60)	(144)
Other current liabilities		10,214	(1,159)
Accrued accounts		(177)	(732)
Other liabilities		1,834	(29,015)
Net cash provided by operating activities	$	166,125	148,101

See accompanying notes to basic 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 23, 2014, PGW filed a proposed Fiscal Year (FY) 2015 Operating Budget with the PGC. The PGC Hearing Examiners conducted Informal Discovery (ID) sessions beginning on June 9, 2014 and an additional ID meeting took place on June 24, 2014. On July 23, 2014, a public hearing was convened by the Hearing Examiners to address PGW's Operating Budget. On August 19, 2014, a recommended decision was rendered by the Hearing Examiners, which proposed adjustments to the Operating Budget as filed. At the PGC meeting held on September 23, 2014, the PGC approved, with adjustments, PGW's FY 2015 Operating Budget. PGW filed a Compliance Budget with the PGC on October 3, 2014.

On May 24, 2013, PGW filed a proposed FY 2014 Operating Budget. After appropriate discovery and hearings, the PGC approved the FY 2014 Operating Budget on September 17, 2013.

On May 24, 2012, PGW filed a proposed FY 2013 Operating Budget. After appropriate discovery and hearings, the PGC approved the FY 2013 Operating Budget on January 16, 2013.

(c) Capital Budget

On January 2, 2014, PGW filed with the PGC its proposed FY 2015 Capital Budget in the amount of $89.2 million. The PGC's review culminated in deliberations taken at a public meeting held on April 8, 2014 whereby the PGC endorsed a FY 2015 Capital Budget in an amount not to exceed $89.5 million. The endorsed budget was approved by City Council on June 12, 2014. The Bill was signed by the Mayor on June 19, 2014.

On January 2, 2013, PGW filed with the PGC its proposed FY 2014 Capital Budget in the amount of $110.5 million. The PGC's review culminated in deliberations taken at a public meeting held on April 15, 2013 whereby the PGC endorsed a proposed FY 2014 Capital Budget in an amount not to exceed $102.5 million. The endorsed budget was approved by City Council on June 6, 2013. The ordinance was signed by the Mayor on June 17, 2013.

Subsequent to City Council's approval, the PGC endorsed a FY 2014 Capital Budget amendment in the amount of $0.4 million to support the purchase of 24 Compressed Natural Gas (CNG) sedans and a CNG refueling station. This amendment to the FY 2014 Capital Budget was approved by City Council on October 17, 2013. The Mayor signed the ordinance on October 30, 2013.

On January 6, 2014, PGW filed with the PGC a request to further amend the FY 2014 Capital Budget by $3.4 million to provide for the incremental replacement of approximately three additional miles of small diameter cast iron main. The PGC endorsed an amendment to the FY 2014 Capital Budget that inserted a new line item, Long-Term Infrastructure Plan – Accelerated Cast Iron Main for $3.4 million, and concurrently reduced two other line items that resulted in no increase in the FY 2014 Capital Budget. This second amendment was approved by City Council on June 12, 2014 and signed by the Mayor on June 19, 2014.

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 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.

(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 Program, 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 fiscal 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 1st through May 31st of each year for each billing cycle. The adjustment for the year ended August 31, 2014 was a decrease in billings of $12.3 million. The WNA resulted in an increase in billings of $8.4 million for the year ended August 31, 2013.

(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 and surcharges adjustment are compared to the actual cost of fuel and other specific costs. Customers are then credited or charged for the over-recovery or under-recovery of costs. The GCR and surcharges charge/credit may be updated 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 because they are passed through to the customer without markup. At August 31, 2014, approximately $15.2 million was recorded in other current assets for the GCR and surcharges under-recovery. At August 31, 2013, approximately $8.8 million was recorded in other current assets for the GCR and surcharges under-recovery. The GCR is comprised of the purchased gas costs plus the gas adjustment charge minus the interruptible revenue credit.

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

Effective date		**GCR rate per Mcf***	**Change**
December 1, 2014	$	5.9976	0.1306
September 1, 2014		5.8670	(0.6972)
June 1, 2014		6.5642	0.5626
March 1, 2014		6.0016	0.5543
December 1, 2013		5.4473	0.0214
September 1, 2013		5.4259	(0.6450)
June 1, 2013		6.0709	(0.3282)
March 1, 2013		6.3991	0.6668
December 1, 2012		5.7323	0.5076
September 1, 2012		5.2247	0.5118

* 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.

(Continued)

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 $2.7 million and $2.9 million was charged to expense as incurred in FY 2014 and FY 2013, respectively, and is included in depreciation expense in the statements of revenues and expenses and changes in net position. 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 2014 and FY 2013 was 2.2%. 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 2014 were as follows:

Production plant	2.19%
Transmission, distribution, and storage	2.05
General plant	3.33

The next depreciation study is scheduled to be completed in FY 2015 for the plant activity subsequent to the last depreciation study and through 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 4.93% and 5.16% in FY 2014 and FY 2013, respectively.

The following is a summary of utility plant activity for the fiscal years ended August 31, 2014 and 2013 (thousands of U.S. dollars):

	August 31, 2014			
	Beginning balance	**Additions and transfers**	**Retirements and transfers**	**Ending balance**
Land	$ 5,595	—	—	5,595
Distribution and collection systems	1,481,218	61,971	(3,965)	1,539,224
Buildings and equipment	464,733	8,682	—	473,415
Total utility plant, at historical cost	1,951,546	70,653	(3,965)	2,018,234
Under construction	44,409	83,449	(70,652)	57,206
Less accumulated depreciation for:				
Distribution and collection systems	(701,621)	(32,274)*	3,847	(730,048)
Buildings and equipment	(139,347)	(12,493)*	—	(151,840)
Utility plant, net	$ 1,154,987	109,335	(70,770)	1,193,552

* Cost of removal of approximately $2.7 million was charged to expense as incurred in FY 2014 and is not included in accumulated depreciation.

		August 31, 2013			
		Beginning balance	**Additions and transfers**	**Retirements and transfers**	**Ending balance**
Land	$	5,595	—	—	5,595
Distribution and collection systems		1,435,353	67,419	(21,554)	1,481,218
Buildings and equipment		453,181	14,438	(2,886)	464,733
Total utility plant, at historical cost		1,894,129	81,857	(24,440)	1,951,546
Under construction		53,851	72,416	(81,858)	44,409
Less accumulated depreciation for:					
Distribution and collection systems		(691,151)	(31,018)*	20,548	(701,621)
Buildings and equipment		(131,179)	(12,019)*	3,851	(139,347)
Utility plant, net	$	1,125,650	111,236	(81,899)	1,154,987

* Cost of removal of approximately $2.9 million was charged to expense as incurred in FY 2013 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 non-heating 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, reconnection charges, and bulk Liquefied Natural Gas (LNG) sales contracts. Other operating revenues primarily consist of finance charges assessed on delinquent accounts.

In early 2012, Act 11 was enacted by the Pennsylvania Legislature, which permitted public utilities to file a request with the PUC for the implementation of a Distribution System Improvement Charge (DSIC). A DSIC permits natural gas distribution companies to recover the costs related to main and service replacement not already recovered in base rates. This legislation provides utility companies with a supplemental recovery mechanism for costs related to incremental/accelerated distribution system repair, improvement, and replacement. Act 11 permits gas utilities to recover 5.0% of their non-gas revenues via the recovery mechanism and permits greater percentage increases if the PUC so permits. The Company started billing customers a DSIC surcharge as of July 1, 2013. In FY 2014, the Company billed customers $19.4 million for the DSIC surcharge. In FY 2013, the Company billed customers $0.7 million for the DSIC surcharge. The DSIC surcharge is fully reconcilable on a calendar year basis and at the fiscal year-end, the over-billed or under-billed amount is recorded as an adjustment to revenue.

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 non-heating 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 $7.3 million for the years ended August 31, 2014 and 2013, respectively.

(i) Operating Expenses

The Company recognizes costs incurred as part of the Company's regular business activities on the statements of revenue and expenses and changes in net position as operating expenses. These costs include distribution, marketing, gas processing, and other similar costs.

Costs incurred that do not involve normal business operations are recognized as non-operating expenses.

(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 by the PGC. For FY 2014 and FY 2013, 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 $16.5 million and $17.0 million for FY 2014 and FY 2013, 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, 2014 and 2013, as follows (thousands of U.S. dollars):

		2014	2013
Gas inventory	$	60,089	70,638
Material and supplies		9,900	9,596
Total	$	69,989	80,234

(l) Unamortized Bond Insurance Costs, Debt Discount, and Premium

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

(m) Unamortized Losses on Reacquired Debt

Losses on reacquired debt are recorded as deferred outflows of resources 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 single employer defined-benefit pension plan, the Philadelphia Gas Works Pension Plan (the Pension Plan) to provide pension benefits for all of PGW’s 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 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 defined-contribution 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 benefits in accordance with their retiree medical program to 2,053 and 2,044 retirees, their beneficiaries, and dependents for FY 2014 and FY 2013, respectively. The Company also offers such benefits to 1,631 and 1,636 active employees and their dependents for FY 2014 and FY 2013, 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 non-current liabilities and expensed.

(o) Cash and Cash Equivalents

For the purpose of reporting cash and 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.

Cash designated for capital expenditures consisted of cash held by the Company, which was segregated into separate accounts that are not contractually restricted but, based on the Company's intention, are not available for the payment of general corporate obligations. These amounts will be utilized by the Company in the future for capital expenditures.

(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.

Estimated losses from claims for occurrences not covered by insurance, which will not be paid in the next fiscal year, have been accrued. Such liabilities have been established based upon Company history and consultation with counsel. Such expenses are expected to be recovered through future rates. Reductions to 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 $4.0 million and $0.5 million for FY 2014 and FY 2013, respectively. The pollution remediation liability is reflected in other non-current liabilities and in other current liabilities. 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) Reclassifications

Certain prior-year amounts have been reclassified for comparative purposes. Specifically, the annual distribution to the City has been reclassified from an equity reduction to a non-operating expense.

(u) New Accounting Pronouncements

As discussed in note 10, the Company currently does not reflect a net pension obligation on its balance sheet because the annual required contribution has been made each year. GASB No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, is effective for the Company's fiscal year ending August 31, 2015. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. This Statement will result in the Company's net pension liability being reflected on the balance sheet, measured as the portion of the present value of projected benefit payments to be provided to current and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary net position. Under this new pronouncement, the unfunded actuarial liability for the plan is approximately $205.2 million at August 31, 2014.

(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 2014 and FY 2013, the applicable maximum amount was calculated to be $1.2 million. The agreement requires the

Company to make annual payments of $18.0 million to the City. In FY 2014 and FY 2013, 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 $7.5 million and $7.3 million in FY 2014 and FY 2013, respectively, relating to sales to the City. Net amounts receivable from the City were $0.2 million at August 31, 2014 and 2013. Water and sewer services and licenses are purchased from the City. Such purchases totaled $1.4 million and $0.9 million in FY 2014 and FY 2013, respectively.

Certain activities of the PGC are paid for by the Company. Such payments totaled $0.8 million in both FY 2014 and FY 2013.

(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, 2014 and 2013 were $105.3 million and $100.8 million, respectively. Book balances of such deposits and accounts at August 31, 2014 and 2013 were $105.7 million and $100.9 million, respectively. Federal depository insurance on these balances at August 31, 2014 and 2013 was $0.5 million. The remaining balances are not insured. Investments are primarily 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 2014 and FY 2013 was $102.6 million and $85.0 million, respectively. Short-term investments with a carrying amount (at fair value) of $102.6 million and $84.2 million at August 31, 2014 and 2013, respectively, are included in the balances presented above.

PGW transferred $10.0 million from short-term investments to cash designated for capital expenditures at the end of FY 2014. These unexpended funds were designated for the purchase of utility plant. In FY 2014 and FY 2013, the Company utilized the Capital Improvement Fund to provide liquidity for the additions to utility plant.

(b) Sinking Fund, Capital Improvement Fund, Workers' Compensation Escrow Fund, and Health Insurance Escrow Fund

The investments in the Company's Sinking Fund, Capital Improvement Fund, Workers' Compensation Escrow Fund, and Health Insurance Escrow Fund consist primarily of 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, 2014 and 2013 was $0.0 million and $44.1 million, respectively.

Investments are recorded at fair value except for certain money market funds recorded at amortized cost. The adjustment to market value for the Capital Improvement Fund resulted in no gain or loss in

FY 2014 and a loss of $0.1 million in FY 2013. The adjustment to market value for the Sinking Fund resulted in a gain of $0.3 million in FY 2014 and a loss of $0.2 million in FY 2013.

Pursuant to the Pennsylvania Department of Labor and Industry Bureau of Workers' Compensation Self-Insurance policy, the Company has established and maintained a restricted trust account. As of August 31, 2014 and 2013, the trust account balances were $2.6 million.

PGW is self-insured for 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. The self-insured model requires the Company to establish and maintain a restricted escrow account. The balance in the Health Insurance Escrow Fund was $3.2 million as of August 31, 2014 and 2013.

(Continued)

The following is a schedule that details the Company's investments in the Capital Improvement Fund for FY 2013 (thousands of U.S. dollars). There was no balance at the end of FY 2014:

	August 31, 2013			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
U.S. government obligations:				
U.S. Treasury notes	$ 1,700	0.0333	AAA/AA+	Moody's/S&P
U.S. government agencies and instrumentalities:				
Federal National Mortgage Association medium term notes	6,313	0.3000	AAA/AA+	Moody's/S&P
Federal Home Loan Bank bonds	8,962	0.1881	AAA/AA+	Moody's/S&P
Federal Home Loan Mortgage Corporation medium term notes	6,629	0.3698	AAA/AA+	Moody's/S&P
Federal Farm Credit Bank bonds	2,311	0.4917	AAA/AA+	Moody's/S&P
Federal Home Loan Banks discount notes	100	0.0889		Moody's/S&P
Federal National Mortgage Association discount notes	1,980	0.0285	AAA/AA+	Moody's/S&P
Total U.S. government agencies and instrumentalities	26,295			
Corporate obligations:				
New York Life Global Funding	924	0.2861	AAA/AA+	Moody's/S&P
Berkshire Hathaway Financial	281	0.3203	AA2/AA+	Moody's/S&P
Massmutual Global Funding	254	0.3203	AA2/AA+	Moody's/S&P
XTO Energy Inc	913	0.2917	AAA/AAA	Moody's/S&P
Walmart Stores	283	0.3697	AA2/AA	Moody's/S&P
Microsoft	500	0.2917	AAA/AAA	Moody's/S&P
Total corporate obligations	3,155			

	August 31, 2013			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Foreign issues:				
Shell International Financial	$ 734	2.5623	AA1/AA	Moody's/S&P
Total fair value of investments	31,884			
Money market:				
First American Prime Obligations Class Z	12,010	—	*	*
Morgan Stanley Prime Portfolio Institutional Class	100	—	*	*
Total money market	12,110			
Other	61	—	*	*
Total fair value of investments, including cash deposits	$ 44,055			
Portfolio weighted modified duration		0.2752		

* The credit of this investment is unrated.

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

	August 31, 2014			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
U.S. government obligations:				
U.S. Treasury notes	$ 26,837	7.1615	AAA/AA+	Moody's/S&P
U.S. government agencies and instrumentalities:				
Federal National Mortgage Association medium term notes	9,390	0.6125	AAA/AA+	Moody's/S&P
Federal Home Loan Mortgage Corporation medium term notes	7,513	1.3230	AAA/AA+	Moody's/S&P
Federal Home Loan Bank bonds	5,770	0.1889	AAA/AA+	Moody's/S&P
Federal Home Loan Bank discounted notes	915	0.1763	AAA/AA+	Moody's/S&P
Federal Farm Credit Bank bonds	11,304	0.6389	AAA/AA+	Moody's/S&P
Federal National Mortgage Corporation Debt Securities	7,525	1.6167	AAA/AA+	Moody's/S&P
Total U.S. government agencies and instrumentalities	42,417			
Total fair value of investments	69,254			
Corporate obligations:				
Walmart Stores	1,269	2.5036	AA2/AA	Moody's/S&P
National Australia Bank NY	2,598	3.3868	AA2/AA	Moody's/S&P
General Electric Capital Corporation	1,596	5.8879	A1/AA+	Moody's/S&P
Berkshire Hathaway Financial	537	1.4311	AA2/AA	Moody's/S&P
Total corporate obligations	6,000			

(Continued)

	August 31, 2014			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Foreign issues:				
Bank of Nova Scotia	$ 2,961	1.9396	AA2+/A+	Moody's/S&P
Total Capital S.A.	3,070	5.7167	AA1+/AA-	Moody's/S&P
Westpac Banking Corporation	1,788	2.7128	AA2+/AA-	Moody's/S&P
Total foreign issues	7,819			
State obligations:				
Pennsylvania ST Second Ser	762	—	AA3/AA	Moody’s/S&P
Cash and cash equivalents:				
Credit Agricole N A commercial paper	2,250	—	*	*
BNP Paribus Finance Inc commercial paper	2,074	—	*	*
Rabobank USA Financial Corporation commercial paper	2,124	—	*	*
UBS Finance Delaware commercial paper	2,072	—	*	*
Toyota Motor Credit Corporation commercial paper	1,798	—	*	*
HSBC Americas Inc commercial paper	3,225	—	*	*
JP Morgan Securities commercial paper	2,748	—	*	*
Societe Generale NA C P	2,900	—	*	*
Deutsche Bank Financial LLC commercial paper	2,574	—	*	*
Money market:				
First American Government Obligations Fund Class Z	131	—	*	*
Total cash and cash equivalents	21,896			

(Continued)

	August 31, 2014			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Other	$ 177	—	*	*
Total fair value of investments, including cash deposits	$ 105,908			
Portfolio weighted modified duration		0.7673		

* The credit of this investment is unrated.

	August 31, 2013			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
U.S. government obligations:				
U.S. Treasury notes	$ 60,705	0.9007	AAA/AA+	Moody's/S&P
U.S. government agencies and instrumentalities:				
Federal National Mortgage Association medium term notes	12,979	1.4567	AAA/AA+	Moody's/S&P
Federal Home Loan Bank bonds	9,689	1.1265	AAA/AA+	Moody's/S&P
Federal Farm Credit Bank bonds	4,005	1.5111	AAA/AA+	Moody's/S&P
Total U.S. government agencies and instrumentalities	26,673			
Total fair value of investments	87,378			

	August 31, 2013			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Corporate obligations:				Moody's/S&P
Walmart Stores	$ 2,302	0.1906	AA2/AA	
Berkshire Hathaway Financial	550	0.1696	AA2/AA	Moody's/S&P
General Electric Capital Corporation	1,840	0.1938	A1/AA+	Moody's/S&P
Total corporate obligations	4,692			
State obligations:				
Pennsylvania ST Second Ser	797	—	AA2/AA	Moody's/S&P
Cash and cash equivalents:				
Bank of Tokyo Mitsubishi commercial paper	2,802	—	*	*
BNP Paribus Finance Inc commercial paper	2,074	—	*	*
Rabobank USA Financial Corporation commercial paper	2,818	—	*	*
UBS Finance Delaware commercial paper	2,072	—	*	*
Toyota Motor Credit Corporation commercial paper	1,199	—	*	*
General Electric Capital Corporation commercial paper	1,275	—	*	*
Money market:				
First American Government Obligations Fund Class Z	173	—	*	*
Total cash and cash equivalents	12,413			
Total fair value of investments, including cash deposits	$ 105,280			
Portfolio weighted modified duration		1.0442		

* The credit of this investment is unrated.

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

	August 31, 2014			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Money market:				
Fidelity Governmental Fund	$ 2,597	—	*	*
Total fair value of investments, including cash deposits	$ 2,597			

* The credit of this investment is unrated.

	August 31, 2013			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Money market:				
Fidelity Governmental Fund	$ 2,597	—	*	*
Total fair value of investments, including cash deposits	$ 2,597			

* The credit of this investment is unrated.

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

	August 31, 2014			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Money market:				
Fidelity Governmental Fund	$ 3,223	—	*	*
Total fair value of investments, including cash deposits	$ 3,223			

* The credit of this investment is unrated.

	August 31, 2013			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Money market:				
Fidelity Governmental Fund	$ 3,223	—	*	*
Total fair value of investments, including cash deposits	$ 3,223			

* The credit of this investment is unrated.

(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 separate trading of registered interest and principal securities (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, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, 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.

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

More than 47.2% of the Company's investments as of August 31, 2014 are in the following: Federal Home Loan Mortgage Corporation medium term notes (12.2%), Freddie Discounts (14.0%), and Federal Home Loan Bank bonds (21.0%). These investments are in accordance with the City's investment policy.

(e) Custodial Credit Risk

The Company has selected, as custodial bank, a member 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.

(4) Recoverable Costs

In compliance with orders issued by the PGC, the cost of projects that produce benefits over an extended period is recorded on the balance sheet as a recoverable cost in other assets. There is no return on the asset being charged to the customers. There were no unamortized costs included in other assets as of August 31, 2014 and 2013. There were no unamortized costs in other current assets at August 31, 2014. The unamortized costs included in other current assets were $0.2 million as of August 31, 2013.

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 2014, settlements by the Company's insurance carriers provided less than $0.1 million associated with environmental remediation costs. Environmental remediation costs of approximately $0.6 million in FY 2014 were offset by these insurance settlements, and the remainder was recorded on the balance sheet as a recoverable cost in other assets. The Company estimates additional expenditures to be approximately $34.7 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 at least 30 days 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 $0.4 million in FY 2014 and $0.3 million in FY 2013.

(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 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 $120.0 million under the current credit agreements. The expiration date of the credit agreements is August 14, 2017.

There were no outstanding notes payable at August 31, 2014 and 2013.

Commercial paper activity for the year ended August 31, 2014 was as follows (thousands of U.S. dollars):

	Year ended August 31, 2014			
	Beginning balance	Additions	Deletions	Ending balance
Commercial paper	$ —	400	400	—

(7) GCR Tariff Reconciliation

During the fiscal year ended August 31, 2014, the Company's actual gas costs were above its billed gas costs by approximately $13.4 million. This amount was recorded in other current assets for FY 2014. Actual gas costs were $6.9 million lower than billed gas costs in FY 2013.

Natural Gas Pipeline Supplier Refund

The Company received refunds including interest of approximately $4.5 million in FY 2014 and $0.1 million in FY 2013, 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, 2014 and 2013 (thousands of U.S. dollars):

		August 31, 2014			August 31, 2013		
		Current portion	Long-term	Total	Current portion	Long-term	Total
Revenue bonds	$	50,975	964,945	1,015,920	49,800	1,015,920	1,065,720
Unamortized discount		(234)	(1,926)	(2,160)	(248)	(2,160)	(2,408)
Unamortized premium		2,486	17,730	20,216	2,854	20,216	23,070
Total revenue bonds	$	53,227	980,749	1,033,976	52,406	1,033,976	1,086,382

The following is a summary of activity related to revenue bonds and other liabilities and the respective balances for the fiscal years ended August 31, 2014 and 2013 (thousands of U.S. dollars):

		Year ended August 31, 2014			
		Beginning balance	Additions	Reductions	Ending balance
Revenue bonds	$	1,065,720	—	(49,800)	1,015,920
Other liabilities:					
Claims and judgments		5,486	—	(270)	5,216
Environmental clean-up		29,522	3,977	—	33,499
Other postemployment benefits		109,060	—	(7,272)	101,788
Interest rate swap liability		33,363	5,399	—	38,762
Other current liabilities		9,107	10,214	—	19,321
Total other liabilities		186,538	19,590	(7,542)	198,586
Less current portion		9,107	10,214	—	19,321
Total other non-current liabilities	$	177,431	9,376	(7,542)	179,265

	Year ended August 31, 2013			
	Beginning balance	Additions	Reductions	Ending balance
Revenue bonds	$ 1,093,440	—	(27,720)	1,065,720
Other liabilities:				
Unamortized balance of Guaranteed Investment Contract in Sinking Fund	5,309	—	(5,309)	—
Claims and judgments	3,438	2,048	—	5,486
Environmental clean-up	29,195	327	—	29,522
Other postemployment benefits	111,068	—	(2,008)	109,060
Interest rate swap liability	57,435	—	(24,072)	33,363
Other current liabilities	10,265	—	(1,158)	9,107
Total other liabilities	216,710	2,375	(32,547)	186,538
Less current portion	10,265	—	(1,158)	9,107
Total other non-current liabilities	$ 206,445	2,375	(31,389)	177,431

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:				
2015	$ 50,975	46,756	8,039	105,770
2016	49,155	44,091	8,039	101,285
2017	49,895	41,723	8,039	99,657
2018	49,355	39,238	7,978	96,571
2019	50,190	36,909	7,497	94,596
2020 – 2024	266,245	148,748	28,627	443,620
2025 – 2029	241,000	89,419	9,385	339,804
2030 – 2034	139,770	44,115	—	183,885
2035 – 2039	109,895	13,777	—	123,672
2040 – 2041	9,440	496	—	9,936
Total	$ 1,015,920	505,272	77,604	1,598,796

Future debt service is calculated using rates in effect at August 31, 2014 for variable rate bonds. The variable rate received under the swaps is 70.0% of LIBOR until maturity.

(a) Bond Issuances

In September 2011, the underlying variable rate bonds were remarketed and were backed by letters of credit. As of August 31, 2014, the Company's Eighth Series variable rate debt was backed by letter of credit agreements, which either extend to August 1, 2016 (Eighth Series B, C, and D) or August 30, 2016 (Eighth Series E).

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, 2014	Balance outstanding August 31, 2013
4th Series	4.00% – 5.25%	2032	$ 77,825	81,075
17th Series	4.00% – 5.38%	2026	101,160	110,940
5th Series	4.00% – 5.25%	2034	106,310	109,310
5th Series A-2	Variable*	2035	30,000	30,000
18th Series	5.00% – 5.25%	2021	27,050	30,360
19th Series	5.00%	2024	14,450	14,450
20th Series	2.00% – 5.00%	2015	2,725	9,595
7th Series	4.00% – 5.00%	2038	179,685	183,460
7th Series Refunding	5.00%	2029	28,360	28,385
8th Series A	4.00% – 5.25%	2017	37,905	48,035
8th Series B	Variable	2028	50,260	50,260
8th Series C	Variable	2028	50,000	50,000
8th Series D	Variable	2028	75,000	75,000
8th Series E	Variable	2028	50,260	50,260
9th Series	2.00% – 5.25%	2040	138,895	141,835
10th Series	3.00% – 5.00%	2026	46,035	52,755
			$ 1,015,920	1,065,720

* As of August 31, 2014, the interest rate was 0.03%.

(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 to meet all principal and interest requirements of the 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 in the amount of $10.5 million and $10.8 million in FY 2014 and FY 2013, respectively, is reported as a component of accrued accounts.

(c) Interest Rate Swap Agreements

In January 2006, the City entered into a fixed rate payer, floating rate receiver interest rate swap to create a synthetic fixed rate for the Sixth Series Bonds. The interest rate swap was used to hedge interest rate risk.

The swaps have a maturity date of August 1, 2031 and require the City to pay a fixed rate of 3.6745% and receive a variable rate equal 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 Eighth 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 Bonds through the Eighth Series E Bonds.

In September 2011, the underlying variable rate bonds were remarketed with new letters of credit. During the remarketing, PGW partially redeemed portions of the longest three maturities of the bonds, and reallocated 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.

In April 2013, each of the swaps was amended to include additional language specifying the exact process to be used to calculate a termination amount in the event of an optional termination at the request of the City on or before April 1, 2015.

In August 2013, two subseries of the underlying variable rate bonds (8th Series C and 8th Series D) were remarketed with new letters of credit. The letters of credit for the remaining two subseries (8th Series B and 8th Series E) were extended with the existing providers.

As of August 31, 2014, 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 interest rate at August 31, 2014 for the underlying bonds is approximately 0.04%.
- 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 interest rate at August 31, 2014 for the underlying bonds is approximately 0.04%.
- 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 interest rate at August 31, 2014 for the underlying bonds is approximately 0.04%.
- 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 interest rate at August 31, 2014 for the underlying bonds is approximately 0.04%.

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

As of August 31, 2014, the swaps had a combined negative fair value of approximately $38.8 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.

As of August 31, 2014, 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 A2/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 years ended August 31, 2014 and 2013 is as follows (thousands of U.S. dollars):

		Interest rate swap liability	**Deferred outflow of resources**
Balance, August 31, 2013	$	33,363	12,059
Change in fair value through August 31, 2014		5,399	6,820
Balance, August 31, 2014	$	38,762	18,879

		Interest rate swap liability	**Deferred outflow of resources**
Balance, August 31, 2012	$	57,435	34,712
Change in fair value through August 31, 2013		(24,072)	(22,653)
Balance, August 31, 2013	$	33,363	12,059

The interest rate swap liability is included in other non-current 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 Guaranteed Investment Contracts (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.

In March 2013, the City terminated the GICs in connection with 1975 and 1998 Ordinance Sinking Fund Reserves for the Company. At settlement, the Company paid $4.8 million to terminate the portion related to the 1975 Ordinance and $4.2 million to terminate the portion related to the 1998 Ordinance Sinking Fund Reserves for the Company. As a result of the termination of the GICs, in FY 2013 the Company expensed $4.2 million to Interest and Other Income.

(9) Defeased Debt

Defeased debt of the Company (bonds issued by the Company payable from the proceeds of irrevocably pledged assets) at August 31, 2014 was as follows (thousands of U.S. dollars):

	Latest date maturing to	Interest rate	Bonds outstanding
12th Series B	5/15/20	7.00%	$ 28,755

Defeased debt of the Company (bonds issued by the Company payable from the proceeds of irrevocably pledged assets) at August 31, 2013 was as follows (thousands of U.S. dollars):

	Latest date maturing to	Interest rate	Bonds outstanding
12th Series B	5/15/20	7.00%	$ 32,510

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 $30.3 million at August 31, 2014, bearing interest on face value from 0.00% to 5.89%.

The assets pledged, primarily noncallable U.S. government securities, had a market value of $34.1 million at August 31, 2013, bearing interest on face value from 0.00% to 7.74%.

(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 was $104.1 million and $106.0 million at August 31, 2014 and 2013, respectively.

At September 1, 2014, 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	2,343
Participants:	
Vested	1,140
Nonvested	251
Total participants	1,391
Total membership	3,734

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 10 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.

(Continued)

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 2014 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:				
2014	$	8,533	15,988	24,521
2013		8,782	14,832	23,614
2012		8,171	15,801	23,972

Beneficiary payments of $43.2 million were made in FY 2014. Withdrawals from the pension assets of $21.8 million were utilized to meet these beneficiary payments. Additionally, $0.8 million was due to the Company from the pension fund at the end of FY 2014.

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 7.95% per year compounded annually; with salary increases assumed to reach 4.5% per 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.

(Continued)

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 2014, 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, 2013	$ 462,691	623,612	160,921	74.2%	$ 104,123	154.5%
September 1, 2012	437,780	585,632	147,852	74.8	106,000	139.5
September 1, 2011	421,949	572,190	150,241	73.7	106,308	141.3

The ARCs, contributions made, and net pension obligation for FY 2014 and the two preceding fiscal years were as follows (thousands of U.S. dollars):

	2014	2013	2012
Annual required contribution	$ 24,521	23,614	23,972
Contributions made	(24,521)	(23,614)	(23,972)
Net pension obligation	$ —	—	—

(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 2,053 and 2,044 participating retirees and their beneficiaries and dependents in FY 2014 and FY 2013, respectively, in accordance with their retiree medical program. The annual covered payroll (which was substantially equal to total payroll) was $115.2 million and $110.1 million at August 31, 2014 and 2013, 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 postretirement 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 $25.9 million and $23.7 million in FY 2014 and FY 2013, respectively. In addition, the Company expensed $18.5 million of funding for the OPEB Trust and retirees contributed $0.4 million towards their healthcare in both FY 2014 and FY 2013. 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 $2.2 million in both FY 2014 and FY 2013, which included $1.8 million and $1.7 million for retirees. Retirees contributed $0.1 million towards their life insurance in both FY 2014 and FY 2013.

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

The amount paid by the Company for retiree benefits in FY 2014 was $44.4 million, consisting of $24.3 million of healthcare expenses, $1.6 million of life insurance expenses, and $18.5 million contributed to the OPEB trust. In FY 2013, the Company paid $42.2 million, consisting of $22.2 million of healthcare expenses, $1.5 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 a decrease in the OPEB obligation of $7.3 million and $2.0 million in FY 2014 and FY 2013, respectively, which was recorded to other non-current liabilities and expensed.

Funded Status

The actuarial accrued liability for benefits at August 31, 2014 and 2013 was $450.3 million and $436.5 million, respectively. The ratio of the unfunded actuarial accrued liability to the covered payroll was 312.1% as of August 31, 2014 and 340.3% as of August 31, 2013.

Historical trend information reflecting funding progress and contributions made by the Company is presented in the Schedule of Other Postemployment Benefits Funding Progress (Required Supplementary Information).

Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and are subject to continual revision as actual amounts are compared to past expectations and new estimates are made about the future. 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.

The assumptions used to determine the AOC for the current year and the funded status of the plan include:

Actuarial cost method	Projected unit credit
Method(s) used to determine the actuarial value of assets	Fair value of plan assets held in the OPEB trust
Investment return assumption (discount rate)	7.95%, which represents the long-term expected investment return on OPEB trust assets
Mortality	2014 Static Annuitant and Non-Annuitant Mortality Table
Amortization method	Level dollar amount
Amortization period	Open period of 30 years

Healthcare cost trend rates are as follows:

	Healthcare cost trend rates			
Year	**Medical (pre-65)**	**Medical (post-65)**	**Prescription**	**Dental**
2014	9.0%	7.0%	7.0%	4.5%
2015	8.0	6.0	6.0	4.5
2016	7.0	5.0	5.0	4.5
2017	6.5	4.5	4.5	4.5
2018	6.0	4.5	4.5	4.5
2019	5.5	4.5	4.5	4.5
2020	5.0	4.5	4.5	4.5
2021+	4.5	4.5	4.5	4.5

The following table shows the components of the Company’s annual OPEB cost for FY 2014 and FY 2013, the amount actually contributed to the plan, and the Company’s net OPEB obligation (thousands of U.S. dollars):

	2014	2013
Annual required contribution	$ 38,062	41,216
Interest on net OPEB obligation	8,670	8,885
Adjustment to the annual required contribution	(9,642)	(9,866)
Annual OPEB cost	37,090	40,235
Contributions made	(44,362)	(42,242)
Net OPEB obligation as of prior year	109,060	111,067
Net OPEB obligation as of August 31	$ 101,788	109,060

(Continued)

The annual OPEB cost is recorded in the Statements of Revenue and Expenses and Changes in Net Position. For the year ended August 31, 2014, approximately $11.2 million was recorded to other postemployment benefits expense and $25.9 million was recorded to administrative and general expense. For the year ended August 31, 2013, approximately $16.5 million was recorded to other postemployment benefits expense and $23.7 million was recorded to administrative and general expense.

The Company's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for FY 2014 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:			
2014	$ 37,090	119.6%	$ 101,788
2013	40,235	105.0	109,060
2012	46,105	96.5	111,067

(c) Other Coverage Information

PGW is self-insured for the healthcare of active employees and retirees under the age of 65. Retirees over the age of 65 are insured on an experience rated basis. At August 31, 2014, the Company has in place $192.3 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, 2014 and 2013 were $34.7 million and $30.8 million, respectively, which reflect the impact of GASB Statement No. 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 sublimits 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 maintains $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, 2014 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:						
2014	$	10,411	2,498	(2,965)	9,944	4,728
2013		11,102	2,616	(3,307)	10,411	4,925
2012		10,697	3,725	(3,320)	11,102	7,664

(14) Commitments and Contingencies

Commitments for major construction and maintenance contracts were approximately $25.1 million and $21.6 million, as of August 31, 2014 and 2013, 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:		
2015	$	654
2016		379
2017		334

Rent expense for the fiscal years ended August 31, 2014 and 2013 amounted to $1.5 million and $1.4 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 $5.0 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, 2014 through March 31, 2015.

The Company's amended FY 2015 Capital Budget was approved by City Council in the amount of $89.5 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 2015 is expected to be $21.4 million. The total six-year cost of the Cast Iron Main Replacement Program is forecasted to be $136.4 million. In addition to this program, the FY 2015 Capital Budget includes funding for an incremental Cast Iron Main Replacement Program for which PGW will request recovery through a DSIC. This incremental program in FY 2015 is expected to cost $17.3 million. The total six-year cost of this incremental program is forecasted to be $128.6 million. The FY 2015 Capital Budget also includes $2.3 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 $15.9 million.

(15) Subsequent Events

The Company has evaluated events and transactions that occurred between August 31, 2014 and December 23, 2014, which is the date the financial statements were originally available to be issued, and between December 23, 2014 and February 23, 2015, the date the financial statements were reissued, for possible disclosure and recognition in the financial statements and noted the following:

On March 2, 2014, following a competitive bidding process, the City entered into an agreement to sell PGW to UIL Holdings Corporation, subject to authorization by City Council and the Public Utility Commission. On December 4, 2014, UIL exercised its option to withdraw from the agreement after no authorizing ordinance was introduced in City Council.

On October 21, 2014, Standard & Poor's Rating Services raised the rating on PGW revenue bonds, issued under its 1975 (closed senior lien) and 1998 ordinances (subordinate working lien) to "A-"from "BBB+". Rationale sited for the rating upgrades included improving trends related to coverage of fixed costs, liquidity, debt ratios and collections, as well as the adoption of a number of credit supportive policies and procedures.

The Company's 5th Series A-2 variable rate bonds are backed by irrevocable letters of credit, which were extended on November 1, 2014 for a term of one year expiring on December 31, 2015.

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, 2013*	$	462,691	623,612	160,921	74.2%	$	104,123	154.5%
September 1, 2012**		437,780	585,632	147,852	74.8		106,000	139.5
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

* The required supplementary information is based on an actuarial valuation of the pension fund for the plan year September 1, 2013 through August 31, 2014, updated for contributions and additional accrued benefits in the subsequent fiscal year.

** The required supplementary information is based on an actuarial valuation of the pension fund for the plan year September 1, 2012 through August 31, 2013, updated for contributions and additional accrued benefits in the subsequent fiscal year.

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

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

+++ The required supplementary information is based on an 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.

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, 2014*	$	90,838	450,289	359,451	20.2%	$	115,174	312.1%
August 31, 2013**		61,796	436,527	374,731	14.2		110,120	340.3
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

* The required supplementary information is based on an actuarial valuation of the OPEB fund for the plan year September 1, 2013 through August 31, 2014.

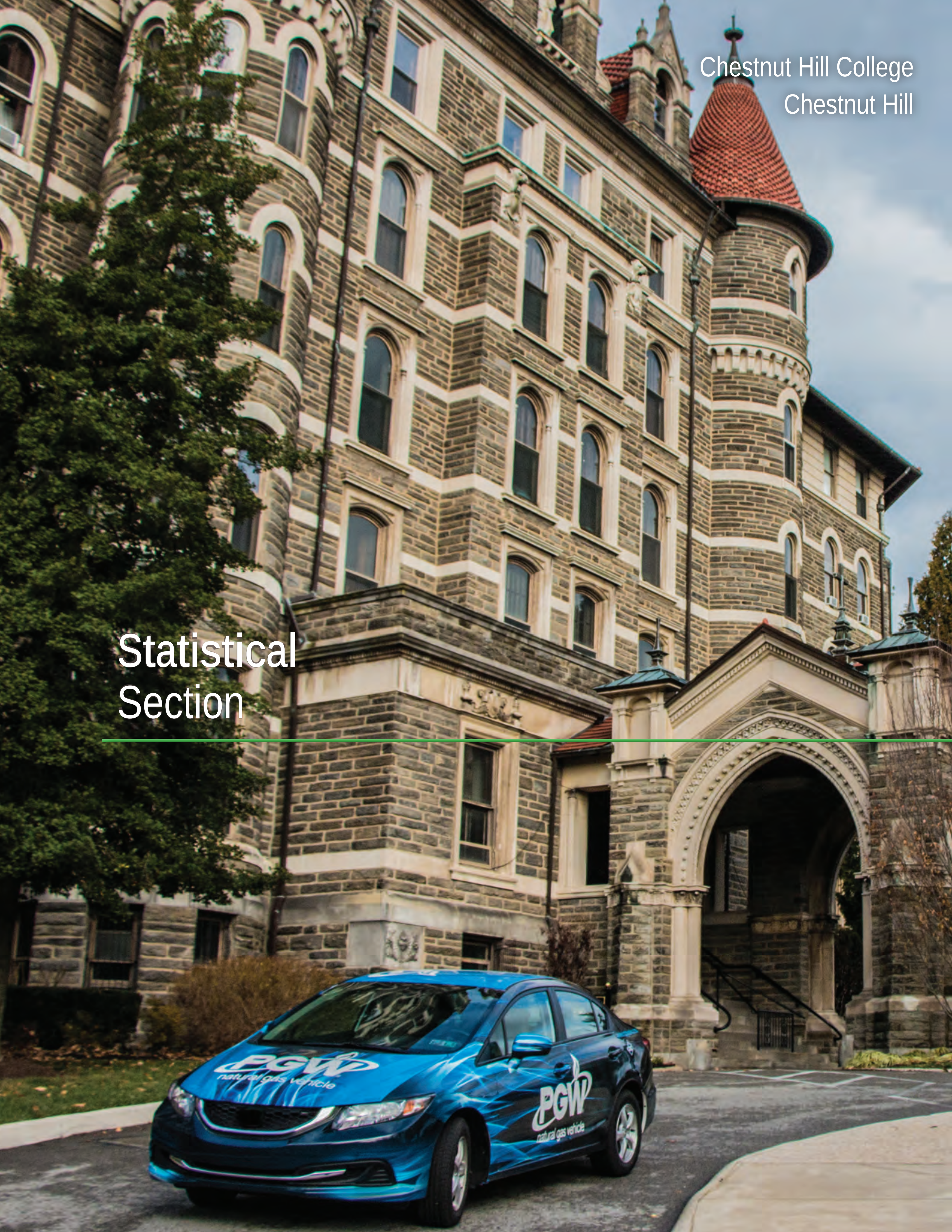
** The required supplementary information is based on an actuarial valuation of the OPEB fund for the plan year September 1, 2012 through August 31, 2013.

*** 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 an actuarial valuation of the OPEB fund for the plan year September 1, 2010 through August 31, 2011.

See accompanying independent auditors’ report.

Statistical Section



Chestnut Hill College
Chestnut Hill

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

Statistical Section

Description of Schedules

August 31, 2014

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 2005 through 2014
(Thousands of U.S. dollars)

Assets	**2014**	**2013**	**2012**
Current assets:			
Cash and cash equivalents	105,734	100,933	75,826
Cash designated for capital expenditures	10,000	-	-
Accounts receivable (net of provision for uncollectible accounts)	101,457	97,749	81,997
Gas inventories, materials, and supplies	69,989	80,234	81,086
Capital improvement fund	-	44,055	88,838
Workers' compensation escrow fund	2,597	2,597	2,597
Health insurance escrow fund	3,223	3,223	3,222
Other current assets and deferred debits	19,221	16,196	26,939
Total current assets	312,221	344,987	360,505
Non-current assets			
Utility plant, at original cost:			
In service	2,018,234	1,951,546	1,894,129
Under construction	57,206	44,409	53,851
Total	2,075,440	1,995,955	1,947,980
Less accumulated depreciation	881,888	840,968	822,330
Utility plant, net	1,193,552	1,154,987	1,125,650
Unamortized bond issuance costs * (1)	14,136	15,736	17,417
Unamortized losses on reacquired debt	-	-	-
Sinking fund, revenue bonds	105,909	105,280	105,312
City of Philadelphia		-	-
Other assets and deferred debits	37,528	33,097	30,996
Total non-current assets	1,351,125	1,309,100	1,279,375
Total assets	1,663,346	1,654,087	1,639,880
Deferred outflows of resources			
Accumulated fair value of hedging derivatives	18,879	12,059	34,712
Unamortized losses on reacquired debt (1)	37,051	44,868	53,241
Total assets and deferred outflows of resources	1,719,276	1,711,014	1,727,833

* For Fiscal Years 2014, 2013 and 2012 this category includes only bond insurance costs.

(1) During FY 2013, the Company implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, that amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities. The objective is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). This change was retroactive to FY 2012.

Source - PGW's Audited Financial Statements

2011	2010	2009	2008	2007	2006	2005
105,386	79,052	13,750	49,338	51,698	6,697	15,221
-	-	-	-	-	-	-
98,925	92,173	105,496	99,304	88,618	74,360	87,634
85,993	103,133	125,023	187,539	147,770	149,438	129,984
122,332	170,809	62,714	111,207	172,134	39,636	102,701
2,596	2,595	2,593	2,383	1,924	1,637	1,579
-	-	-	-	-	-	-
35,523	27,212	4,895	5,626	5,615	25,259	2,632
450,755	474,974	314,471	455,397	467,759	297,027	339,751
1,856,303	1,794,277	1,754,297	1,685,593	1,633,300	1,555,669	1,515,463
40,555	46,339	30,953	46,969	48,013	65,122	57,883
1,896,858	1,840,616	1,785,250	1,732,562	1,681,313	1,620,791	1,573,346
785,780	746,607	708,783	670,467	640,940	613,143	591,624
1,111,078	1,094,009	1,076,467	1,062,095	1,040,373	1,007,648	981,722
24,585	27,066	27,516	38,738	42,086	42,089	39,094
62,039	70,873	79,945	47,902	53,359	55,859	38,494
112,038	111,409	110,227	106,198	102,438	94,352	104,530
-	-	-	-	643	-	-
30,640	22,925	23,465	33,125	8,282	9,035	16,231
1,340,380	1,326,282	1,317,620	1,288,058	1,247,181	1,208,983	1,180,071
1,791,135	1,801,256	1,632,091	1,743,455	1,714,940	1,506,010	1,519,822
25,360	25,906	-	-	-	-	-
-	-	-	-	-	-	-
1,816,495	1,827,162	1,632,091	1,743,455	1,714,940	1,506,010	1,519,822

(continued)

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Balance Sheets
Fiscal Years 2005 through 2014
(Thousands of U.S. dollars)

Fund Equity and Liabilities	**2014**	**2013**	**2012**
Fund equity:			
Excess (deficiency) of capital assets, net of related debt			
Restricted			
Unrestricted			
Total fund equity			
Current liabilities:			
Notes payable	-	-	-
Current portion of revenue bonds	53,227	52,406	30,545
Subordinate lease obligations	-	-	-
Note payable – City Loan	-	-	-
Accounts payable	58,888	59,379	57,127
Customer deposits	2,245	2,305	2,449
Other current liabilities and deferred credits	19,321	9,107	10,265
Accrued accounts:			
Interest, taxes, and wages	14,646	14,823	15,555
Distribution to the City	3,000	3,000	3,000
Total current liabilities	151,327	141,020	118,941
Non-current liabilities:			
Long-term revenue bonds	980,749	1,033,976	1,086,502
Other liabilities and deferred credits	179,265	177,431	206,445
Note payable – City Loan	-	-	-
Total non-current liabilities	1,160,014	1,211,407	1,292,947
Total liabilities	1,311,341	1,352,427	1,411,888
Total fund equity and liabilities			
Net position			
Net investment in capital assets	159,576	112,660	97,442
Restricted (debt service)	111,729	111,100	111,131
Unrestricted (1)	136,630	134,827	107,372
Total net position	407,935	358,587	315,945
Total liabilities and net position	1,719,276	1,711,014	1,727,833

(1) During FY 2013, the Company implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, that amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities. The objective is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). This change was retroactive to FY 2012.

Source - PGW's Audited Financial Statements

2011	2010	2009	2008	2007	2006	2005
		1,019	(4,466)	(5,690)	(7,754)	24,739
		112,820	108,581	105,005	95,989	106,109
		129,780	122,293	123,986	151,170	91,798
		243,619	226,408	223,301	239,405	222,646
-	-	-	90,000	51,600	55,000	49,900
50,549	42,537	48,175	76,030	43,995	39,591	42,271
-	-	-	-	-	-	-
-	-	-	-	43,000	-	-
55,893	59,303	46,205	67,508	60,615	40,316	63,918
2,869	3,998	4,224	7,325	9,049	8,628	6,280
12,098	12,185	16,203	32,581	15,524	8,137	18,342
17,476	16,743	15,948	15,821	15,088	13,773	13,452
3,000	3,000	3,000	3,000	3,000	3,000	3,000
141,885	137,766	133,755	292,265	241,871	168,445	197,163
1,166,992	1,224,987	1,114,488	1,127,163	1,201,792	1,031,131	1,030,830
197,878	189,974	140,229	97,619	47,976	22,029	24,183
-	-	-	-	-	45,000	45,000
1,364,870	1,414,961	1,254,717	1,224,782	1,249,768	1,098,160	1,100,013
1,506,755	1,552,727	1,388,472	1,517,047	1,491,639	1,266,605	1,297,176
		1,632,091	1,743,455	1,714,940	1,506,010	1,519,822
15,869	(2,706)					
114,634	114,004					
179,237	163,137					
309,740	274,435					
1,816,495	1,827,162					

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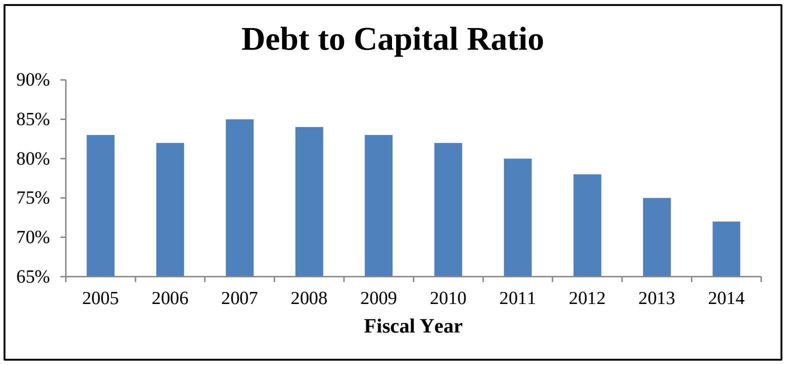
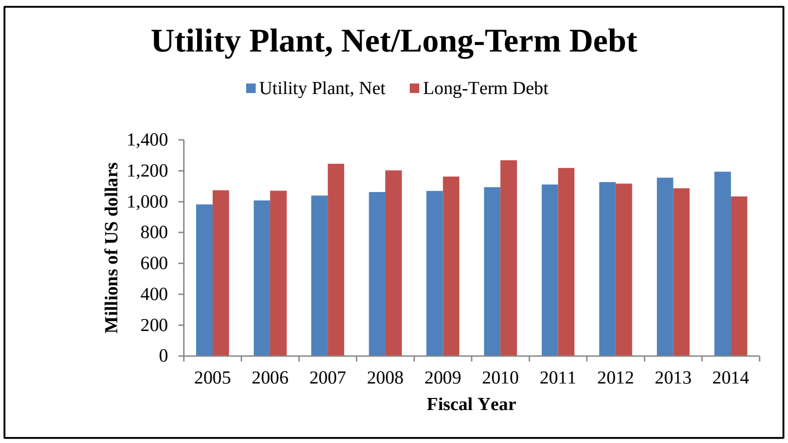
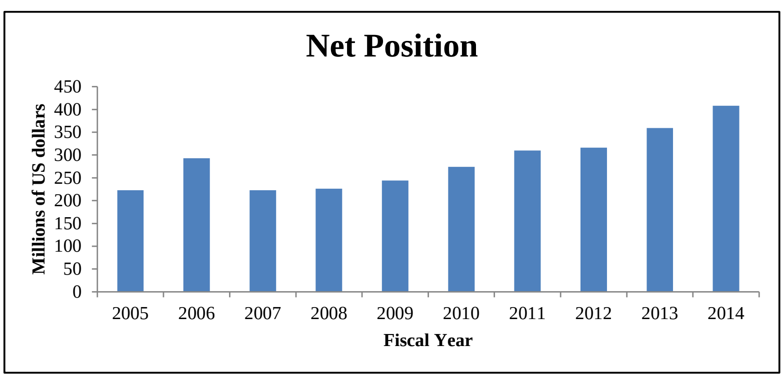
PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Debt to Capital Ratio, Utility Plant, Net vs. Long-Term Debt, and Net Position
Fiscal Years 2005 through 2014







PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Statements of Revenues and Expenses
Fiscal Years 2005 through 2014
(Thousands of U.S. dollars)

	2014	**2013**	**2012**
Operating revenues:			
Gas revenues:			
Nonheating	39,610	35,262	37,054
Gas transport service	41,217	37,078	29,324
Heating	655,311	602,814	562,009
Total gas revenues	736,138	675,154	628,387
Appliance and other revenues	8,317	8,333	8,240
Other operating revenues	14,681	9,984	8,356
Total operating revenues	759,136	693,471	644,983
Operating expenses:			
Natural gas	304,051	255,501	233,713
Gas processing	19,637	17,592	15,640
Field services	37,577	34,926	33,883
Distribution	36,929	30,259	27,750
Collection and account management	11,273	11,297	11,491
Provision for uncollectible accounts	38,848	39,971	36,702
Customer services	11,187	11,102	11,946
Marketing	7,783	6,789	6,664
Administrative and general	85,872	78,206	81,161
Pensions	24,521	23,614	23,972
Other postemployment benefits	11,228	16,492	20,119
Taxes	7,687	7,220	7,122
Total operating expenses before depreciation	596,593	532,969	510,163
Depreciation	47,428	45,912	45,045
Less depreciation expense included in operating expenses above	5,771	4,870	4,870
Net depreciation	41,657	41,042	40,175
Total operating expenses	638,250	574,011	550,338
Operating income	120,886	119,460	94,645
Interest and other income	3,597	1,147	4,659
Income before interest expense	124,483	120,607	99,304
Interest expense:			
Long-term debt	48,261	49,655	53,012
Other	9,380	10,740	16,824
Allowance for funds used during construction	(506)	(430)	(292)
Total interest expense	57,135	59,965	69,544
Excess (deficiency) of revenues over (under) expenses prior to City Payment	67,348	60,642	29,760
Distribution to the City of Philadelphia	(18,000)	(18,000)	(18,000)
Grant back of distribution from the City of Philadelphia	-	-	-
Excess (deficiency) of revenues over (under) expenses	49,348	42,642	11,760
Net position, beginning of the year (1)	358,587	315,945	304,185
Net position, end of the year	407,935	358,587	315,945

(1) During FY 2013, the Company implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, that amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities. The objective is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). This change was retroactive to FY 2012.

Source - PGW's Audited Financial Statements

2011	2010	2009	2008	2007	2006	2005
51,437	51,343	67,295	78,687	90,798	113,356	114,880
28,700	26,860	24,913	19,215	12,949	6,459	4,679
669,131	664,139	818,249	733,526	736,358	810,146	710,991
749,268	742,342	910,457	831,428	840,105	929,961	830,550
8,400	8,959	9,311	8,607	9,398	10,482	10,895
8,611	7,931	9,673	9,592	9,848	13,525	21,912
766,279	759,232	929,441	849,627	859,351	953,968	863,357
330,932	354,004	545,846	511,976	539,300	625,093	509,704
16,097	14,952	16,779	14,436	16,240	15,234	18,584
33,950	34,026	37,727	37,126	36,100	35,667	28,455
27,990	23,426	21,059	17,319	17,119	15,179	15,115
11,765	15,266	16,248	15,447	15,221	17,289	18,666
36,027	35,000	42,000	37,000	40,000	40,132	70,424
12,532	13,030	12,897	12,305	11,783	11,083	12,512
4,378	3,900	3,436	2,628	2,418	2,467	2,592
76,850	71,620	63,820	60,716	56,819	59,484	60,995
22,597	24,633	15,425	14,258	26,421	17,563	14,702
22,472	27,269	25,952	25,834	15,217	-	-
7,135	6,990	6,588	5,677	6,730	6,124	6,218
602,725	624,116	807,777	754,722	783,368	845,315	757,967
43,629	43,168	42,200	42,868	39,708	37,955	39,547
4,714	4,690	4,419	3,344	3,328	3,230	4,502
38,915	38,478	37,781	39,524	36,380	34,725	35,045
641,640	662,594	845,558	794,246	819,748	880,040	793,012
124,639	96,638	83,883	55,381	39,603	73,928	70,345
4,348	5,301	12,240	15,732	13,073	8,518	4,778
128,987	101,939	96,123	71,113	52,676	82,446	75,123
57,225	52,527	63,602	56,075	52,146	51,799	53,856
18,884	18,986	15,558	12,269	17,042	14,869	10,902
(427)	(390)	(248)	(338)	(408)	(981)	(907)
75,682	71,123	78,912	68,006	68,780	65,687	63,851
53,305	30,816	17,211	3,107	(16,104)	16,759	11,272
(18,000)	(18,000)	(18,000)	(18,000)	(18,000)	(18,000)	(18,000)
-	18,000	18,000	18,000	18,000	18,000	18,000
35,305	30,816	17,211	3,107	(16,104)	16,759	11,272
274,435	243,619	226,408	223,301	239,405	222,646	211,374
309,740	274,435	243,619	226,408	223,301	239,405	222,646

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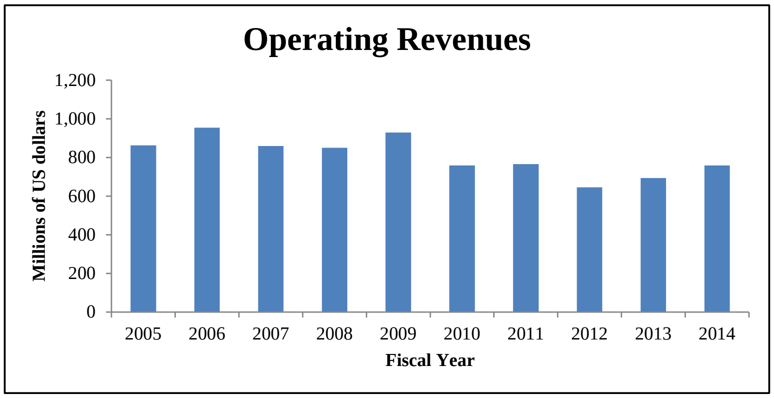
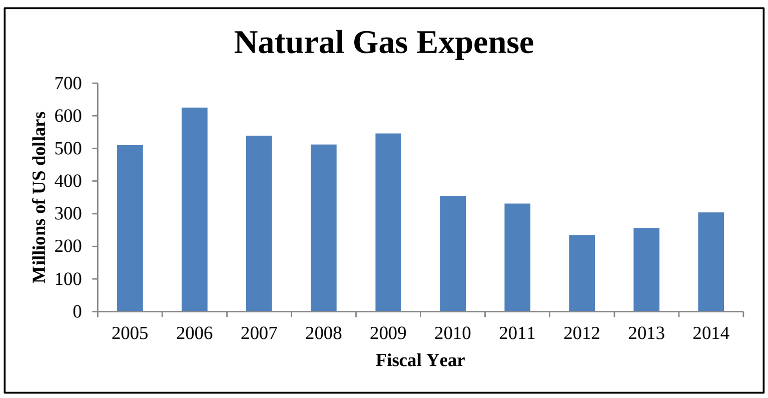
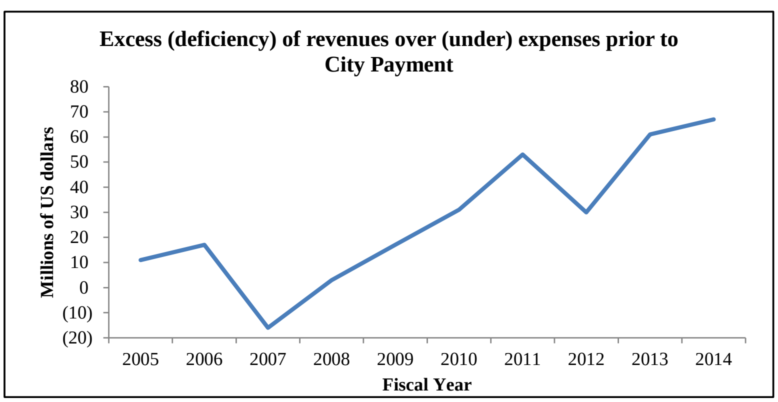
PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Operating Revenues, Natural Gas Expense, and Net Income
Fiscal Years 2004 through 2013



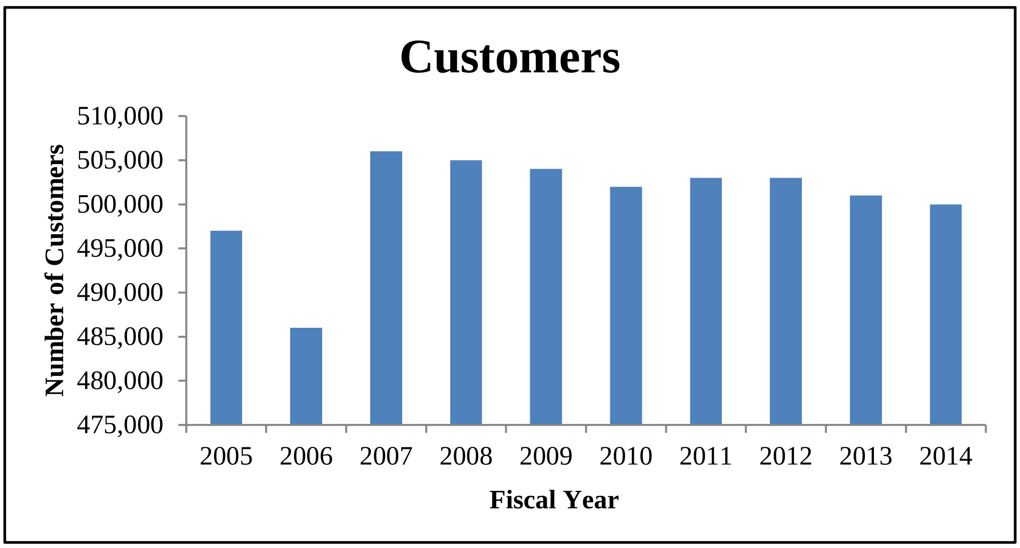




PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Average Number of Customers Billed by System
Fiscal Years 2005 through 2014

	2014	**2013**	**2012**	**2011**	**2010**
Residential	474,300	475,300	477,300	477,300	476,200
Commercial	25,000	25,000	25,000	25,000	25,000
Industrial	700	700	700	700	800
Total	500,000	501,000	503,000	503,000	502,000

Source - PGW Records



2009	2008	2007	2006	2005
478,200	479,200	480,100	460,000	471,000
25,000	25,000	25,000	25,000	25,000
800	800	900	1,000	1,000
504,000	505,000	506,000	486,000	497,000

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Operating Revenues
Fiscal Years 2005 through 2014
(Thousands of U.S. dollars)

	2014	**2013**	**2012**	**2011**
Firm non-heat	30,324	31,401	33,282	36,779
Interruptible gas sales	9,068	4,703	3,338	14,431
Billed non-heating	39,392	36,104	36,620	51,210
GCR non-heating adjustment	218	(841)	434	228
Total non-heating	39,610	35,263	37,054	51,438
Billed heating	660,942	605,761	519,950	659,681
GCR heating adjustment	6,174	(12,407)	4,244	5,360
Total billed heating	667,116	593,354	524,194	665,041
Weather normalization adjustment (WNA)	(11,810)	8,060	44,016	1,696
Total heating	655,306	601,414	568,210	666,737
Total gas sold	694,916	636,677	605,264	718,175
Firm transportation (FT) non-heat (1)	5,671	5,194	3,861	4,582
FT heating (1)	23,330	19,665	14,037	14,541
WNA - FT (1)	(488)	331	1,412	128
Total heating FT (1)	22,842	19,996	15,449	14,669
Total FT (1)	28,513	25,190	19,310	19,251
Unbilled adjustment	5	1,398	(6,201)	2,393
GTS: transportation	1,173	1,050	1,086	1,147
GTS - customer/customer choice	10,278	9,372	7,955	8,333
GTS - supplier/customer choice	11	478	170	(790)
GTS - firm supplier	1,242	989	803	759
Total gas revenues	736,138	675,154	628,387	749,268

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

Source - PGW Records

2010	2009	2008	2007	2006	2005
37,932	50,172	52,528	61,729	76,865	71,415
12,503	16,493	26,679	31,439	33,509	44,678
50,435	66,665	79,207	93,168	110,374	116,093
908	631	(521)	(2,037)	2,210	(1,212)
51,343	67,296	78,686	91,131	112,584	114,881
630,970	810,704	731,942	756,032	768,935	727,322
16,742	8,991	(8,407)	(23,948)	24,792	(14,164)
647,712	819,695	723,535	732,084	793,727	713,158
12,970	445	11,923	6,438	13,406	(1,365)
660,682	820,140	735,458	738,522	807,133	711,793
712,025	887,436	814,144	829,653	919,717	826,674
3,306	2,857	2,120	928		
13,254	12,265	8,205	3,111		
455	60	315	60		
13,709	12,325	8,520	3,171		
17,015	15,182	10,640	4,099		
3,457	(1,893)	(1,931)	(2,497)	3,785	(803)
1,928	1,948	2,228	2,480	2,335	2,249
7,421	6,813	6,177	6,017	4,115	2,407
(105)	842	85	220	9	23
601	129	85	133	-	-
742,342	910,457	831,428	840,105	929,961	830,550

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Sales Volumes
Fiscal Years 2005 through 2014
(Sales in Mcf)*

	2014	**2013**	**2012**	**2011**
Firm non-heat	1,955,220	2,003,583	2,148,736	2,218,768
Interruptible gas sales	1,096,381	890,383	192,058	1,004,185
Billed non-heating	3,051,601	2,893,966	2,340,794	3,222,953
GCR non-heating adjustment	-	-	-	-
Total non-heating	3,051,601	2,893,966	2,340,794	3,222,953
Billed heating	46,577,983	42,741,706	36,196,469	45,795,915
GCR heating adjustment	-	-	-	-
Total billed heating	46,577,983	42,741,706	36,196,469	45,795,915
Weather normalization adjustment (WNA)	-	-	-	-
Total heating	46,577,983	42,741,706	36,196,469	45,795,915
Total gas sold	49,629,584	45,635,672	38,537,263	49,018,868
Firm transportation (FT) non-heat (1)	795,971	701,712	542,271	629,683
FT heating (1)	3,291,193	2,725,563	1,941,019	2,038,726
WNA - FT (1)	-	-	-	-
Total heating FT (1)	3,291,193	2,725,563	1,941,019	2,038,726
Total FT (1)	4,087,164	3,427,275	2,483,290	2,668,409
Unbilled adjustment	95,656	62,646	(633,531)	204,694
GTS: transportation	12,069,664	10,708,926	11,429,993	12,024,712
GTS - customer/customer choice	13,201,076	12,346,548	10,459,723	10,581,753
GTS - supplier/customer choice	-	-	-	-
GTS - firm supplier	-	-	-	-
Utility Use	350,974	410,193	394,574	465,505
Unaccounted for gas	1,051,828	1,492,946	2,067,268	2,563,662
Total sendout	80,485,946	74,084,206	64,738,580	77,527,603
Unaccounted for gas as a % of total sendout	1.3%	2.0%	3.2%	3.3%

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

Source - PGW Records

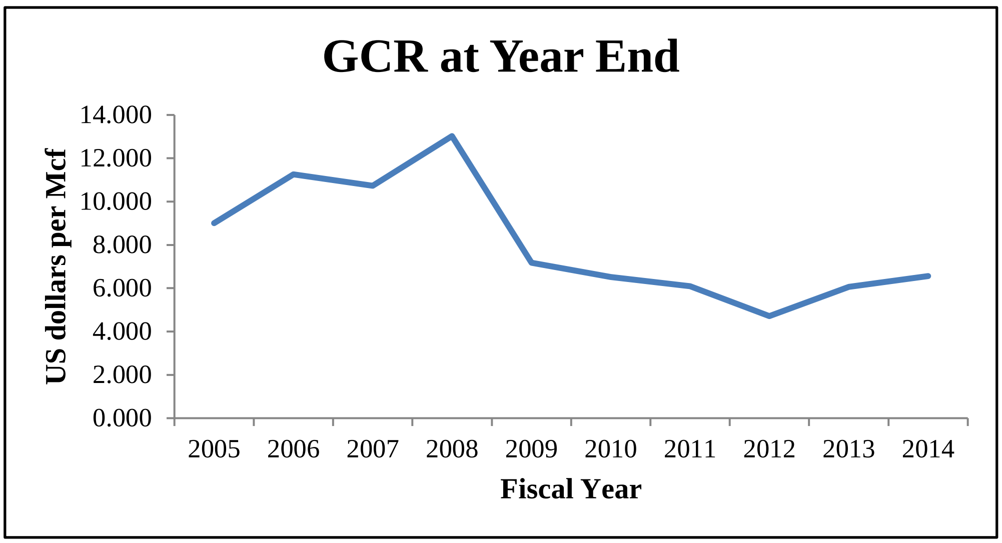
2010	2009	2008	2007	2006	2005
2,186,030	2,440,758	2,585,001	3,104,220	3,745,664	4,314,816
1,049,318	1,170,128	1,790,721	2,704,526	2,425,862	4,510,515
3,235,348	3,610,886	4,375,722	5,808,746	6,171,526	8,825,331
-	-	-	-	-	-
3,235,348	3,610,886	4,375,722	5,808,746	6,171,526	8,825,331
42,604,640	45,584,417	42,940,365	44,812,203	42,497,852	49,492,929
-	-	-	-	-	-
42,604,640	45,584,417	42,940,365	44,812,203	42,497,852	49,492,929
-	-	-	-	-	-
42,604,640	45,584,417	42,940,365	44,812,203	42,497,852	49,492,929
45,839,988	49,195,303	47,316,087	50,620,949	48,669,378	58,318,260
456,675	392,965	333,800	134,583		
1,848,085	1,700,319	1,272,881	434,865		
-	-	-	-		
1,848,085	1,700,319	1,272,881	434,865		
2,304,760	2,093,284	1,606,681	569,448		
276,161	(12,364)	61,729	(130,643)	116,676	628,810
12,390,748	12,651,292	9,928,058	7,144,953	7,279,955	9,014,203
8,440,368	7,879,560	7,497,327	5,424,466	3,447,532	2,610,192
-	-	-	-	-	-
-	-	-	-	-	-
632,040	737,720	716,683	859,493	680,633	94,731
2,097,817	2,357,825	1,476,092	2,552,999	1,940,046	2,037,791
71,981,882	74,902,620	68,602,657	67,041,665	62,134,220	72,703,987
2.9%	3.1%	2.2%	3.8%	3.1%	2.8%

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Gas Cost Rate
Fiscal Years 2005 through 2014
(U.S. dollars)

	2014	2013	2012	2011	2010
June 1	6.5642	6.0709	4.7129	6.0930	6.5139
March 1	6.0016	6.3991	4.9783	6.5400	7.3455
January 1					
December 1	5.4473	5.7323	6.1270	6.2753	7.2497
October 7					
September 1	5.4259	5.2247	6.0594	6.9050	7.0900

Shown in dollars per thousand cubic feet

Source - PGW Records



2009	2008	2007	2006	2005
7.1815	13.0236	10.7251	11.2558	8.9980
8.4192	10.7226	10.4338	12.5632	8.1120
10.7007				
	10.5779	10.9119	12.5632	9.8857
			12.5632	
12.6527	10.1108	11.2558	9.7056	8.3085

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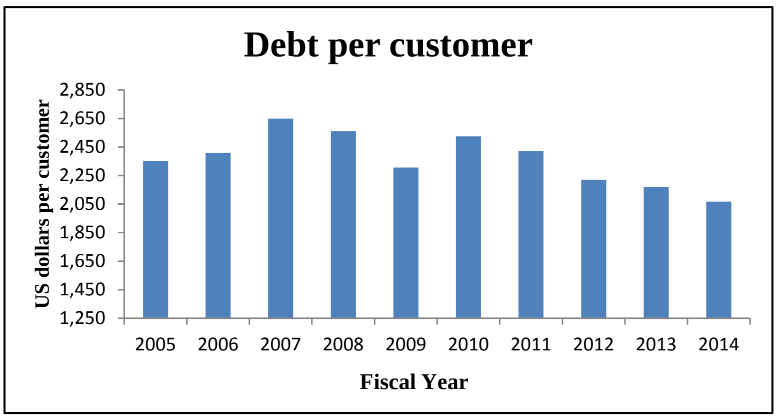
PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Ratios of Outstanding Debt by Type
Fiscal Years 2005 through 2014
(Thousands of U.S. dollars)

	Revenue Bonds	Subordinate lease obligations	Commercial Paper	City Loan	Grand Total	Ratio to Operating Revenue	Operating Revenue	Number of Customers	Debt per Customer (1)
2014	1,033,976	-	-	-	1,033,976	136%	759,136	500,000	2,068
2013	1,086,382	-	-	-	1,086,382	157%	693,471	501,000	2,168
2012	1,117,047	-	-	-	1,117,047	173%	644,983	503,000	2,221
2011	1,217,541	-	-	-	1,217,541	159%	766,279	503,000	2,421
2010	1,267,524	-	-	-	1,267,524	167%	759,232	502,000	2,525
2009	1,162,663	-	-	-	1,162,663	125%	929,441	504,000	2,307
2008	1,203,193	-	90,000	-	1,293,193	152%	849,627	505,000	2,561
2007	1,245,787	-	51,600	43,000	1,340,387	156%	859,351	506,000	2,649
2006	1,070,722	-	55,000	45,000	1,170,722	123%	953,968	486,000	2,409
2005	1,073,101	-	49,900	45,000	1,168,001	135%	863,357	497,000	2,350

(1) Per customer data in whole dollars

Source - PGW's Audited Financial Statements and PGW Records



PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Debt Service
Through Fiscal Year 2040
(Thousands of U.S. dollars)

Year	17th Series	18th Series	19th Series	20th Series	Total 1975 Ordinance	4th Series	5th Series	5th Series Variable
2015	14,127	9,220	723	2,834	26,904	7,349	8,416	531
2016	18,176	3,755	723	-	22,654	3,744	8,419	531
2017	16,621	3,781	723	-	21,125	3,744	8,419	531
2018	15,068	3,807	723	-	19,598	3,744	8,416	531
2019	13,507	3,840	723	-	18,070	3,744	8,418	531
2020	11,947	3,862	723	-	16,532	3,744	8,420	531
2021	10,390	3,894	723	-	15,007	8,399	8,416	531
2022	8,833	-	4,685	-	13,518	8,400	8,416	531
2023	7,276	-	5,457	-	12,733	8,397	8,415	531
2024	5,719	-	5,452	-	11,171	8,400	8,417	531
2025	4,159	-	-	-	4,159	8,399	8,417	531
2026	3,770	-	-	-	3,770	8,400	8,418	531
2027	-	-	-	-	-	8,396	8,416	531
2028	-	-	-	-	-	8,398	8,419	531
2029	-	-	-	-	-	8,399	8,417	531
2030	-	-	-	-	-	8,398	8,419	530
2031	-	-	-	-	-	8,396	8,419	530
2032	-	-	-	-	-	8,395	8,417	530
2033	-	-	-	-	-	-	8,416	530
2034	-	-	-	-	-	-	8,415	530
2035	-	-	-	-	-	-	-	30,265
2036	-	-	-	-	-	-	-	-
2037	-	-	-	-	-	-	-	-
2038	-	-	-	-	-	-	-	-
2039	-	-	-	-	-	-	-	-
2040	-	-	-	-	-	-	-	-
Total	129,593	32,159	20,655	2,834	185,241	126,846	168,345	40,880

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
12,855	1,442	15,695	8,287	9,937	6,316	70,828	97,732
12,856	5,049	13,531	8,287	9,934	8,243	70,594	93,248
12,857	5,043	12,462	9,997	9,937	7,503	70,493	91,618
12,857	5,042	-	21,709	9,938	6,757	68,994	88,592
12,856	5,042	-	22,483	9,938	6,018	69,030	87,100
12,857	5,045	-	23,256	9,934	5,275	69,062	85,594
12,855	391	-	24,046	9,936	4,529	69,103	84,110
12,855	391	-	24,840	9,938	3,785	69,156	82,674
12,856	391	-	25,616	9,938	3,050	69,194	81,927
12,853	1,390	-	25,693	9,935	2,300	69,519	80,690
12,853	1,441	-	26,554	9,935	1,561	69,691	73,850
12,853	1,481	-	26,856	9,934	1,376	69,849	73,619
12,855	1,468	-	28,875	9,938	-	70,479	70,479
12,854	1,550	-	29,018	9,935	-	70,705	70,705
12,854	1,630	-	-	9,935	-	41,766	41,766
12,854	-	-	-	9,935	-	40,136	40,136
12,853	-	-	-	9,937	-	40,135	40,135
12,855	-	-	-	9,938	-	40,135	40,135
12,853	-	-	-	9,936	-	31,735	31,735
12,858	-	-	-	9,937	-	31,740	31,740
12,856	-	-	-	2,243	-	45,364	45,364
12,857	-	-	-	9,938	-	22,795	22,795
12,855	-	-	-	9,934	-	22,789	22,789
12,853	-	-	-	9,934	-	22,787	22,787
-	-	-	-	9,936	-	9,936	9,936
-	-	-	-	9,935	-	9,935	9,935
308,520	36,796	41,688	305,517	250,645	56,713	1,335,950	1,521,191

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Debt Service Coverage
Fiscal Years 2005 through 2014
(Thousands of U.S. dollars)

	2014	2013	2012	2011
Funds Provided				
Total gas revenues	736,138	675,154	628,387	749,268
Other operating revenues	22,998	18,317	16,596	17,011
Total operating revenues	759,136	693,471	644,983	766,279
Other income increase restricted funds	4,079	196	8,311	13,175
City grant	-	-	-	-
AFUDC (Interest)	506	430	292	427
Total funds provided	763,721	694,097	653,586	779,881
Funds Applied				
Fuel costs	304,051	255,501	233,713	330,932
Other operating costs	334,199	318,510	316,625	310,708
Total operating expenses	638,250	574,011	550,338	641,640
Capital lease cost	-	-	-	-
Less: non-cash expenses	50,346	48,103	47,619	47,854
Total funds applied	587,904	525,908	502,719	593,786
Funds available to cover debt service	175,817	168,189	150,867	186,095
Add-back lease costs	-	-	-	-
Funds available excluding lease costs	175,817	168,189	150,867	186,095
1975 ordinance bonds debt service	28,592	30,163	31,754	30,691
Debt service coverage 1975 bonds	6.15	5.58	4.75	6.06
Net available after prior debt service	147,225	138,026	119,113	155,404
PMA & other capital leases	-	-	-	-
Net available after prior capital leases	147,225	138,026	119,113	155,404
1998 ordinance bonds debt service	69,749	47,668	67,874	72,274
Debt service coverage 1998 bonds	2.11	2.90	1.75	2.15
Net available after 1998 debt service	77,476	90,358	51,239	83,130
1998 ordinance subordinate bond debt service	-	-	-	1,988
Debt service coverage subordinate bonds	-	-	-	41.82

Source - PGW's Audited Financial Statements and PGW Records

2010	2009	2008	2007	2006	2005
742,342	910,457	831,428	840,105	929,961	830,550
16,890	18,984	18,199	19,246	24,007	32,807
759,232	929,441	849,627	859,351	953,968	863,357
3,660	12,434	3,881	6,423	11,969	1,513
18,000	18,000	18,000	18,000	18,000	18,000
390	247	338	408	981	907
781,282	960,122	871,846	884,182	984,918	883,777
354,004	545,846	511,976	539,300	625,093	509,704
308,590	299,712	282,270	280,448	254,947	283,308
662,594	845,558	794,246	819,748	880,040	793,012
-	-	-	-	-	-
70,404	67,897	68,898	66,246	38,197	39,338
592,190	777,661	725,348	753,502	841,843	753,674
189,092	182,461	146,498	130,680	143,075	130,103
-	-	-	-	-	-
189,092	182,461	146,498	130,680	143,075	130,103
30,101	32,313	34,225	35,359	41,949	38,806
6.28	5.65	4.28	3.70	3.41	3.35
158,991	150,148	112,273	95,321	101,126	91,297
-	-	-	-	-	1,998
158,991	150,148	112,273	95,321	101,126	89,299
65,095	70,569	59,695	47,611	32,838	45,999
2.44	2.13	1.88	2.00	3.08	1.94
93,896	79,579	52,578	47,710	68,288	43,300
1,986	1,990	1,986	1,987	1,986	1,987
47.28	39.99	26.47	24.01	34.38	21.79

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

2013	2004
Albert Einstein Medical	Albert Einstein Medical
Children's Hospital of Philadelphia	City of Philadelphia
City of Philadelphia	Hospital of the University of Pennsylvania
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	Thomas Jefferson University Hospitals
Thomas Jefferson University Hospitals	United States Postal Service
University Of Pennsylvania	University Of Pennsylvania

Listed Alphabetically
Source - City of Philadelphia

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Demographic and Economic Statistics
Calendar Years 2004 through 2013

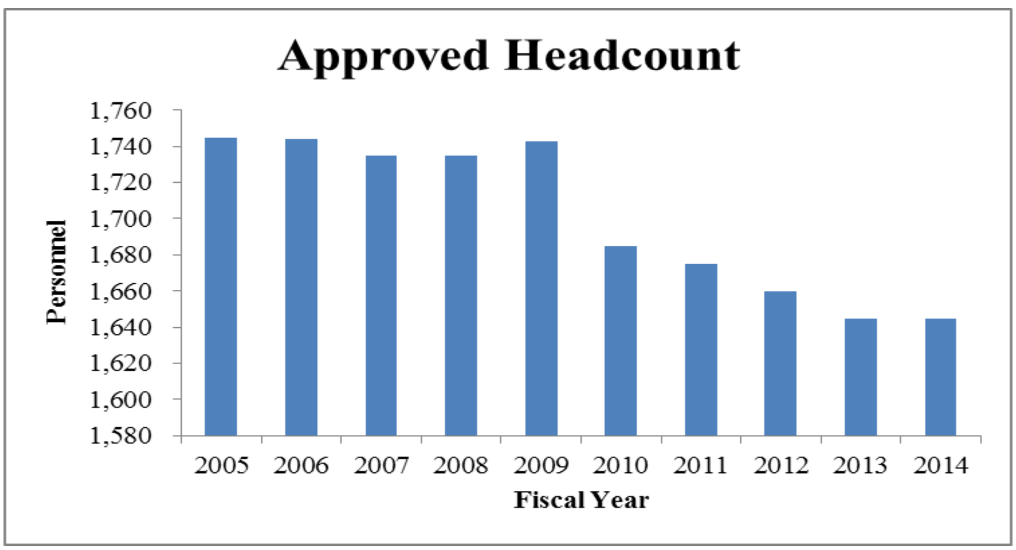
Calendar Year	Population (1)	Personal Income (Thousands of US Dollars) (2)	Per Capita Personal Income (US Dollars)	Unemployment Rate (3)
2013	1,553,165	63,473,002	42,155	10.0%
2012	1,547,607	54,151,742	41,452	10.5%
2011	1,538,567	62,632,520	40,708	10.8%
2010	1,526,006	56,970,074	37,333	10.8%
2009	1,547,297	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%

Sources:
(1) US Census Bureau
(2) US Department of Commerce, Bureau of Economic Analysis
(3) US Department of Labor, Bureau of Labor Statistics

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Budgeted Full-Time Personnel by Department
Fiscal Years 2005 through 2014

Departments	**2014**	**2013**	**2012**	**2011**
President & Chief Executive Officer	3	3	3	2
Chief Operating Officer	2	2	2	3
Chief Financial Officer	2	2	2	-
Gas processing	123	125	119	119
Field services	372	366	371	371
Distribution	472	468	467	467
Collection	31	31	35	36
Customer service	189	190	198	207
Marketing	44	46	41	34
Administrative and general	442	445	454	463
PGW Total	1,680	1,678	1,692	1,702
Personnel savings	(40)	(38)	(37)	(32)
Philadelphia Gas Commission	5	5	5	5
Grand Total	1,645	1,645	1,660	1,675

Source - PGW's Annual Operating Budget



2010	2009	2008	2007	2006	2005
2	2	2	2	3	4
2	2	2	7	5	6
-	-	-	-	-	-
119	123	133	133	141	141
341	342	342	342	359	359
467	467	470	470	476	476
91	104	110	92	132	128
207	208	194	214	199	193
34	30	30	30	32	30
459	460	465	463	457	451
1,722	1,738	1,748	1,753	1,804	1,788
(42)	-	(18)	(23)	(65)	(48)
5	5	5	5	5	5
1,685	1,743	1,735	1,735	1,744	1,745

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Operating Indicators
Fiscal Years 2005 through 2014

	2014	2013	2012
Financial			
Debt service ratio (1975 Ordinance)	6.15	5.58	4.75
Debt service ratio (1998 Ordinance)	2.11	2.90	1.75
Debt to total capital ratio	71.7%	75.2%	78.0%
Bad debt as a % of revenue	5.1%	5.8%	5.7%
Bad debt reserve as a % of accounts receivable	51.4%	51.9%	54.4%
Collection factor (receipts/billings)	94.9%	91.9%	96.6%
Cash balance (Thousands of US dollars)	105,734	100,933	75,826
Natural Gas (NG) storage (Thousands of US dollars)	60,089	70,638	73,086
Payroll			
Total payroll (Thousands of US dollars)	115,174	110,120	106,308
Overtime (Thousands of US dollars)	13,629	9,495	7,948
Overtime as a % of Total Payroll	11.8%	8.6%	7.5%
Liquefied Natural Gas (LNG)			
LNG to storage (Mcf)*	1,821,935	1,677,268	1,422,440
LNG from storage (Mcf)	3,210,133	1,537,601	974,238
Net to (from) storage (Mcf)	(1,388,198)	139,667	448,202
Off-system sales contributed to GCR (Thousands of US dollars)	321	743	748
Natural Gas Cost			
Gas utilized (Mcf)	52,961,786	50,178,147	43,017,936
Gas utilized (Thousands of US dollars)	304,040	255,496	233,709
Cost per Mcf ($)	5.74	5.09	5.43
Natural Gas Sales Information			
Firm gas sold (Mcf)	48,533,203	44,745,289	38,345,205
Interruptible gas sold (Mcf)	1,096,381	890,383	192,058
Total gas sold (Mcf)	49,629,584	45,635,672	38,537,263
Transportation gas – GTS (Mcf)	29,357,904	26,482,749	24,373,006
Other (Mcf)	1,498,458	1,965,785	1,828,311
Total gas sendout (Mcf)	80,485,946	74,084,206	64,738,580
Unaccounted for gas as a % of total gas sendout	2.0%	2.0%	3.2%
Transportation gas – GTS as a % of total gas sendout	36.5%	35.7%	37.6%
Firm gas sold as a % of total gas sold	97.8%	98.0%	99.5%
Degree Days			
Fiscal Year	4,405	3,889	3,037

* Mcf = Thousand cubic feet

Source – PGW Records

2011	2010	2009	2008	2007	2006	2005
6.06	6.28	5.65	4.28	3.70	3.41	3.35
2.15	2.44	2.13	1.88	2.00	3.08	1.94
79.7%	82.2%	82.7%	84.2%	84.8%	81.7%	82.8%
4.7%	4.6%	4.5%	4.4%	4.7%	4.2%	8.2%
50.3%	52.9%	53.8%	58.6%	62.9%	69.4%	70.3%
95.1%	98.7%	93.8%	95.5%	95.8%	96.6%	96.0%
105,386	79,052	13,750	49,338	51,698	6,697	15,221
78,579	96,097	117,889	179,750	138,388	139,870	121,266
106,125	106,003	107,918	105,596	106,018	102,544	102,500
9,700	8,494	10,171	10,115	10,684	10,342	10,239
9.1%	8.0%	9.4%	9.6%	10.1%	10.1%	10.0%
1,286,742	1,354,605	562,629	2,034,715	1,831,202	1,471,653	1,988,627
1,428,896	1,117,628	1,545,034	1,280,180	1,948,310	1,083,873	2,199,046
(142,154)	236,977	(982,405)	754,535	(117,108)	387,780	(210,419)
867	274	27	887	148	298	-
55,023,503	51,820,468	55,471,710	53,516,593	58,089,383	55,106,496	64,967,340
330,926	353,998	545,859	511,938	539,296	625,076	509,701
6.01	6.83	9.84	9.57	9.28	11.34	7.85
48,014,683	44,790,670	48,025,175	45,525,366	47,916,423	46,243,516	53,807,745
1,004,185	1,049,318	1,170,128	1,790,721	2,704,526	2,425,862	4,510,515
49,018,868	45,839,988	49,195,303	47,316,087	50,620,949	48,669,378	58,318,260
25,274,874	23,135,876	22,624,136	19,032,066	13,138,867	10,727,487	11,624,395
3,233,861	3,006,018	3,083,181	2,254,504	3,281,849	2,737,355	2,761,332
77,527,603	71,981,882	74,902,620	68,602,657	67,041,665	62,134,220	72,703,987
3.3%	2.9%	3.1%	2.2%	3.8%	3.1%	2.8%
32.6%	32.1%	30.2%	27.7%	19.6%	17.3%	16.0%
98.0%	97.7%	97.6%	96.2%	94.7%	95.0%	92.3%
4,005	3,730	4,190	3,746	3,773	3,819	4,333

PHILADELPHIA GAS WORKS

(A Component Unit of the City of Philadelphia)

Capital Asset Information

Calendar Years 2005 through 2014

	2014	**2013**	**2012**	**2011**
Gas main (Miles)	3,023	3,025	3,026	3,027
Services (Miles)	2,860	2,779	2,736	2,772
Number of meters				
Residential/Small commercial	499,375	498,765	501,250	497,151
Large diaphragm	2,695	2,579	2,401	2,298
Rotary	9,883	9,778	9,690	9,551
Turbine	291	288	289	287
Total	512,244	511,410	513,630	509,287

Source - *Gas Annual Report of PGW to the Pennsylvania Public Utility Commission*

2010	2009	2008	2007	2006	2005
3,029	3,029	3,022	3,023	3,019	3,016
2,815	2,984	2,829	2,794	2,699	2,775
502,145	503,201	497,472	503,737	505,716	503,879
2,245	2,185	2,113	2,047	2,040	2,753
9,513	9,479	9,322	9,336	9,256	8,541
297	291	291	290	286	291
514,200	515,156	509,198	515,410	517,298	515,464

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

2014		2005	
Customer 1 (A)	5,035	Customer 1 (C)	9,905
Customer 2	4,434	Customer 2 (A)	6,547
Customer 3 (B)	4,353	Customer 3 (B)	5,531
Customer 4 (C)	3,639	Customer 4 (D)	4,036
Customer 5	2,675	Customer 5	1,736
Customer 6	1,998	Customer 6	1,618
Customer 7	1,993	Customer 7	1,463
Customer 8 (D)	1,918	Customer 8 (E)	936
Customer 9	1,724	Customer 9	914
Customer 10 (E)	1,202	Customer 10	846
Total	28,971	Total	33,532

Note - A letter designation indicates a repeat customer from the Fiscal Year 2005 list identified on the fiscal year 2014 list.

Source - PGW Records