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

Basic Financial Statements and Supplementary Information

August 31, 2022 and 2021

(With Independent Auditors' Reports Thereon)

PHILADELPHIA GAS WORKS
(A Component Unit of the City of 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 Philadelphia Facilities
Management Corporation
Philadelphia, Pennsylvania:

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of and fiduciary activities of Philadelphia Gas Works (the Company), a component unit of the City of Philadelphia, as of and for the years ended August 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements as listed in the table of contents.

In our opinion, based on our audit, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Company, as of August 31, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

Adoption of New Accounting Pronouncement

As discussed in note 1 to the basic financial statements, as of September 1, 2020, the Company adopted Governmental Accounting Standards Board Statement No. 84, *Fiduciary Activities*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS[8] will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 4-16 and the required supplementary information related to net pension and OPEB obligations as listed in the table of contents on pages 93-96 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 and other auditors have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

Philadelphia, Pennsylvania
December 23, 2022

The narrative overview and analysis of the financial statements of Philadelphia Gas Works (the Company or PGW) for the years ended August 31, 2022 and 2021 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 basic financial statements and notes to basic financial statements.

Financial Highlights

- The Fiscal Year (FY) 2022 weather reflected an 11.1% warmer than normal winter. The FY 2022 period was 6.2% warmer than the prior year and firm gas sales were approximately 40.0 Billion Cubic Feet (Bcf). The Weather Normalization Adjustment (WNA) Clause, which was in effect from October 2021 through May 2022, resulted in heating customers receiving charges totaling $23.2 million. The FY 2021 weather reflected a 5.5% warmer than normal winter. The FY 2021 period was 0.9% warmer than the prior year and firm gas sales increased by 1.3 Bcf. The WNA Clause, which was in effect from October 2020 through May 2021, resulted in heating customers receiving charges totaling $11.8 million. Actual degree day data is provided by the National Weather Service and measured at the Philadelphia International Airport.
- PGW achieved 24-month collection rates of 96.7% in FY 2022, 96.1% in FY 2021, and 96.6% in FY 2020. For FY 2022, the collection rate is calculated by dividing the total gas receipts collected from September 1, 2020 through August 31, 2022 by the total gas billings that were applied to PGW customers' accounts from September 1, 2020 through August 31, 2022. The same methodology was utilized in FY 2021 and FY 2020.
- 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 2022, FY 2021, and FY 2020, had no Gas Works Revenue Capital Project Commercial Paper Notes (Capital Project Notes) or Gas Works Revenue Notes outstanding. The cash balances at the end of FY 2022, FY 2021, and FY 2020 were $115.6 million, $158.3 million, and $172.3 million, respectively.
- At December 15, 2022 and December 15, 2021, $120.0 million was available from the commercial paper program. The cash balance on December 15, 2022 and on December 15, 2021 was $95.7 million and $81.0 million, respectively.
- The Company's FY 2023 Capital Budget was approved by the City Council of the City of Philadelphia in an amount not to exceed $187.4 million and funding was provided to continue the implementation of an 18-mile Cast Iron Main Replacement (CIMR) Program. The CIMR Program cost for FY 2023 is expected to be $28.4 million. The total six-year cost of the CIMR Program is forecasted to be $186.3 million.
- On October 29, 2020, the City issued Gas Works Revenue Bonds, Sixteenth Series (1998 General Ordinance) in the par amount of $253.9 million. A portion of the proceeds from the sale of the Sixteenth Series Bonds were utilized to refund the Ninth Series Bonds. The Sixteenth Series Bonds also contained new money debt issued to finance a portion of PGW's ongoing Capital Improvement Program, pay the costs of issuing the bonds, and provide a deposit to the Sinking Fund Reserve. The Sixteenth Series Bonds, with fixed interest rates that range from 4.0% to 5.0%, have maturity dates through 2050. This refunding transaction provided net present value debt service savings of $14.6 million utilizing an arbitrage yield of 2.11%. The savings as a percentage of refunded bonds was 25.61%.
- On February 28, 2020, PGW filed for an increase in its distribution base rates with the Pennsylvania Public Utility Commission (PUC). The filing sought a general rate increase calculated to produce $70.0 million, or 10.5%, in additional annual operating revenues based upon a twenty-year normal weather assumption. The

(Continued)

filing also requested to increase the fixed monthly customer charge component, as well as the volumetric delivery charge component of base rates.

- On August 26, 2020, PGW filed a Joint Petition for Partial Settlement (Settlement Agreement) in which all rate case parties joined or did not oppose except the Environmental Stakeholders group that is opposing PGW's rate increase request. The Settlement Agreement provided PGW with a general rate increase of $35.0 million in annual operating revenues in three increments: $10.0 million for service rendered on or after January 1, 2021; $10.0 million for service rendered on or after July 1, 2021; and $15.0 million for service rendered on or after January 1, 2022. Settlement agreements with reduced revenue requirements are typical in PUC base rate proceedings and are the product of compromise between the parties' diverse interests. The PUC has indicated that settlement results are often preferable to those achieved at the conclusion of a fully litigated proceeding.
- In FY 2022, the Company adopted the following provisions of the Governmental Accounting Standards Board (GASB):
  - GASB Statement No. 87, *Leases*, was effective for PGW's fiscal year beginning September 1, 2021 with restatement, to the extent practical, of all periods presented.
  - GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The adoption of this statement did not have a material impact on the Company's financial statements.
  - GASB Statement No. 92, *Omnibus 2020*. The adoption of this statement did not have a material impact on the Company's financial statements.
  - GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The adoption of GASB 97 had no impact on PGW's current accounting practices nor its financial reporting.
  - GASB Statement No. 98, *The Annual Comprehensive Financial Report*. The Company chose to early adopt GASB 98 in the current fiscal year. The adoption of GASB 98 had no impact on PGW's current accounting practices nor its financial reporting.

  For further information, see Note 1(u), New Accounting Pronouncements, of the Financial Statements.

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 basic 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 balance sheets include all PGW's assets, liabilities, and deferred inflows and outflows of resources, with the difference between the assets and deferred outflows of resources and liabilities and deferred inflows of resources 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 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 *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 and Changes in Net Position

(Thousands of U.S. dollars)

		As of August 31		
		2022	**2021(a)**	**2020**
Total gas revenues	$	765,629	624,750	571,793
Other revenues		39,808	21,997	13,144
Total operating revenues		805,437	646,747	584,937
Fuel expense		272,468	163,892	146,754
All other operating expenses		300,109	270,268	302,082
Total operating expenses		572,577	434,160	448,836
Operating income		232,860	212,587	136,101
Interest and other income, gain / (loss)		(1,523)	1,322	5,594
Total interest expense		(39,351)	(41,501)	(35,730)
Distribution to the City of Philadelphia		(18,000)	(18,000)	(18,000)
Excess of revenues over expenses		173,986	154,408	87,965
Net position, beginning of year		450,053	295,527	207,562
Implementation of GASB 87		—	118	—
Net position, end of year	$	624,039	450,053	295,527

(a) Restated as a result of the implementation of GASB 87 (see note 1(u) to the basic financial statements).

Operating Revenues

Operating revenues in FY 2022 were $805.4 million, an increase of $158.7 million, or 24.5%, from FY 2021. The increase was primarily a result of higher Gas Cost Rates (GCR), which was driven by increased commodity prices. However, the increase in operating revenues in FY 2022 was offset by a $9.0 million, or 55.2%, increase in the appropriation for uncollectible accounts. Operating revenues in FY 2021 were $646.7 million, an increase of $61.8 million, or 10.6%, from FY 2020. The increase resulted from a higher GCR driven by increased commodity prices and a 1.0 Bcf, or 1.3%, increase in natural gas sendout in FY 2021 compared to FY 2020.

Total sales volumes, including gas transportation deliveries, in FY 2022 decreased by 0.3 Bcf, or 0.4%, to 71.2 Bcf from the FY 2021 sales volumes of 71.5 Bcf. In FY 2022, firm gas sales of 40.0 Bcf were 0.3 Bcf, or 0.8%, lower than FY 2021 and interruptible gas sales were 0.8 Bcf higher than the FY 2021 level. The volume of natural gas transported for gas transportation customers in FY 2022 increased by 0.2 Bcf compared to the FY 2021 level. Total sales volumes, including gas transportation deliveries, in FY 2021 increased by 1.2 Bcf, or 1.7%, to 71.5 Bcf from the FY 2020 sales volumes of 70.3 Bcf. In FY 2021, firm gas sales of 40.3 Bcf were 1.3 Bcf, or 3.3%, higher than FY 2020. Interruptible gas sales and the volume of natural gas transported for gas transportation customers approximated the FY 2020 level.

Provision for Uncollectible Accounts – The provision for uncollectible accounts in FY 2022 totaled $25.3 million, an increase of $9.0 million, or 55.2%, compared to FY 2021. The increase in the provision for uncollectible accounts in FY 2022 reflects the cessation of the PUC moratorium and a return to normal collections efforts. In FY 2021, PGW established a regulatory asset for outstanding delinquent account balances in anticipation that it would recover losses relating to the COVID-19 pandemic. The losses are specifically associated with the PUC moratorium, beginning in March 2020, and ending in March 2021, on shutting off gas services to customers who otherwise would be eligible for shutoff. The provision for uncollectible accounts in FY 2021 totaled $16.3 million, a decrease of $27.8 million, or 63.0%, from FY 2020. 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 maintain their gas services.

In FY 2022, the total number of customers served by PGW decreased from the previous year and was approximately 522,000 customers. The total number of customers served by PGW at the end of both FY 2021 and 2020 was approximately 524,000. In FY 2022, there were approximately 25,000 Commercial accounts and 600 Industrial accounts, reflecting no change from the previous two fiscal years. The number of residential accounts in FY 2022 was approximately 496,500 customers, a decrease of approximately 1,800 customers from the FY 2021 level and 1,300 customers from the FY 2020 level.

Operating Expenses

Total operating expenses, including fuel costs, in FY 2022 were $572.6 million, an increase of $138.4 million, or 31.9%, from FY 2021. The increase for FY 2022 was mainly caused by the increased cost of fuel and the increased amortization of the unfunded actuarially determined pension liability. Total operating expenses, including fuel costs, in FY 2021 were $434.2 million, a decrease of $14.6 million, or 3.3%, from FY 2020. The decrease for FY 2021 was mainly caused by decreased amortization of the unfunded actuarially determined pension and other postemployment benefit (OPEB) expenses.

Cost of Fuel – The cost of natural gas utilized increased by $108.6 million, or 66.3%, to $272.5 million in FY 2022 compared with $163.9 million in FY 2021. In FY 2022 compared to FY 2021, the average commodity price per Thousand Cubic Feet (Mcf) increased by $2.22, or $100.6 million, and the volume of natural gas utilized increased by 1.5 Bcf, or 3.5%. The pipeline supplier refunds in FY 2022 were approximately $0.3 million as compared to refunds of $0.01 million in FY 2021. The cost of natural gas utilized increased by $17.1 million, or 11.6%, to $163.9 million in FY 2021 compared with $146.8 million in FY 2020. The average commodity price per Mcf increased by $0.24, or $10.3 million, and the volume of natural gas utilized increased by 0.3 Bcf, or 0.7%. The pipeline supplier refunds in FY 2021 were less than $0.1 million as compared to refunds of $14.9 million in FY 2020.

Variations in the cost of purchased gas are passed through to customers under the 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 on the balance sheets, thereby eliminating the effect that recovery of gas costs would otherwise have on net income.

The average natural gas commodity prices for utilized natural gas for FY 2022, FY 2021, and FY 2020 were $4.55, $2.33, and $2.09 per Mcf, respectively.

Other Operating Expenses – Expenditures for street operations, infrastructure improvements, and plant operations in FY 2022 were $103.9 million, a $2.0 million, or 2.0%, increase from the FY 2021 total of $101.9 million. The increase in FY 2022 was caused primarily by higher utility gas costs, material costs, and engineering costs. Expenditures for street operations, infrastructure improvements, and plant operations in FY 2021 were $101.9 million, a $0.7 million, or 0.7%, increase from the FY 2020 total of $101.2 million. The increase in FY 2021 was caused primarily by higher labor costs for field services and distribution.

Additionally, expenses of $96.6 million related to collection and account management, customer services, marketing, and the administrative area increased by $3.4 million, or 3.6%, in FY 2022 primarily due to higher expenses relating to risk management, including insurance cost and higher appropriations to the reserve. This category decreased by $2.4 million in FY 2021 compared to FY 2020 primarily due to lower administrative expenses.

Pension expense increased by $23.8 million to $20.7 million in FY 2022 as compared to FY 2021 due primarily to the increase of amortization of unfunded liability under GASB 68. The increase in the unfunded liability in FY 2022 was due primarily to lower than anticipated earnings experienced during the respective period. Pension expense decreased by $22.6 million to ($3.1) million in FY 2021 as compared to FY 2020 due primarily to higher than anticipated earnings experienced during the period, which was slightly offset by changes in the assumed discount rate, demographics, and in the optional form actuarial equivalence conversion factors.

OPEB expense decreased by $0.3 million to ($1.2) million in FY 2022 as compared to FY 2021. OPEB expense decreased by $11.8 million to ($0.9) million in FY 2021 as compared to FY 2020. The decrease in both years was due primarily to higher than anticipated earnings experienced during the respective periods and changes to demographic assumptions.

Net Depreciation Expense – Net depreciation expense increased by $1.0 million in FY 2022 compared with FY 2021. Net depreciation expense increased by $5.1 million in FY 2021 compared with FY 2020. The effective composite depreciation rates were 2.1% for FY 2022, FY 2021, and FY 2020. Cost of removal is charged to expense as incurred.

Interest and Other Income / (Loss) – Interest and other income in FY 2022 was $2.8 million lower than FY 2021 reflecting a $1.8 million mark to market loss on restricted and unrestricted investments. Interest and other income in FY 2021 were $4.3 million lower than FY 2020, as a result of decreased earnings on restricted and unrestricted fund balances.

Interest Expense – Total interest expense was $39.4 million in FY 2022, a decrease of $2.1 million, or 5.1%, when compared with FY 2021. Interest on long-term debt was $47.0 million, a decrease of $1.5 million, or 3.1%, lower in FY 2022 when compared to FY 2021. Interest expense was lower in FY 2022 due to the normal amortization of long-term debt. Total interest expense was $41.5 million in FY 2021, an increase of $5.8 million, or 16.2%, when compared with FY 2020. Interest on long-term debt was $4.9 million, or 11.2%, higher in FY 2021 when compared to FY 2020 reflecting the issuance of the Sixteenth Series Bonds in October 2020.

Excess of Revenues over Expenses – In FY 2022, the Company's excess of revenues over expenses was $174.0 million, an increase of $19.6 million from FY 2021. This increase is primarily due to greater contribution margins resulting from a new base rate approved by the PUC in the Settlement Agreement, which became effective January 1, 2021. and an increase in other operating revenues. In FY 2021, the Company's excess of revenues over expenses was $154.4 million, an increase of $66.4 million from FY 2020. This decrease is primarily due to lower contribution margins of gas offset by lower pension and OPEB expenses.

(Continued)

Condensed Balance Sheets

(Thousands of U.S. dollars)

	As of August 31		
Assets and Deferred Outflows of Resources	**2022**	**2021 (a)**	**2020**
Current assets:			
Accounts receivable (net of accumulated provision for uncollectible accounts of $108,186, $113,164, and $80,422 for 2022, 2021, and 2020, respectively)	$ 107,001	81,991	83,681
Restricted investment funds	110,489	96,340	2,736
Cash and cash equivalents, cash designated for capital expenditures, gas inventories, materials, and supplies and other current assets	225,153	224,376	237,458
Total current assets	442,643	402,707	323,875
Noncurrent assets:			
Utility plant, net	$ 1,653,424	1,566,708	1,491,420
Unamortized bond insurance costs	725	784	233
Capital improvement fund	4,851	91,322	—
Sinking fund, revenue bonds	106,188	107,684	102,824
Other assets	64,192	65,996	41,000
Total noncurrent assets	1,829,380	1,832,494	1,635,477
Total assets	2,272,023	2,235,201	1,959,352
Deferred outflows of resources:			
Accumulated fair value of hedging derivatives	—	9,117	13,888
Unamortized losses on bond refunding	23,321	27,487	31,947
Deferred outflows related to pension	68,189	24,575	24,408
Deferred outflows related to OPEB	62,576	71,721	61,198
Total deferred outflows	154,086	132,900	131,441
Total assets and deferred outflows of resources	$ 2,426,109	2,368,101	2,090,793

(a) Restated as a result of the implementation of GASB 87 (see note 1(u) to the basic financial statements).

Condensed Balance Sheets

(Thousands of U.S. dollars)

Net Position, Liabilities, and Deferred Inflows of Resources		**As of August 31** 2022	2021 (a)	2020
Net position:				
Net investment in capital assets	$	674,529	591,091	523,543
Restricted		108,855	110,424	105,560
Unrestricted		(159,345)	(251,462)	(333,576)
Total net position		624,039	450,053	295,527
Noncurrent liabilities:				
Long-term revenue bonds	$	1,050,687	1,122,609	936,721
Other noncurrent liabilities		37,041	51,831	63,395
Net pension liability		261,082	138,216	237,562
Net OPEB liability		149,231	201,588	248,209
Total noncurrent liabilities		1,498,041	1,514,244	1,485,887
Current liabilities:				
Current portion of revenue bonds		64,202	65,417	63,103
Other current liabilities		128,636	140,807	126,605
Total current liabilities		192,838	206,224	189,708
Deferred inflows of resources:				
Deferred inflows related to gain on bond refunding		168	181	—
Deferred inflows related to pension		5,937	94,514	28,147
Deferred inflows related to OPEB		102,608	102,885	91,524
Deferred inflows related to interest rate swap		2,478	—	—
Total deferred inflows		111,191	197,580	119,671
Total net position, liabilities, and deferred inflows of resources	$	2,426,109	2,368,101	2,090,793

(a) Restated as a result of the implementation of GASB 87 (see note 1(u) to the basic financial statements).

Assets

Accounts Receivable – In FY 2022, accounts receivable (net) of $107.0 million increased by $25.0 million, or 30.5%, from FY 2021 due to a higher GCR, which was driven by increased commodity prices, and a decrease in the accumulated provision for uncollectible accounts. The customer accounts receivable at August 31, 2022 reflects a balance of $199.4 million, an increase of $16.9 million compared to the $182.5 million balance at August 31, 2021. Accrued gas revenues at August 31, 2022 reflects a balance of $11.3 million, an increase of

$3.3 million compared to the $8.0 million balance at August 31, 2021. The accumulated provision for uncollectible accounts at August 31, 2022 reflects a balance of $108.2 million, a decrease of $5.0 million compared to the $113.2 million balance at August 31, 2021. In FY 2021, accounts receivable (net) of $82.0 million decreased by $1.7 million, or 2.0%, from FY 2020 due to an increase in the accumulated provision for uncollectible accounts during FY 2021. The accumulated provision for uncollectible accounts at August 31, 2021 reflects a balance of $113.2 million, an increase of $32.8 million compared to the $80.4 million balance in FY 2020. The increase in the accumulated provision for uncollectible accounts in FY 2021 and FY 2020 is due to the impact from the COVID-19 pandemic. Beginning in March 2020 and ending in March 2021, PGW has followed the PUC moratorium on shutting off gas services to customers who otherwise would be eligible for shutoff. After this period ending March 2021, PGW resumed normal operations which included increased provisions. Net write-offs for FY 2022 were $30.3 million as compared to $11.4 million in FY 2021 and $30.4 million in FY 2020.

Cash and Cash Equivalents, Gas Inventories, Materials, and Supplies, and Other Current Assets – In FY 2022, cash and cash equivalents totaled $115.6 million, a decrease of $42.7 million from the FY 2021 total of $158.3 million. The decrease in the cash balance at the end of FY 2022 was primarily a result of an increase in capital spending funded by internally generated funds. In FY 2021, cash and cash equivalents totaled $158.3 million, a decrease of $14.0 million from the FY 2020 total of $172.3 million. The decreased cash balance at the end of FY 2021 was primarily the result of higher-than-expected capital expenditures.

In FY 2022, gas inventories, materials, and supplies totaled $92.8 million, an increase of $39.5 million, or 74.0% from the FY 2021 total of $53.4 million. In FY 2022, gas storage totaled $81.5 million, an increase of $40.7 million when compared to FY 2021. The increase in gas inventory reflects an increase in the price per Mcf of gas stored in inventory. Actual volumes in storage as of August 31, 2022 were 15.0 Bcf, a 0.3 Bcf, or 2.0%, increase when compared to FY 2021. In FY 2021, gas inventories, materials, and supplies totaled $53.4 million, an increase of $6.7 million, or 14.3% from the FY 2020 total of $46.7 million. In FY 2021, gas storage totaled $40.8 million, an increase of $4.9 million, or 13.6%, when compared to FY 2020. The increase in gas inventory reflects an increase in the price per Mcf of gas stored in inventory. Actual volumes in storage as of August 31, 2021 were 14.7 Bcf, a 0.3 Bcf, or 2.1%, decrease when compared to FY 2020.

Other current assets totaled $16.6 million in FY 2022, an increase of $3.9 million from FY 2021. The increase in other current assets in FY 2022 is primarily a result of an increase in the deferred GCR, which was partially offset by a decrease in accrued reimbursables. Other current assets totaled $12.7 million in FY 2021, a decrease of $5.8 million from FY 2020. The decrease in other current assets in FY 2021 is primarily a result of a decrease in prepaid excess workers' compensation insurance, prepaid excess liability insurance, and accrued reimbursable, which was offset partially by an increase in prepaid software.

Restricted Investment Funds – Restricted Investment Funds include the current portion of the Capital Improvement Fund and the Workers' Compensation Escrow Fund. Restricted Investment Funds increased by $14.2 million in FY 2022 compared to FY 2021. The balances of the current portion of the Capital Improvement Fund at August 31, 2022, 2021, and 2020 were $107.8 million, $93.6 million, and $0.0 million, respectively. PGW withdrew $72.0 million, $55.0 million, and $69.4 million to finance various capital initiatives in FY 2022, FY 2021, and FY 2020, respectively. As of October 21, 2020, PGW funded the Capital Improvement Fund in the amount of $240.0 million. Pursuant to the Pennsylvania Department of Labor and Industry Bureau of Workers' Compensation Self-Insurance policy, the Company has established and maintains a restricted trust account. As of August 31, 2022, 2021, and 2020, the trust account balances were $2.7 million each year.

Utility Plant and Other Noncurrent Assets – In FY 2022, noncurrent assets including utility plant, net, the long-term portion of the Capital Improvement Fund, the revenue bonds' Sinking Fund, and unamortized bond insurance costs, totaled $1,829.4 million, a decrease of $3.1 million from FY 2021. In FY 2021, noncurrent assets including utility plant, net, the long-term portion of the Capital Improvement Fund, the revenue bonds' Sinking Fund, and unamortized bond insurance costs, totaled $1,832.5 million, an increase of $197.0 million from FY 2020.

Utility plant, net, totaled $1,653.4 million in FY 2022, an increase of $86.7 million, or 5.5%, compared with the FY 2021 balance. Utility plant, net, totaled $1,566.7 million in FY 2021, an increase of $75.3 million, or 5.0%, compared with the FY 2020 balance. Capital expenditures for construction of distribution facilities, purchase of equipment, information technology enhancements, and other general improvements were $151.1 million in FY 2022 compared to $138.5 million in FY 2021 and $99.3 million in FY 2020. In FY 2021, a portion of the proceeds from the sale of the Sixteenth Series Bonds was utilized to finance a portion of PGW's ongoing Capital Improvement Fund. 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 additional information on the Company's capital assets, see note 1(g) *Utility Plant* of the basic financial statements.

In early 2012, Act 11 was enacted by the Pennsylvania Legislature. Act 11 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 nongas revenues via the recovery mechanism and permits greater percentage increases if approved by the PUC. The Company started billing customers a DSIC surcharge as of July 1, 2013. On September 1, 2015, PGW proposed an increase in the DSIC from 5.0% to 7.5% of distribution revenues and to levelize and annualize the DSIC. The PUC issued an Order and Opinion granting PGW's request to increase its DSIC to 7.5% on January 28, 2016 which went into effect on February 1, 2016. In FY 2022 and FY 2021, the Company billed customers $36.8 million and $34.6 million, respectively, for the DSIC surcharge. The DSIC surcharge is fully reconcilable on a calendar-year basis. For additional information, see note 1(h) *Revenue Recognition* of the basic financial statements.

Deferred Outflows of Resources Related to Hedging Derivatives and Bond Refunding – Deferred outflows of resources related to hedging derivatives and bond refunding represent amounts that will result in a reduction of net position in a subsequent period. Deferred outflows of resources related to hedging derivatives and bond refunding include the accumulated fair value of hedging derivatives that will be recognized in the statement of revenues and expenses and changes in net position upon termination of the hedging relationship, and unamortized losses on bond refunding. Deferred outflows of resources related to hedging derivatives and bond refunding decreased $13.3 million in FY 2022 from the FY 2021 total of $36.6 million. Deferred outflows of resources related to hedging derivatives and bond refunding decreased $9.2 million in FY 2021 from the FY 2020 total of $45.8 million.

Deferred Outflows of Resources Related to Pension – Deferred outflows of resources related to pensions represent amounts that will result in a reduction of net position in a subsequent period. Deferred outflows of resources related to pension include increases in the pension liability that will be amortized into pension expense in future periods. Deferred outflows of resources related to pension increased $43.6 million in FY 2022 from the FY 2021 total of $24.6 million. Deferred outflows of resources related to pension increased $0.2 million, or 0.8%, in FY 2021 from the FY 2020 total of $24.4 million.

Deferred Outflows of Resources Related to OPEB – Deferred outflows of resources related to OPEB represent amounts that will result in a reduction of net position in a subsequent period. Deferred outflows of resources related to OPEB include increases in the OPEB liability that will be amortized into OPEB expense in future periods. Deferred outflows of resources related to OPEB decreased $9.1 million, or 12.7%, in FY 2022 from the FY 2021 total of $71.7 million. Deferred outflows of resources related to OPEB increased $10.5 million, or 17.2%, in FY 2021 from the FY 2020 total of $61.2 million.

Liabilities

Long-Term Revenue Bonds – Long-term revenue bonds, including the current portion and unamortized discount and premium, totaled $1,114.9 million as of August 31, 2022. This was $73.1 million less than the previous year due to scheduled principal payments. This represents 64.1% of total capitalization as of August 31, 2022. Long-term revenue bonds, including the current portion and unamortized discount and premium, totaled $1,188.0 million as of August 31, 2021. This was $188.2 million more than the previous year and was a result of issuing the Sixteenth Series Bonds. This represents 72.5% of total capitalization as of August 31, 2021. Long-term revenue bonds, including the current portion and unamortized discount and premium, totaled $999.8 million as of August 31, 2020. This was $62.6 million less than the previous year primarily as a result of scheduled principal payments. This represents 77.2% of total capitalization as of August 31, 2020. For additional information, see note 8, *Long-Term Debt and Other Liabilities* of the basic financial statements.

Debt Service Coverage Ratio and Ratings – PGW has a mandatory debt service coverage ratio of 1.50 times debt service on the 1998 Ordinance Bonds. On August 31, 2022, debt service coverage on Senior 1998 Ordinance Bonds was 3.04 times, compared to 2.70 and 2.20 times on August 31, 2021, and 2020, respectively. PGW's current bond ratings are "A3" from Moody's Investors Service (Moody's), "A" from Standard & Poor's Rating Service (S&P), and "A-" from Fitch Ratings.

Notes Payable – Pursuant to the provisions of the City of Philadelphia Note Ordinances, PGW may issue short-term notes to either support working capital requirements or pay the costs of certain capital projects and other project costs. PGW may issue 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 a Note Purchase and Credit Agreement and a security interest in PGW's revenues. The Note Purchase and Credit Agreement supporting PGW's combined commercial paper programs set the maximum level of outstanding notes plus interest at $120.0 million in both 2022 and 2021. The commitment amount is $120.0 million under the current credit agreement. The expiration date of the credit agreement is June 16, 2026.

Other Current Liabilities – As of August 31, 2022, other current liabilities totaled $6.2 million, a decrease of $29.2 million from FY 2021. The decrease in FY 2022 is primarily due to the under-recovery of GCR and surcharges compared to FY 2021. As of August 31, 2021, and 2020, other current liabilities were $35.4 million and $31.1 million, respectfully. As of August 31, 2022, accounts payable totaled $96.8 million, an increase of $16.9 million, or 21.2%, compared with FY 2021 primarily due to an increase in natural gas payables and unbilled liabilities. As of August 31, 2021, accounts payable totaled $79.9 million, an increase of $10.2 million, or 14.6%, compared with FY 2020 primarily due to an increase in general accounts payable and unbilled liabilities.

Other Noncurrent Liabilities – As of August 31, 2022, other noncurrent liabilities totaled $37.0 million, a decrease of $14.8 million compared to August 31, 2021. The decrease in FY 2022 is primarily due to the changes in the valuation of the interest rate swaps. As of August 31, 2021, other noncurrent liabilities totaled $51.8 million, a decrease of $11.6 million compared to August 31, 2020. The decrease in FY 2021 is primarily due to the change in the value of the pollution remediation liabilities and the changes in the valuation of the interest rate swaps.

Net OPEB Liability – The net OPEB obligation was $149.2 million as of August 31, 2022, a $52.4 million decrease from the $201.6 million obligation as of August 31, 2021. The net OPEB obligation was $201.6 million as of August 31, 2021, a $46.6 million decrease from the $248.2 million obligation as of August 31, 2020. The decreases in FY 2022 and FY 2021 were caused by changes in benefit, demographic, and economic assumptions.

Net Pension Liability – The net pension liability was $261.1 million as of August 31, 2022, an increase of $122.9 million, or 88.9%, from the $138.2 million liability as of August 31, 2021, reflecting a loss of approximately $127.2 million on the rate of return during the period. There was a decrease in the net pension liability of $99.4 million, or 41.8%, in FY 2021 as compared to FY 2020. The decrease in pension liability was primarily due to the increase in the value of the pension plan assets.

Deferred Inflows of Resources Related to Pension – Deferred inflows of resources related to pension represent amounts that will result in an increase of net position in a subsequent period. Deferred inflows of resources related to pension represent the difference between actual and expected earnings on pension plan investments. The decrease in deferred inflows of resources related to pension of $88.6 million as of August 31, 2022, as compared to August 31, 2021, is primarily related to asset loss in FY 2022. The increase in deferred inflows of resources related to pension of $66.4 million as of August 31, 2021, as compared to August 31, 2020, is primarily related to asset gain in FY 2021. There were $28.1 million in deferred inflows of resources related to pension on August 31, 2020.

Deferred Inflows of Resources Related to OPEB – Deferred inflows of resources related to OPEB represent amounts that will result in an increase of net position in a subsequent period. Deferred inflows of resources related to OPEB as of August 31, 2022, were $102.6 million as compared to $102.9 million as of August 31, 2021. The decrease in deferred inflows of resources related to OPEB of $0.3 million, or 0.3%, between FY 2022 and FY 2021 is primarily driven by benefit, demographic, and economic assumptions. There were $91.5 million in deferred inflows of resources related to OPEB on August 31, 2020. The increase in deferred inflows of resources related to OPEB of $11.4 million, or 12.5%, between FY 2021 and FY 2020 is primarily driven by benefit, demographic, and economic assumptions.

(Continued)

Net Position – On August 31, 2022, total net position totaled $624.0 million, an increase of $173.9 million compared to August 31, 2021. The increase in FY 2022 is due to an excess of revenues over expenses generated by PGW operations during FY 2022. As of August 31, 2022, unrestricted net position totaled negative $159.3 million, a decrease of $92.2 million compared to August 31, 2021. On August 31, 2021, total net position totaled $450.1 million, an increase of $154.6 million compared to August 31, 2020. As of August 31, 2021, unrestricted net position totaled negative $251.5 million, a decrease of $82.1 million compared to August 31, 2020. Due to the long-term nature of the Company's net pension and OPEB liability, the Company's negative unrestricted net position is not indicative of its near-term liquidity.

Other Financial Factors

Refunding, Defeasance, and Redeeming of Debt

On October 1, 2021, the Company accelerated payment of $10.9 million of principal for City of Philadelphia, Pennsylvania Gas Works Revenue Refunding Bonds, Tenth Series issued under the 1998 General Ordinance with internally generated funds. The Tenth Series Bonds were redeemed using PGW's Cash-on-Hand and certain amounts released from the PGW Revenue Bond Sinking Fund.

Upcoming Accounting Pronouncements

GASB has issued the following pronouncements that may affect future financial position, results of operations, cash flows, or financial presentation of PGW upon implementation. The Company has not yet evaluated the effect of the implementation of these standards.

GASB Statement No.	GASB Accounting Standard	Effective Fiscal Year
91	Conduit Debt Obligation	2023
94	Public-Private and Public-Public Partnerships and Availability Payment Arrangements	2023
96	Subscription-Based Information Technology Arrangements	2023
99	Omnibus 2022	2024
100	Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62	2023
101	Compensated Absences	2025

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 Attn: Vice President, Finance & Controller or on the Web at www.pgworks.com.

PHILADELPHIA GAS WORKS

(A Component Unit of the City of Philadelphia)

Balance Sheets

August 31, 2022 and 2021

(Thousands of U.S. dollars)

Assets		**2022**	**2021**	
Current assets:				
Cash, cash equivalents, and short-term investments	$	115,637	158,265	
Accounts receivable (net of provision for uncollectible accounts of $108,186 and $113,164 for 2022 and 2021, respectively)		107,001	81,991	
Gas inventories, materials, and supplies		92,876	53,373	
Current portion of capital improvement fund		107,822	93,600	
Workers' compensation escrow fund		2,667	2,740	
Other current assets		16,640	12,738	*
Total current assets		442,643	402,707	
Noncurrent assets:				
Utility plant, at original cost:				
In service		2,810,896	2,700,055	
Lease assets		1,202	2,541	*
Under construction		141,469	105,321	
Total		2,953,567	2,807,917	
Less accumulated depreciation		1,299,288	1,239,513	
Less accumulated depreciation – lease assets		855	1,696	*
Utility plant, net		1,653,424	1,566,708	
Capital improvement fund		4,851	91,322	
Sinking fund, revenue bonds		106,188	107,684	
Unamortized bond insurance costs		725	784	
Regulatory asset – environmental		28,871	27,572	
Regulatory asset – pandemic		30,674	32,497	**
Other noncurrent assets		4,647	5,927	**
Total noncurrent assets		1,829,380	1,832,494	
Total assets		2,272,023	2,235,201	
Deferred Outflows of Resources				
Accumulated fair value of hedging derivatives		—	9,117	
Unamortized losses on bond refunding		23,321	27,487	
Deferred outflows related to pension		68,189	24,575	
Deferred outflows related to OPEB		62,576	71,721	
Total deferred outflows of resources		154,086	132,900	
Total assets and deferred outflows of resources	$	2,426,109	2,368,101	

* FY 2021 has been restated as a result of the implementation of GASB 87 (see note 1(u) to the basic financial statements).

** FY 2021 has been restated to conform to current presentation.

See accompanying notes to basic financial statements.

PHILADELPHIA GAS WORKS

(A Component Unit of the City of Philadelphia)

Balance Sheets

August 31, 2022 and 2021

(Thousands of U.S. dollars)

Liabilities		**2022**	**2021**	
Current liabilities:				
Current portion of revenue bonds	$	64,202	65,417	
Accounts payable		96,764	79,928	
Current portion of long-term liabilities		5,927	5,552	
Customer deposits		2,262	1,659	
Current portion of lease liabilities		131	554	*
Other current liabilities		6,164	35,363	
Accrued accounts:				
Interest, taxes, and wages		14,388	14,751	
Distribution to the City		3,000	3,000	
Total current liabilities		192,838	206,224	
Noncurrent liabilities:				
Long-term revenue bonds		1,050,687	1,122,609	
Long-term lease liabilities		114	150	*
Other noncurrent liabilities		36,927	51,681	
Net pension liability		261,082	138,216	
Net OPEB liability		149,231	201,588	
Total noncurrent liabilities		1,498,041	1,514,244	
Total liabilities		1,690,879	1,720,468	
Deferred Inflows of Resources				
Deferred inflows related to gain on bond refunding		168	181	
Deferred inflows related to pension		5,937	94,514	
Deferred inflows related to OPEB		102,608	102,885	
Accumulated fair value of hedging derivatives		2,478	—	
Total deferred inflows of resources		111,191	197,580	
Total liabilities and deferred inflows of resources		1,802,070	1,918,048	
Net Position				
Net investment in capital assets		674,529	591,091	*
Restricted (debt service)		106,188	107,684	
Restricted (workers' compensation)		2,667	2,740	
Unrestricted		(159,345)	(251,462)	*
Total net position		624,039	450,053	
Total liabilities, deferred inflows of resources, and net position	$	2,426,109	2,368,101	

* FY 2021 has been restated as a result of the implementation of GASB 87 (see note 1(u) to the basic financial statements).

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, 2022 and 2021

(Thousands of U.S. dollars)

		2022	2021	
Operating revenues:				
Gas revenues:				
Non-heating	$	32,064	23,122	
Gas transport service		71,710	67,907	
Heating		687,142	549,982	
Provision for uncollectible accounts		(25,287)	(16,261)	
Total gas revenues		765,629	624,750	
Appliance and other revenues		6,656	6,019	
Other operating revenues		33,152	15,978	
Total operating revenues		805,437	646,747	
Operating expenses:				
Natural gas		272,468	163,892	
Gas processing		24,085	23,294	*
Field operations		80,640	79,678	*
Collection and account management		13,237	13,364	*
Customer services		13,996	13,762	*
Marketing		4,433	4,113	*
Administrative and general		64,982	61,899	*
Pensions		20,675	(3,146)	
Other postemployment benefits		(1,242)	(902)	
Taxes		8,984	8,894	
Total operating expenses before depreciation		502,258	364,848	
Depreciation		70,319	69,312	*
Total operating expenses		572,577	434,160	
Operating income		232,860	212,587	
Interest and other income		(1,523)	1,322	
Income before interest expense		231,337	213,909	
Interest expense:				
Long-term debt		47,044	48,475	
Other		(7,693)	(4,561)	*
Allowance for funds used during construction		—	(2,413)	
Total interest expense		39,351	41,501	
Distribution to the City of Philadelphia		(18,000)	(18,000)	
Excess of revenues over expenses		173,986	154,408	
Net position, beginning of year		450,053	295,645	*
Net position, end of year	$	624,039	450,053	*

* FY 2021 has been restated as a result of the implementation of GASB 87 (see note 1(u) to the basic financial statements).

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, 2022 and 2021

(Thousands of U.S. dollars)

		2022	2021	
Cash flows from operating activities:				
Receipts from customers	$	782,300	644,303	
Payments to suppliers		(512,176)	(336,669)	*
Payments to employees		(112,592)	(134,589)	
Claims paid		(2,536)	(1,845)	
Other receipts		13,851	14,248	
Net cash provided by operating activities		168,847	185,448	
Cash flows from operating activities:				
Income (loss) from nonutility operations		(2,513)	113	
Interest and fees		1,095	(1,456)	*
Distribution to the City of Philadelphia		(18,000)	(18,000)	
Net cash provided by (used in) operating activities		(19,418)	(19,343)	
Cash flows from investment activities				
Sinking fund reserve deposits		(40,853)	(5,860)	
Sinking fund reserve withdrawals		42,346	1,000	
Capital improvement fund deposits		—	(240,004)	
Capital improvement fund withdrawals		72,249	55,081	
Interest income / capital gain from short-term investments		374	185	
Interest income / capital gain on capital improvement fund		431	101	
Interest income / capital gain on sinking fund		185	922	
Net cash provided by (used in) investment activities		74,732	(188,575)	
Cash flows from capital and related financing activities:				
Redemption, refunding or defeasance of long-term debt		(10,865)	(57,080)	
Proceeds from long-term debt issued		—	253,925	
Premium from long-term debt issued		—	53,408	
Long-term debt issuance costs		—	(3,038)	
Purchases of capital assets		(156,917)	(143,111)	
Principal paid on long-term debt		(50,745)	(49,825)	
Interest paid on long-term debt		(47,685)	(47,558)	
Principal paid on lease liability		(577)	(666)	*
Other		—	2,413	
Net cash provided by (used in) capital and related financing activities		(266,789)	8,468	
Net decrease in cash and cash equivalents		(42,628)	(14,002)	
Cash and cash equivalents at beginning of year		158,265	172,267	
Cash and cash equivalents at end of year	$	115,637	158,265	
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	$	232,861	212,587	*
Adjustments to reconcile operating income to net cash provided by operating activities:				
Effect of change in accounting principle		—	(61)	*
Depreciation and amortization expense		70,319	69,312	*
Provision for uncollectible accounts		25,287	16,261	
Change in assets and liabilities:				
Receivables, net		(50,298)	(14,571)	
Gas inventories, materials, and supplies		(39,503)	(6,667)	
Other current assets		(3,900)	5,745	*
Lease assets		(118)	(130)	*
Other assets and deferred outflows of resources		(23,548)	(30,914)	
Accounts payable		16,836	10,271	
Customer deposits		604	(623)	
Other current liabilities		(28,825)	3,365	
Accrued accounts		(363)	635	
Lease liabilities		118	130	*
Other liabilities, deferred inflows of resources, net OPEB and pension liabilities		(30,623)	(79,953)	
Net cash provided by operating activities	$	168,847	185,387	

* FY 2021 has been restated as a result of the implementation of GASB 87 (see note 1(u) to the basic financial statements).

See accompanying notes to basic financial statements.

PHILADELPHIA GAS WORKS OPEB TRUST

(A Fiduciary Fund of the Philadelphia Gas Works)

Statements of Fiduciary Net Position

Years ended December 31, 2021 and 2020

(Thousands of U.S. dollars)

		2021	2020
Assets:			
Cash and cash equivalents	$	2,244	75
Accrued interest income		106	102
Total cash and accrued income		2,350	177
Investments, at fair value:			
Domestic equity		180,800	139,888
International equity		81,416	80,360
Fixed income		101,449	85,697
Total investments		363,665	305,945
Total assets		366,015	306,122
Liabilities:			
Accrued expenses		42	18
Pending cash		29	25
Total liabilities		71	43
Net position held in trust for other postemployment benefits	$	365,944	306,079

PHILADELPHIA GAS WORKS OPEB TRUST

(A Fiduciary Fund of the Philadelphia Gas Works)

Statements of Changes in Fiduciary Net Position

Years ended December 31, 2021 and 2020

(Thousands of U.S. dollars)

		2021	2020
Additions:			
Contributions:			
Philadelphia Gas Works – contribution to OPEB Trust	$	18,500	18,500
Philadelphia Gas Works – benefits paid		25,197	27,636
Investment income:			
Net realized gains		25,241	2,452
Interest and dividend income		6,036	4,706
Net unrealized gains		10,252	35,216
Total investment income		41,529	42,374
Total additions		85,226	88,510
Deductions:			
Benefits paid		25,197	27,636
Administrative expenses and bank fees		52	40
Investment management expenses		112	116
Total deductions		25,361	27,792
Change in net assets		59,865	60,718
Net position held in trust for other postemployment benefits – beginning of year		306,079	245,361
Net position held in trust by plan for other postemployment benefits – end of year	$	365,944	306,079

(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 accounted for as a component unit of the City, and consequently follows accounting principles promulgated by the Governmental Accounting Standards Board (GASB) as they apply to business 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.

Philadelphia Gas Works' fiduciary activities are accounted for using the flow of economic resources measurement focus and accrual basis of accounting. Assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position are accounted for in a fiduciary fund with investments recorded at fair value and benefits paid directly from its general resources on a pay-as-you-go basis. As of September 1, 2020, the Company adopted GASB Statement No. 84, *Fiduciary Activities*.

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

(a) Regulation

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, which among other things, provided for an unbundled tariff permitting customer choice of the commodity supplier. Under the Act, the PUC is required to follow the same ratemaking methodology and requirements that were previously applicable to the Philadelphia Gas Commission (PGC) when determining the Company's revenue requirements and approving overall rates and tariffs. Tariff rates are designed to maintain revenue neutrality and the tariff rules and regulations are designed to comport with the Pennsylvania Public Utility Code. For additional information related to PGW's tariff and base rates, see note 1(d) Base Rates.

The PGC continues to approve the Company's Operating Budget and review its Capital Budget. The Company's Capital Budget must be approved by Philadelphia City Council.

(b) Operating Budget

On May 5, 2022, PGW filed a proposed Fiscal Year (FY) 2023 Operating Budget with the PGC. The PGC Hearing Examiners conducted Informal Discovery (ID) sessions on May 31, 2022 and on June 7, 2022. On June 29, 2022 a public hearing was convened via Zoom, due to the COVID-19 pandemic and related government shutdown orders. On July 22, 2022, a recommended decision was rendered by the Hearing Examiners, which proposed adjustments to the Operating Budget as filed. On August 9, 2022, the PGC approved, with adjustments, PGW's FY 2023 Operating Budget. PGW filed a Compliance Budget with the PGC on August 18, 2022.

On May 6, 2021, PGW filed a proposed FY 2022 Operating Budget with the PGC. The PGC Hearing Examiners conducted ID sessions on May 19, 2021 and 26, 2021. On June 30, 2021 a public hearing was convened via Zoom, due to the COVID-19 pandemic and related government shutdown orders. On July 23, 2021, a recommended decision was rendered by the Hearing Examiners, which proposed adjustments to the Operating Budget as filed. On August 10, 2021, the PGC approved, with adjustments, PGW's FY 2022 Operating Budget. PGW filed a Compliance Budget with the PGC on August 19, 2021.

(c) Capital Budget

On January 3, 2022, PGW filed with the PGC its proposed FY 2023 Capital Budget in the amount of $190.2 million. After a due diligence review and related ID process on February 9 and 16, 2022, a public hearing was held on March 8, 2022. The PGC's review culminated in the endorsement at a public hearing on April 26, 2022 of an FY 2023 Capital Budget in an amount not to exceed $187.4 million. The endorsed budget was approved by City Council on June 23, 2022 and signed by the Mayor on June 27, 2022. On May 10 and August 4, 2022, PGW filed a request to the PGC to amend the FY 2023 Capital Budget to reauthorize four projects in the FY 2021 Capital Budget to extend the two-year lifespan to complete the projects. On October 11, 2022, the PGC approved PGW's request to amend the FY 2023 Capital Budget for the reauthorization of the four projects in the FY 2021 Capital Budget. PGW is awaiting final approval by City Council and Mayor.

On January 4, 2021, PGW filed with the PGC its proposed FY 2022 Capital Budget in the amount of $150.3 million. After a due diligence review and related ID process on January 26, 2021, a public hearing was held on February 25, 2021. The PGC's review culminated in the endorsement at a public hearing on April 13, 2021 of an FY 2022 Capital Budget in an amount not to exceed $147.5 million. The endorsed budget was approved by City Council on June 17, 2021 and signed by the Mayor on July 15, 2021. On June 17, 2021, PGW filed a request to the PGC to amend the FY 2022 Capital Budget to reauthorize three projects in the FY 2020 Capital Budget to extend the two-year lifespan to complete the projects. On October 12, 2021, the PGC approved PGW's request to amend the FY 2022 Capital Budget for the reauthorization of the three projects in the FY 2020 Capital Budget. The amended budget was approved by City Council on March 10, 2022 and signed by the Mayor on March 23, 2022.

(d) Base Rates

On February 28, 2020, PGW filed for an increase in its distribution base rates with the PUC. The filing sought a general rate increase calculated to produce $70.0 million, or 10.5%, in additional annual operating revenues based upon a twenty-year normal weather assumption. The filing also requested to increase the fixed monthly customer charge component, as well as the volumetric delivery charge component of base rates.

On August 26, 2020, PGW filed a Joint Petition for Partial Settlement (Settlement Agreement) in which all rate case parties joined or did not oppose, except the Environmental Stakeholders group that opposed PGW's rate increase request. The Settlement Agreement provided PGW with a general rate increase of $35.0 million in annual operating revenues in three increments: $10.0 million for service rendered on or after January 1, 2021; $10.0 million for service rendered on or after July 1, 2021; and $15.0 million for service rendered on or after on January 1, 2022. Settlement agreements with reduced revenue requirements are typical in PUC base rate proceedings and are the product of compromise between the parties' diverse interests. The PUC has indicated that settlement results are often preferable to those achieved at the conclusion of a fully litigated proceeding. On November 19, 2020, the PUC entered its Order and Opinion in the case, which granted the exceptions filed by the Commission's Bureau of Investigation and Enforcement (I&E), the Office of Consumer Advocate (OCA), the Office of Small Business Advocate (OSBA), the Philadelphia Industrial and Commercial Gas Users Group (PICGUG), and PGW; modified the Administrative Law Judge's (ALJ) recommended decision regarding the settled and litigated issues; and approved the Joint Petition for Partial Settlement (Settlement Agreement), in its entirety, without modification. The new rates approved by the Settlement Agreement became effective on January 1, 2021.

On February 27, 2017, PGW filed for an increase in its distribution base rates with the PUC. The filing sought a general rate increase calculated to produce $70.0 million, or 11.6%, in additional annual operating revenues based upon a ten-year normal weather assumption. The filing also requested to increase the fixed monthly customer charge component, as well as the volumetric delivery charge component of base rates.

On July 21, 2017, PGW filed a Settlement Agreement of the matter for settlement of all but two issues in the case (neither of which directly concerned PGW's revenue request). The Settlement Agreement provided PGW with a general rate increase of $42.0 million in annual operating revenues calculated using a twenty-year normal weather assumption. On November 8, 2017, the PUC entered its Order and Opinion in the case, which approved the Settlement Agreement without modification and found in favor of PGW on the two non-settled issues. Thereafter, PGW made its Compliance Tariff filing on November 14, 2017. The new rates approved by the Settlement Agreement became effective on December 1, 2017.

(e) Weather Normalization Adjustment Clause

The Weather Normalization Adjustment (WNA) Clause was approved by the PUC. The purpose of the WNA Clause 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 Clause results in neither a rate increase nor a rate decrease but acts as a billing adjustment. The main benefits of the WNA Clause are the stabilization of cash flow and the reduction of the need for short-term borrowing from year to year. The WNA Clause adjustment is applied to customer invoices rendered during the period of October 1 through May 31 of each year for each billing cycle. The WNA Clause adjustment for the years ended August 31, 2022 and 2021 was an increase in billings of $23.2 million and $11.8 million, respectively.

An anomaly occurred in the application of the WNA, which caused approximately $12.8 million of additional billings. This produced unusually large and unanticipated charges to customers in the majority of billing cycles with May usage. PGW filed a petition with the PUC seeking to reverse the WNA charges that were applied to May billings and the petition was approved by the PUC. The $12.8 million of additional billings were reversed and are not included in the FY 2022 WNA adjustment of $23.2 million.

(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 applicable GCR 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 are compared to the actual cost of fuel and other applicable costs. Customers are then credited or charged for the over recovery or under recovery of costs. The GCR and surcharges charge or 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, 2022, approximately $6.3 million was recorded in other current assets for the under recovery of the GCR and surcharges. At August 31, 2021, approximately $25.8 million was recorded in other current liabilities for the over recovery of the GCR and surcharges. The GCR comprises 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, 2022	$	8.0242	(0.6129)
September 1, 2022		8.6371	(0.3686)
June 1, 2022		9.0057	3.3934
March 1, 2022		5.6123	(0.3977)
December 1, 2021		6.0100	1.1355
September 1, 2021		4.8745	1.3045
June 1, 2021		3.5700	0.1013
March 1, 2021		3.4687	(0.3797)
December 1, 2020		3.8484	0.4377
September 1, 2020		3.4107	(0.2017)

(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 in the balance sheets. The cost of property sold or retired is removed from the utility plant accounts and accumulated depreciation. Normal repairs, maintenance, the cost of minor property items, and expenses associated with retirements are charged to operating expenses as incurred.

In a previous rate order, the PGC disallowed the accrual of the net negative salvage component in depreciation. Cost of removal in the amounts of $5.4 million and $4.9 million was charged to expense as incurred in FY 2022 and FY 2021, respectively, and is included in depreciation 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 both FY 2022 and FY 2021 was 2.1%. The composite rates are supported by a depreciation study of utility plant as of August 2020. The effective composite depreciation rates, as a percentage of cost, for FY 2022 were as follows:

Production plant	1.41 %
Transmission, distribution, and storage	1.94
General plant	3.29

The most recent depreciation study was completed in FY 2020 for the plant activity subsequent to the last depreciation study and through FY 2019. It is anticipated that PGW will complete the next depreciation study in FY 2025 for the plant activity subsequent to the last depreciation study and through FY 2024.

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. In FY 2022, PGW implemented GASB 89 which required interest cost incurred before the end of a construction period to be recognized as an expense in the period in which the cost is incurred. Beginning on September 1, 2021, PGW no longer capitalizes AFUDC. PGW did not retrospectively apply the new GASB for FY 2021 and prior. The AFUDC rate applied to construction work in progress was 4.63% in FY 2021.

The following is a summary of utility plant activity for the fiscal years ended August 31, 2022 and 2021 (thousands of U.S. dollars):

		August 31, 2022			
		Beginning balance	**Additions and transfers**	**Retirements and transfers**	**Ending balance**
Capital assets not being depreciated:					
Land	$	5,595	—	—	5,595
Under construction		105,321	151,129	(114,981)	141,469
Total capital assets not being depreciated		110,916	151,129	(114,981)	147,064
Other capital assets:					
Distribution and collection systems		2,110,072	107,329	(3,603)	2,213,798
Buildings and equipment		584,388	8,246	(1,132)	591,502
Leased assets		2,541	118	(1,457)	1,202
Total other capital assets		2,697,001	115,693	(6,192)	2,806,502
Less accumulated depreciation for:					
Distribution and collection systems		(991,131)	(42,791)	(1,611)	(1,035,533)
Buildings and equipment		(248,382)	(14,969)	(404)	(263,755)
Leased assets		(1,696)	(615)	1,457	(854)
Total accumulated depreciation		(1,241,209)	(58,375)	(558)	(1,300,142)
Utility plant, net	$	1,566,708	208,447	(121,731)	1,653,424

* Cost of removal of approximately $5.4 million was charged to depreciation as incurred in FY 2022 and is not included in accumulated depreciation.

	August 31, 2021			
	Beginning balance	Additions and transfers	Retirements and transfers	Ending balance
Capital assets not being depreciated:				
Land	$ 5,595	—	—	5,595
Under construction	86,349	138,504	(119,532)	105,321
Total capital assets not being depreciated	91,944	138,504	(119,532)	110,916
Other capital assets:				
Distribution and collection systems	2,016,211	98,430	(4,569)	2,110,072
Buildings and equipment	563,286	21,102	—	584,388
Leased assets	—	2,541	—	2,541
Total other capital assets	2,579,497	122,073	(4,569)	2,697,001
Less accumulated depreciation for:				
Distribution and collection systems	(947,250)	(41,241)	(2,640)	(991,131)
Buildings and equipment	(232,771)	(14,962)	(649)	(248,382)
Leased assets	—	(1,696)	—	(1,696)
Total accumulated depreciation	(1,180,021)	(57,899)	(3,289)	(1,241,209)
Utility plant, net	$ 1,491,420	202,678	(127,390)	1,566,708

* Cost of removal of approximately $4.9 million was charged to depreciation as incurred in FY 2021 and is not included in accumulated depreciation.

The following is a summary of the amount of lease assets by major classes of assets as of August 31, 2022 and 2021 (thousands of U.S. dollars) as a result of the implementation of GASB 87:

	2022	2021
Lease equipment	$ 1,101	2,109
Less accumulated depreciation	(759)	(1,358)
Total lease equipment, net	342	751
Lease building	101	432
Less accumulated depreciation	(95)	(338)
Total lease building, net	6	94
Total lease assets less accumulated depreciation	$ 348	845

(Continued)

(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 services on behalf of outside natural gas providers. 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 sales contracts. Other operating revenues primarily consist of finance charges assessed on delinquent accounts.

In 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 nongas revenues via the recovery mechanism and permits greater percentage increases if the PUC approves. The Company started billing customers a DSIC surcharge as of July 1, 2013. On September 1, 2015, PGW proposed an increase in the DSIC from 5.0% to 7.5% of distribution revenues and to levelize and annualize the DSIC. The PUC issued an Order and Opinion granting PGW's request to increase its DSIC to 7.5% on January 28, 2016 which went into effect on February 1, 2016. In FY 2022 and FY 2021, the Company billed customers $36.8 million and $34.6 million for the DSIC surcharge, respectively. The DSIC surcharge is fully reconcilable on a calendar year basis.

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.

Revenues include 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 on the statements of revenues and expenses and changes in net position and were $11.3 million and $8.0 million for the years ended August 31, 2022 and 2021, respectively.

(i) Operating Expenses

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

Costs incurred that do not involve normal business operations are recognized as nonoperating 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. For FY 2022 and FY 2021, 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 $32.1 million and $18.3 million as of August 31, 2022 and 2021, respectively, have been reclassified to accounts payable.

Beginning in March 2020 and ending in March 2021, PGW followed the PUC moratorium on shutting off gas services to customers who otherwise would be eligible for shutoff. PGW's management considers that it is likely that the impact of COVID-19 on PGW, its operations and financial position will continue to change as circumstances and events evolve. The duration, severity, and degree of the impact of COVID-19 is difficult to forecast due to the dynamic nature of the pandemic, including uncertainty about any potential "spikes" or "waves" still to come in the disease and the potential public health impacts of the interplay of COVID-19 with annual influenza strains. To date the impact of COVID-19 to PGW has been minimal and PGW believes that it may be some time before it is able to determine the full long-term impact of COVID-19 on PGW's business operations.

(k) Gas Inventories, Materials, and Supplies

Gas inventories, materials, and supplies, consisting primarily of fuel stock, gas stored to meet peak demand requirements, and spare parts, are stated at average cost at August 31, 2022 and 2021, as follows (thousands of U.S. dollars):

		2022	2021
Gas inventory	$	81,467	40,763
Material and supplies		11,409	12,610
Total	$	92,876	53,373

(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 Bond Refunding

Gains and losses on bond refunding are recorded as deferred inflows of resources and deferred outflows of resources, respectively, 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.

(Continued)

(n) Pensions and Postemployment Benefits

As described in note 10, the City sponsors a single employer defined benefit pension plan, the Philadelphia Gas Works Pension Plan (the Pension Plan) to provide pension benefits for certain current and former PGW employees and their beneficiaries. As described in note 11, PGW sponsors a single employer defined benefit healthcare plan, the Philadelphia Gas Works OPEB Plan (the OPEB Plan), to provide postemployment healthcare and life insurance benefits to substantially all current and former PGW employees and their beneficiaries.

In May 2010, the PUC approved a surcharge proposed by PGW to fund its OPEB liability resulting in charges to customer bills of $16.0 million annually, and required PGW to use that $16.0 million and an additional $2.5 million of its resources to contribute $18.5 million to the Trust in each of the years 2011 through 2015. The Trust, which is irrevocable, was established on July 13, 2010 to receive these and other contributions from PGW. In July 2015, the PUC approved the continuance of the OPEB surcharge beyond August 31, 2015. The Trust is managed by five Trustees, consisting of the City of Philadelphia Director of Finance; the Chief Finance Officer of PGW; the Vice President of Human Resources of PGW; the Chair of the Finance Committee of the Philadelphia Facilities Management Corporation Board (PFMC), which serves as the Board of Directors for PGW; and the President of the Union, representing the majority of PGW’s bargaining unit employees. The Trust exists to accumulate assets for the Plan, and the Trust does not independently have the capacity to raise funds. Responsibility for determining and funding the benefits rests with PGW management.

For purposes of measuring the net pension and OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to the Pension and OPEB Plans, and the Pension and OPEB Plans expense, information about the fiduciary net position of the Pension Plan and OPEB Plan, and additions to or deductions from the Pension and OPEB Plans’ fiduciary net position are determined on the same basis as they are reported by the Pension and OPEB Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value. With the exception of deferred outflows of resources related to employer contributions made after the measurement date, deferred inflows and outflows of resources related to the Pension and OPEB Plans are amortized over a closed five-year period or the average remaining service life of employees in the pension plan. Deferred outflows of resources related to employer contributions made after the measurement date will be recognized as a reduction of the net liability in the next fiscal year.

(o) Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the financial statement measurement date. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels as follows:

- Level 1 – quoted prices for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 – quoted prices other than those included within Level 1 and other inputs that are observable for an asset or liability, either directly or indirectly.

- Level 3 – pricing inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity or involvement.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3. When the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level that is significant to the entire measurement.

The categorization of a financial instrument within the hierarchy is based upon pricing transparency and is not necessarily an indication of the Company's perceived risk of that instrument.

The following is a description of the valuation methodologies used for investments measured at fair value:

- U.S. government obligations – The fair value of government obligations are based on institutional bond quotes and evaluations based on various market and industry inputs and are primarily considered Level 1 inputs.
- U.S. government agencies and instrumentalities – The fair value of government agencies and instrumentalities are based on institutional bond quotes and evaluations based on various market and industry inputs and are primarily considered Level 2 inputs.
- Corporate obligations – The fair value of corporate bonds are based on institutional bond quotes and evaluations based on various market and industry inputs and are primarily considered Level 2 inputs.
- Foreign obligations – The fair value of foreign bonds are based on institutional bond quotes and evaluations based on various market and industry inputs and are primarily considered Level 2 inputs.

(p) Cash, Cash Equivalents, and Short-Term Investments

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 Reserve, Workers' Compensation Escrow Fund, and Capital Improvement Fund as described in note 3.

(q) 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.

(r) 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.

(s) Pollution Remediation

The Company estimates its pollution remediation obligation using the expected 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 Pennsylvania Act 2, Land Recycling and Environmental Remediation Standards Act of 1995 and Pennsylvania Act 32, Storage Tank and Spill Prevention Act of 1989.

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.

(t) Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates in the Company's financial statements include the accumulated provision for uncollectible accounts, the fair value of interest rate swap agreements, the self-insurance liability, and the valuation of net pension and OPEB liabilities.

(u) Pronouncements Effective in the Current Year

GASB Statement No. 87, *Leases* (GASB 87), was effective for PGW's fiscal year beginning September 1, 2021 with restatement, to the extent practical, of all periods presented. GASB 87 revises existing standards for measuring and reporting operating and capital leases. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. GASB 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right to use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. PGW's 2021 audited financial statements have been restated to reflect both lease assets and lease liabilities related to its leasing activities.

As a result of the adoption of GASB 87, the following adjustments were made to the opening unrestricted net position as of September 1, 2020 (thousands of U.S. dollars):

		Originally reported, August 31, 2020	As adjusted, September 1, 2020
Utility plant, lease assets	$	—	2,540
Accumulated depreciation, lease assets		—	1,052
Current portion of lease liabilities		—	666
Long-term lease liabilities		—	704
Unrestricted net position		333,576	333,694

As of and for the year ended August 31, 2021, previously reported amounts on the Statements of Revenues and Expenses and Changes in Net Position changed as a result of the implementation of GASB 87 as follows (thousands of U.S. dollars):

		Originally reported, August 31, 2021	As adjusted, August 31, 2021
Gas processing	$	23,297	23,294
Field operations		79,901	79,678
Collection and account management		13,378	13,364
Customer services		13,903	13,762
Marketing		4,128	4,113
Administrative and general		62,030	61,899
Depreciation		68,668	69,312
Other interest expense		(4,608)	(4,561)

As of and for the year ended August 31, 2021, previously reported amounts on the balance sheet changed as a result of the implementation of GASB 87 as follows (thousands of U.S. dollars):

		Originally reported, August 31, 2021	As adjusted, August 31, 2021
Other current assets	$	12,925	12,738
Utility plant, leased assets		—	2,541
Accumulated depreciation, leased assets		—	1,696
Current portion of lease liabilities		—	554
Long-term lease liabilities		—	150
Net investment in capital assets		590,246	591,091
Unrestricted net position		(250,571)	(251,462)

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (GASB 89), establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business type activity or enterprise fund. As originally scheduled, certain accounting and financial reporting provisions of GASB 89 would have taken effect for periods beginning after December 15, 2019 (the Company’s fiscal year ending August 31, 2021). GASB 95 postpones the effective date of GASB 89 by twelve months and the requirements of GASB 89 will now take effect for periods beginning after December 15, 2020 (the Company’s fiscal year ending August 31, 2022). PGW has implemented GASB 89 and found restatement of prior periods not practical. The adoption of this statement did not have a material impact on the financial statements.

GASB Statement No. 92, *Omnibus 2020* (GASB 92), establishes accounting and financial reporting requirements for specific issues related to leases, intra entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance related activities of public entity risk pools, fair value measurements, and derivative instruments. As originally scheduled, certain accounting and financial reporting provisions of GASB 92 would have taken effect for periods beginning after June 15, 2020 (the Company’s fiscal year ending August 31, 2021). GASB 95 postpones the effective date of GASB 92 by twelve months and the requirements of GASB 92 will now take effect for periods beginning after June 15, 2021 (the Company’s fiscal year ending August 31, 2022). The adoption of GASB 92 had no impact on PGW’s current accounting practices nor its financial reporting.

GASB Statement No. 93, *Replacement of Interbank Offered Rates* (GASB 93), establishes accounting and financial reporting requirements related to the replacement of interbank offered rates (IBORs) in hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments. Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate IBOR – most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates by either (a) changing the reference rate or (b) adding or changing fallback provisions related to the reference rate. As originally scheduled, certain accounting and financial reporting provisions of GASB 93 would have taken effect for periods beginning after June 15, 2020 (the Company's fiscal year ending August 31, 2021). GASB 95 postpones the effective date of GASB 93 by twelve months and the requirements of GASB 93 will now take effect for periods beginning after June 15, 2021 (the Company's fiscal year ending August 31, 2022). However, GASB Statement No. 99, Omnibus (GASB 99), offers an extension of the use of LIBOR which is effective immediately. Therefore, in accordance with GASB 93 and 99, PGW continues to use LIBOR as the benchmark interest rate for derivative instruments.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* (GASB 97), (1) increases consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigates costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhances the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The requirements of this Statement are effective for periods beginning after June 15, 2021 (the Company's fiscal year ending August 31, 2022). The adoption of GASB 97 had no impact on PGW's current accounting practices nor its financial reporting.

GASB Statement No. 98, *The Annual Comprehensive Financial Report* (GASB 98), establishes the term "annual comprehensive financial report" and its acronym "ACFR". That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. The requirements of this Statement are effective for fiscal years beginning after December 15, 2021. (the Company's fiscal year ending August 31, 2023). The Company chose to early adopt GASB 98 in the current fiscal year. The adoption of GASB 98 had no impact on PGW's current accounting practices nor its financial reporting.

(v) Pronouncements Effective in Future Years

(i) Effective for the Year Ending August 31, 2023

GASB Statement No. 91, *Conduit Debt Obligation* (GASB 91), provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with commitments extended by issuers, arrangements associated with conduit debt obligations, and related note disclosures. Under this statement, a conduit obligation is defined as a debt instrument where (1) three parties involved, (2) the issuer and the third-party obligor are not within the same financial reporting entity, (3) the debt obligation is a not parity bond of the issuer, nor is it cross collateralized with other debt, (the third-party obligor or its agent, not the issuer, receives the proceeds from the debt issuance, (5) the third-party obligor, not the issuer, is primary obligated for the payment of all amounts associated with the debt obligation. GASB 91 requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. As originally scheduled, certain accounting and financial reporting provisions of GASB 91 would have taken effect for periods beginning after December 15, 2020 (the Company's fiscal year ending August 31, 2022). GASB 95 postpones the effective date of GASB 91 by twelve months and the requirements of GASB 91 will now take effect for periods beginning after December 15, 2021 (the Company's fiscal year ending August 31, 2023). The Company is currently evaluating the impact of GASB 91 on its financial statements.

GASB Statement No. 94, *Public Private and Public Partnerships and Availability Payment Arrangements* (GASB 94), improves financial reporting by addressing issues related to public private and public partnership arrangements (PPPs). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period, in an exchange or exchange like transaction. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period in an exchange or exchange like transaction. The requirements of this Statement are effective for periods beginning after June 15, 2022 (the Company's fiscal year ending August 31, 2023). The Company is currently evaluating the impact of GASB 94 on its financial statements.

GASB Statement No. 96, *Subscription Based Information Technology Arrangements* (GASB 96), provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right to use subscription asset – an intangible asset – and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The requirements of this Statement are effective for periods beginning after June 15, 2022 (the Company's fiscal year ending August 31, 2023). The Company is currently evaluating the impact of GASB 96 on its financial statements.

(Continued)

(ii) Effective for the Year Ending August 31, 2024

GASB Statement No. 99, *Omnibus* (GASB 99), establishes or amends accounting and financial reporting requirements for specific issues related to financial guarantees, derivative instruments, leases, public-public and public-private partnerships (PPPs), subscription-based information technology arrangements (SBITAs), the transition from the London Interbank Offered Rate (LIBOR), the Supplemental Nutrition Assistance Program (SNAP) (formerly, food stamps), nonmonetary transactions, pledges of future revenues, the focus of government-wide financial statements, and terminology. The requirements of this Statement apply to the financial statements of all state and local governments. The requirements of this Statement are effective for fiscal years beginning after June 15, 2023. (the Company's fiscal year ending August 31, 2024). The Company is currently evaluating the impact of GASB 99 on its financial statements.

GASB Statement No. 100, *Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62* (GASB 100), supersedes Statement No. 62 and establishes accounting and financial reporting requirements for (a) accounting changes and (b) the correction of an error in previously issued financial statements (error correction). The requirements of this Statement do not apply to the initial application of U.S. generally accepted accounting principles (GAAP) established by the GASB as a financial reporting framework in circumstances in which a government is asserting for the first time that its financial statements are prepared in accordance with U.S. GAAP established by the GASB. The requirements of this Statement apply to the financial statements of all state and local governments. The requirements of this Statement are effective for fiscal years beginning after June 15, 2023. (the Company's fiscal year ending August 31, 2024). The Company is currently evaluating the impact of GASB 100 on its financial statements.

(iii) Effective for the Year Ending August 31, 2025

GASB Statement No. 101, *Compensated Absences* (GASB 101), establishes standards of accounting and financial reporting for (a) compensated absences and (b) associated salary-related payments, including certain defined contribution pensions and defined contribution other postemployment benefits (OPEB). The requirements of this Statement apply to the financial statements of all state and local governments. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023. (the Company's fiscal year ending August 31, 2025). The Company is currently evaluating the impact of GASB 101 on its financial statements.

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

The Company is accounted for as 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 2022 and FY 2021, the applicable maximum amount was calculated to be $1.5 million and 1.3 million, respectively. The agreement requires the Company to make annual payments of $18.0 million to the City. In FY 2022 and FY 2021, 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 $27.1 million and $18.6 million in FY 2022 and FY 2021, respectively, relating to sales to the City. Net amounts receivable from the City were $2.5 million and $2.9 million at August 31, 2022 and 2021, respectively. Water and sewer services and licenses are purchased from the City.

Certain activities of the PGC are paid for by the Company. Such payments totaled $0.7 million in FY 2022 and $0.9 million in FY 2021.

(3) Cash, Cash Equivalents, and Short-Term Investments

(a) Cash, Cash Equivalents, and Short-Term Investments

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, 2022 and August 31, 2021 were $115.5 million and $158.2 million, respectively. Book balances of such deposits and accounts at August 31, 2022 and August 31, 2021 were $115.6 million and $158.3 million, respectively. Short-term investments with a carrying amount (at fair value) of $108.2 million and $74.7 million at August 31, 2022 and August 31, 2021, respectively, are included in the balances presented above. Federal depository insurance on these balances at August 31, 2022 and August 31, 2021 was $0.7 million in both years. 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 2022 and FY 2021 was $199.6 million and $225.0 million, respectively.

(Continued)

The following is a schedule that details the Company's short-term investments (thousands of U.S. dollars):

	August 31, 2022				
Investment type		**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
US government obligations:					
U.S. Treasury bills	$	65,306	0.8786	**	**
US government obligations		65,306			
U.S. government agencies and instrumentalities:					
Federal Home Loan Bank Bonds		18,957	0.1639	**	**
Total U.S. government agencies and instrumentalities		18,957			
Cash and cash equivalents:					
Korea Development Bank		3,000	0.0175	*	*
Banco Santander		2,993	0.0191	*	*
Macquarie Bank		2,992	0.0065	*	*
Maybank Singapore Ltd		2,991	0.0219	*	*
Shinhan Bank		2,991	0.0346	*	*
First Abu Dhabi Bank		2,736	0.0197	*	*
LNG (U.S.) Funding		2,980	0.0072	*	*
Agricultural Bank China		1,987	0.0253	*	*
Total cash and cash equivalents		22,670			
Miscellaneous:					
Fed Fund 30 – Institutional Class – Mutual Fund		1,256	—	*	*
Total fair value of investments, including cash deposits	$	108,189			

* The credit rating of this investment is unrated.

** It is not necessary to disclose the credit ratings of obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.

	August 31, 2021			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
US government obligations:				
U.S. Treasury bills	$ 24,998	0.8786	**	**
US government obligations	24,998			
U.S. government agencies and instrumentalities:				
Federal Home Loan Bank Bonds	5,000	0.1639	**	**
Total U.S. government agencies and instrumentalities	5,000			
Cash and cash equivalents:				
Agricultural Bank CP	2,999	0.0175	*	*
Banco Del Esta De Chle C P	3,999	0.0191	*	*
Banco Santander Sa C P	3,000	0.0065	*	*
China Construction Bk C P	2,999	0.0219	*	*
First Abu Dhabi Bank C P	2,998	0.0346	*	*
Industrial Com Bnk Chn C P	3,999	0.0197	*	*
Lloyds Bank Corporate C P	3,000	0.0072	*	*
Malayan Banking Berhad C P	3,499	0.0253	*	*
Sumitomo Mitsui Trst C P	4,000	0.0160	*	*
Lloyds Bk Corporate Mkts Plc C P	4,000	0.0025	*	*
Maybank Singapore Ltd Disc C P	5,000	0.0147	*	*
Total cash and cash equivalents	39,493			
Miscellaneous:				
Fed Fund 30 – Institutional Class – Mutual Fund	5,256	—	*	*
Total fair value of investments, including cash deposits	$ 74,747			

* The credit rating of this investment is unrated.

** It is not necessary to disclose the credit ratings of obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.

The following table is a schedule that details the fair value hierarchy of the Company's short-term investments (thousands of U.S. dollars):

	August 31, 2022			
Investment type	**Total Fair value**	**Level 1**	**Level 2**	**Level 3**
U.S. government obligations:				
U.S. Treasury bills	$ 65,306	65,306	—	—
US government obligations	65,306	65,306	—	—
U.S. government agencies and instrumentalities:				
Federal Home Loan Bank Bonds	18,957	—	18,957	—
Total U.S. government agencies and instrumentalities	18,957	—	18,957	—
Cash and cash equivalents:				
Korea Development Bank	3,000	3,000	—	—
Banco Santander	2,993	2,993	—	—
Macquarie Bank	2,992	2,992	—	—
Maybank Singapore Ltd	2,991	2,991	—	—
Shinhan Bank New	2,991	2,991	—	—
First Abu Dhabi Bank	2,736	2,736	—	—
LNG (U.S.) Funding	2,980	2,980	—	—
Agricultural Bank China	1,987	1,987	—	—
Total cash and cash equivalents	22,670	22,670	—	—
Miscellaneous:				
Fed Fund 30 – Institutional Class – Mutual Fund	1,256	1,256	—	—
Total fair value of investments, including cash deposits	$ 108,189	89,232	18,957	—

	August 31, 2021			
Investment type	**Total Fair value**	**Level 1**	**Level 2**	**Level 3**
U.S. government obligations:				
U.S. Treasury bills	$ 24,998	24,998	—	—
US government obligations	24,998	24,998	—	—
U.S. government agencies and instrumentalities:				
Federal Home Loan Bank Bonds	5,000	—	5,000	—
Total U.S. government agencies and instrumentalities	5,000	—	5,000	—
Cash and cash equivalents:				
Agricultural Bank CP	2,999	2,999	—	—
Banco Del Esta De Chle C P	3,999	3,999	—	—
Banco Santander Sa C P	3,000	3,000	—	—
China Construction Bk C P	2,999	2,999	—	—
First Abu Dhabi Bank C P	2,998	2,998	—	—
Industrial Com Bnk Chn C P	3,999	3,999	—	—
Lloyds Bank Corporate C P	3,000	3,000	—	—
Malayan Banking Berhad C P	3,499	3,499	—	—
Sumitomo Mitsui Trst C P	4,000	4,000	—	—
Lloyds Bk Corporate Mkts Plc C P	4,000	4,000	—	—
Maybank Singapore Ltd Disc C P	5,000	5,000	—	—
Total cash and cash equivalents	39,493	39,493	—	—
Miscellaneous:				
Fed Fund 30 – Institutional Class – Mutual Fund	5,256	5,256	—	—
Total fair value of investments, including cash deposits	$ 74,747	69,747	5,000	—

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

The investments in the Company's Sinking Fund Reserve, Capital Improvement Fund and Workers' Compensation Escrow Fund consist primarily of U.S. Treasury and government agency obligations, corporate obligations, municipal obligations, and money market accounts. These investments are maintained by the City or in the Company's name by its agent.

The Sinking Fund Reserve is required by bond ordinance to hold an amount equal to the greatest amount of debt service required by bonds secured by the Sinking Fund Reserve in any fiscal year. The balance of the Company's Sinking Fund Reserve at August 31, 2022 and 2021 was $106.2 million and $107.7 million, respectively. Interest income on these funds, to the extent not drawn, is reflected as an increase in the Sinking Fund Reserve and approximated $0.2 million in FY 2022 and $0.9 million in FY 2021.

The balance in the Capital Improvement Fund at August 31, 2022 and 2021 was $112.7 million and $184.9 million, respectively. Interest income on these funds, to the extent not drawn, is reflected as an increase in the Capital Improvement Fund and approximated $0.4 million in FY 2022 and $0.1 million in FY 2021. PGW withdrew $72.0 million during FY 2022 and $55.0 million during FY 2021 to finance various capital projects.

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, 2022 and 2021, the trust account balances were $2.7 million.

Investments are recorded at fair value except for certain money market funds recorded at amortized cost. The adjustment to the market value for the Sinking Fund Reserve, Capital Improvement Fund, and Workers' Compensation Escrow Fund resulted in losses of $2.2 million and $0.9 million in FY 2022 and FY 2021, respectively.

The following tables are schedules that detail the Company's investments in the Sinking Fund Reserve (thousands of U.S. dollars):

	August 31, 2022			
Investment type	Fair value	Weighted average maturity (years)	Credit rating	Rating agency
U.S. government obligations:				
U.S. Treasury notes	$ 57,470	1.0146	**	**
U.S. government agencies and instrumentalities:				
Federal Home Loan Mortgage Corporation medium term notes	1,994	1.9194	**	**
Federal Home Loan Bank bonds	14,301	1.0281	**	**
Federal Farm Credit banks	2,457	0.4250	**	**
Total U.S. government agencies and instrumentalities	76,222			

	August 31, 2022			
Investment type	Fair value	Weighted average maturity (years)	Credit rating	Rating agency
Corporate obligations:				
Amazon Com Inc	$ 1,501	0.1834	A1/AA	Moody's/S&P
Apple Inc.	640	0.0337	Aaa/AA+	Moody's/S&P
Berkshire Hathaway Inc	2,202	0.0743	Aa2/AA	Moody's/S&P
Chevron Corporation	2,112	0.0421	Aa2/AA-	Moody's/S&P
Cooperatieve Rabobank Ua Ny	1,546	0.2308	Aa2/A+	Moody's/S&P
Exxon Mobil Corporation	1,668	0.0633	Aa2/AA-	Moody's/S&P
Microsoft Corporation	2,009	0.0316	Aaa/AAA	Moody's/S&P
Roche Holdings Inc	1,572	0.1872	Aa3/AA	Moody's/S&P
Total corporate obligations	13,250			
Cash and cash equivalents:				
Bpce Disc Coml Paper 4 2 C P	2,046	0.0901	*	*
Bnp Paribas New York Brh 3 A3 CP	2,063	0.0664	*	*
Canadian Imper Hldgs CP	597	0.0064	*	*
Citigroup Global Mkts Inc CP	2,052	0.0797	*	*
Dnb Bk Asa Disc Coml Paper 4 2 CP	2,040	0.0989	*	*
Goldman Sachs Intl Disc Coml Paper	2,089	0.0243	*	*
Svenska Handelsbanken Ab Publ CP	2,066	0.0611	*	*
Toronto Dominion Bk Disc Coml CP	2,066	0.0611	*	*
Money market:				
First American Government Obligations Fund Class Z	1,697	—	*	*
Total cash and cash equivalents	16,716			
Total fair value of investments, including cash deposits	$ 106,188			

* The credit rating of this investment is unrated.

** It is not necessary to disclose the credit ratings of obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.

		August 31, 2021			
Investment type		**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
US government obligations:					
U.S. Treasury notes	$	48,366	1.3899	**	**
U.S. government agencies and instrumentalities:					
Federal Home Loan Mortgage Corporation medium term notes		6,834	0.8109	**	**
Federal Home Loan Bank bonds		3,750	1.3573	**	**
Federal Farm Credit banks		18,960	0.7447	**	**
Total U.S. government agencies and instrumentalities		29,544			
Total fair value of U.S. government securities		77,910			
Corporate obligations:					
Chevron Corporation		719	0.2061	Aa2/AA-	Moody’s/S&P
Chevron Corporation		410	0.0472	Aa2/AA-	Moody’s/S&P
Cooperatieve Rabobank Ua Ny		1,556	0.4804	Aa2/A+	Moody’s/S&P
Exxon Mobil Corporation		1,724	0.5877	Aa2/AA-	Moody’s/S&P
Total corporate obligations		4,409			
Foreign obligations:					
Shell International Fin		1,765	0.0333	Aa2/A+	Moody’s/S&P
Cash and cash equivalents:					
Australia New Zealand Bkg CP		1,999	0.0371	*	*
Bank of Montreal CP		1,999	0.0364	*	*
Bnp Paribas New York Brh 3 A3 CP		1,998	0.0451	*	*
Citigroup Global Mkts Inc CP		500	0.0074	*	*
Credit Suisse First Boston N CP		1,999	0.0340	*	*
Ing US Fdg LLC CP		1,998	0.0595	*	*
MacQuarie Bank Limited CP		1,999	0.0359	*	*
Mizuho Bk Ltd New York Brh CP		1,999	0.0357	*	*
Skandinaviska Enskilda Banken CP		1,999	0.0381	*	*
Societe Generale 4 A2 Disc CP		1,999	0.0317	*	*
Sumitomo Mitsui Tr Bk Ltd Ny CP		1,000	0.0072	*	*
Swedbank Ab Disc Comi Paper CP		1,998	0.0544	*	*
Toyota Mtr Cr Corp CP		1,998	0.0565	*	*

		August 31, 2021			
Investment type		**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Money market:					
First American Government Obligations Fund Class Z	$	115	—	*	*
Total cash and cash equivalents		23,600			
Total fair value of investments, including cash deposits	$	107,684			

* The credit rating of this investment is unrated.

** It is not necessary to disclose the credit ratings of obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.

The following tables are schedules that detail the Company's investments in the Capital Improvement Fund (thousands of U.S. dollars):

		August 31, 2022			
Investment type		**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
U.S. government obligations:					
U.S. Treasury bills	$	26,450	0.4611	**	**
U.S. Treasury notes		54,006	0.3139	**	**
Total U.S. government obligations		80,456			
Total U.S. government agencies and instrumentalities		80,456			

	August 31, 2022			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Corporate obligations:				
Baycare Health Sys Inc	$ 998	0.0557	Aa2/NA	Moody's/S&P
Chevron Corporation	150	0.0106	Aa2/AA-	Moody's/S&P
Berkshire Hathaway Inc	849	0.1233	Aa2/AA	Moody's/S&P
Exxon Mobil Corporation	247	0.0414	Aa2/AA-	Moody's/S&P
Johns Hopkins Health Systems	1,485	0.2822	Aa2/ AA-	Moody's/S&P
Total corporate obligations	3,729			
Foreign obligations:				
Toronto Dominion Bank	250	0.8861	Aa2/AA-	Moody's/S&P
Total foreign obligations	250			
Municipal Issues:				
Pennsylvania ST Univ Taxable Bds	2,000	0.3263	Aa1/AA	Moody's/S&P
Franklin Park Boro Go Bonds 2021	195	0.0001	N/A/AA	Moody's/S&P
Swarthmore Boro Auth Pa College Rev	100	0.0170	Aaa/AAA	Moody's/S&P
Pennsylvania Hsg Fin Agy Single	331	0.0046	Aa1/AA+	Moody's/S&P
North Wales Pa Wtr Auth Wtr Rev	896	0.0247	NA/AA	Moody's/S&P
Dauphin Cnty Pa Taxable Go Bonds 2021	422	0.0143	NA/AA	Moody's/S&P
Dauphin Cnty Pa Go Bonds 2015	618	0.0210	NA/AA	Moody's/S&P
Falls Twp Pa Auth Wtr Swr Rev Gtd	383	0.0157	Aa2/NA	Moody's/S&P
Kennett Pa Cons Sch Dist Go Bonds 2018	136	0.0101	NA/AA	Moody's/S&P
Pennsylvania Hsg Fin Agy Single	253	0.0242	Aa1/AA+	Moody's/S&P
Carlisle Boro Pa Go Bonds 2021	813	0.1157	Aa1/NA	Moody's/S&P
Total municipal issues	6,147			

	August 31, 2022			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Commercial Paper:				
Aspirus Inc Taxable Ian Coml CP	$ 1,985	0.0028	*	*
Barclays Bk Plc Barclays US ccp CP	987	0.0269	*	*
Credit Agricole Corporate CP	1,987	0.0297	*	*
NY Power Authority CP	1,990	0.0246	*	*
Airpt Comm Of Cty Sa Ca CP	999	0.0068	*	*
San Jose Ca Fing Auth Leaserev CP	2,000	0.0143	*	*
Santa Clara Vy Calif Wtr Dist Ca CP	2,000	0.0143	*	*
Texas Tech Univ Revs Taxable CP	1,999	0.0088	*	*
Money market:				
First American Government Obligations Fund Class Z	8,144	—	*	*
Total cash and cash equivalents	22,091			
Total fair value of investments including cash deposits	$ 112,673			

* The credit rating of this investment is unrated.

** It is not necessary to disclose the credit ratings of obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.

The following tables are schedules that detail the Company's investments in the Workers Compensation Escrow Fund (thousands of U.S. dollars):

	August 31, 2022				
Investment type		**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
U.S. government obligations:					
U.S. Treasury bill	$	2,666	0.4056	**	**
Money market:					
Fidelity Government Portfolio – Class I		1	—	*	*
Total fair value of investments including cash deposits	$	2,667			

* The credit of this investment is unrated.

** It is not necessary to disclose the credit ratings of obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.

	August 31, 2021				
Investment type		**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Money market:					
Fidelity Government Portfolio – Class I	$	2,740	—	*	*
Total fair value of investments, including cash deposits	$	2,740			
Portfolio weighted modified duration					

* The credit of this investment is unrated.

** It is not necessary to disclose the credit ratings of obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.

The following tables are schedules that detail the fair value hierarchy of the Company's investments the Sinking Fund Reserve (thousands of U.S. dollars):

	August 31, 2022			
Investment type	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
U.S. government obligations:				
U.S. Treasury notes	$ 57,470	57,470	—	—
U.S. government agencies and instrumentalities:				
Federal Home Loan Mortgage Corporation medium term notes	1,994	—	1,994	—
Federal Home Loan Bank bonds	14,301	—	14,301	—
Federal Farm Credit banks	2,457	—	2,457	—
Total U.S. government agencies and instrumentalities	76,222	57,470	18,752	—
Corporate obligations:				
Amazon Com Inc	1,501	—	1,501	—
Apple Inc.	640	—	640	—
Berkshire Hathaway Inc	2,202	—	2,202	—
Chevron Corporation	2,112	—	2,112	—
Cooperatieve Rabobank Ua Ny	1,546	—	1,546	—
Exxon Mobil Corporation	1,668	—	1,668	—
Microsoft Corporation	2,009	—	2,009	—
Roche Holdings Inc	1,572	—	1,572	—
Total corporate obligations	13,250	—	13,250	—

	August 31, 2022			
Investment type	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents:				
Bpce Disc Coml Paper 4 2 C P	$ 2,046	2,046	—	—
Bnp Paribas New York Brh 3 A3 CP	2,063	2,063	—	—
Canadian Imper Hldgs CP	597	597	—	—
Citigroup Global Mkts Inc CP	2,052	2,052	—	—
Dnb Bk Asa Disc Coml Paper 4 2 CP	2,040	2,040	—	—
Goldman Sachs Intl Disc Coml Paper	2,089	2,089	—	—
Svenska Handelsbanken Ab Publ CP	2,066	2,066	—	—
Toronto Dominion Bk Disc Coml CP	2,066	2,066	—	—
Money market:				
First American Government Obligations Fund Class Z	1,697	1,697	—	—
Total cash and cash equivalents	16,716	16,716	—	—
Total fair value of investments, including cash deposits	$ 106,188	74,186	32,002	—

	August 31, 2021			
Investment type	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
US government obligations:				
U.S. Treasury notes	$ 48,366	48,366	—	—
U.S. government agencies and instrumentalities:				
Federal Home Loan Bank Bonds Corporation medium term notes	6,834	—	6,834	—
Federal Home Loan Bank bonds	3,750	—	3,750	—
Federal Farm Credit banks	18,960	—	18,960	—
Total U.S. government agencies and instrumentalities	29,544	—	29,544	—
Total fair value of U.S. government securities	77,910	48,366	29,544	—

Investment type	August 31, 2021 Total fair value	Level 1	Level 2	Level 3
Corporate obligations:				
Chevron Corporation	$ 719	—	719	—
Chevron Corporation	410	—	410	—
Cooperat Rabobank Ua Ny	1,556	—	1,556	—
Exxon Mobil Corporation	1,724	—	1,724	—
Total corporate obligations	4,409	—	4,409	—
Foreign obligations:				
Shell International Fin	1,765	—	1,765	—
Total foreign obligations	1,765	—	1,765	—
Cash and cash equivalents:				
Australia New Zealand Bkg CP	1,999	1,999	—	—
Bank of Montreal CP	1,999	1,999	—	—
Bnp Paribas New York Brh 3 A3 CP	1,998	1,998	—	—
Citigroup Global Mkts Inc CP	500	500	—	—
Credit Suisse First Boston N CP	1,999	1,999	—	—
Ing US Fdg LLC CP	1,998	1,998	—	—
MacQuarie Bank Limited CP	1,999	1,999	—	—
Mizuho Bk Ltd New York Brh CP	1,999	1,999	—	—
Skandinaviska Enskilda Banken CP	1,999	1,999	—	—
Societe Generale 4 A2 Disc CP1,999	1,999	1,999	—	—
Sumitomo Mitsui Tr Bk Ltd Ny CP1,000	1,000	1,000	—	—
Swedbank Ab Disc Comi Paper CP1,998	1,998	1,998	—	—
Toyota Mtr Cr Corp CP1,998	1,998	1,998	—	—
Money market:				
First American Government Obligations Fund Class Z	115	115	—	—
Total cash and cash equivalents	23,600	23,600	—	—
Total fair value of investments, including cash deposits	$ 107,684	71,966	35,718	—

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

Investment type	August 31, 2022 Total fair value	Level 1	Level 2	Level 3
U.S. government obligations:				
U.S. Treasury bills	$ 26,450	26,450	—	—
U.S. Treasury notes	54,006	54,006	—	—
Total U.S. government obligations	80,456	80,456	—	—
Total U.S. government agencies and instrumentalities	80,456	80,456	—	—
Corporate obligations:				
Baycare Health Sys Inc	998	—	998	—
Chevron Corporation	150	—	150	—
Berkshire Hathaway Inc	849	—	849	—
Exxon Mobil Corporation	247	—	247	—
Johns Hopkins Health System	1,485	—	1,485	—
Total corporate obligations	3,729	—	3,729	—
Foreign obligations:				
Toronto Dominion Bank	250	—	250	—
Total foreign obligations	250	—	250	—

	August 31, 2022			
Investment type	Total fair value	Level 1	Level 2	Level 3
Municipal issues:				
Pennsylvania ST Univ Taxable Bds	$ 2,000	—	2,000	—
Franklin Park Boro Go Bonds 2021	195	—	195	—
Swarthmore Boro Auth Pa College Rev	100	—	100	—
Pennsylvania Hsg Fin Agy Single	331	—	331	—
North Wales Pa Wtr Auth Wtr Rev	896	—	896	—
Dauphin Cnty Pa Taxable Go Bonds 2021	422	—	422	—
Dauphin Cnty Pa Go Bonds 2015	618	—	618	—
Falls Twp Pa Auth Wtr Swr Rev Gtd	383	—	383	—
Kennett Pa Cons Sch Dist Go Bonds 2018	136	—	136	—
Pennsylvania Hsg Fin Agy Single	253	—	253	—
Carlisle Boro Pa Go Bonds 2021	813	—	813	—
Total municipal issues	6,147	—	6,147	—
Commercial Paper:				
Aspirus Inc Taxable Ian Coml CP	1,985	1,985	—	—
Barclays Bk Plc Barclays US ccp CP	987	987	—	—
Credit Agricole Corporate CP	1,987	1,987	—	—
Ny Power Authority CP	1,990	1,990	—	—
Airpt Comm Of Cty Sa Ca CP	999	999	—	—
San Jose Ca Fing Auth Leaserev CP	2,000	2,000	—	—
Santa Clara Vy Calif Wtr Dist Ca CP	2,000	2,000	—	—
Texas Tech Univ Revs Taxable CP	1,999	1,999	—	—
Money market:				
First American Government Obligations Fund Class Z	8,144	8,144	—	—
Total cash and cash equivalents	22,091	22,091	—	—
Total fair value of investments, including cash deposits	$ 112,673	102,547	10,126	—

The following tables are schedules that detail the value hierarchy of the Company's investments in the Workers' Compensation Escrow Fund (thousands of U.S. dollars):

		August 31, 2022			
Investment type		**Total Fair value**	**Level 1**	**Level 1**	**Level 3**
U.S. government obligations:					
U.S. Treasury bills	$	2,666	2,666	—	—
Money market:					
Fidelity Government Portfolio – Class I		1	1	—	—
Total fair value of investments including cash deposits	$	2,667	1	—	—

		August 31, 2021			
Investment type		**Total Fair value**	**Level 1**	**Level 1**	**Level 3**
Money market:					
Fidelity Government Portfolio – Class I	$	2,740	2,740	—	—
Total fair value of investments, including cash deposits	$	2,740	2,740	—	—

(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 as follows:

- Bonds or notes of the U.S. government.
- U.S. Treasury obligations, including separate trading of registered interest and principal securities; 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.

- Investments in U.S. treasury and U.S. agency floating rate securities are allowed. The maturity limitation is two years and ten days from the trade date.
- 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.
- Collateralized banker's acceptances and certificate of deposit denominated in U.S. dollars and issued by a city code authorized depository certificates of deposit that must be secured by acceptable collateral with a total market value equal to 102.0% of the deposit.
- 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 an explicit guarantee, must be rated not lower than A2 by Moody's or A by S&P.
- 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.
- 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.
- 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.
- Money market mutual funds, as defined by the Securities and Exchange Commission, such money market funds must have assets over $15.0 billion, have the highest rating from Moody's, S&P, and Fitch, and contain only government securities.
- 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.
- 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 and instrumentalities	100	33	N/A
Banker's acceptances and certificates of deposit	15	3	3
Commercial paper	25	3	3
Corporate bonds	25	3	3
Collateralized mortgage obligations and pass-through securities	5	3	3
Commonwealth of PA and subdivisions of Commonwealth of PA	15	3	3
Money market mutual funds	25	10	3
Repurchase agreements	25	10	N/A

Approximately 99.8% of the Company's short-term investments as of August 31, 2022 are in the following: U.S. Treasury bills (60.4%), Commercial Paper (21.0%), and Federal Home Loan Bank Bonds (17.5%). These investments are in accordance with the 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 sheets as a recoverable cost in other assets. There is no return on the asset being charged to the customers. The unamortized costs included in other noncurrent assets were $0.2 million and $0.4 million as of August 31, 2022 and 2021, respectively. The unamortized costs included in other current assets on the balance sheets was $0.2 million as of both August 31, 2022 and 2021.

(Continued)

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. Environmental remediation costs of approximately $0.9 million in FY 2022 were offset by insurance settlements received in prior fiscal years, and the remainder was recorded on the balance sheets as a recoverable cost in other noncurrent assets. The Company estimates additional expenditures to be approximately $28.6 million.

The Company has recognized COVID-19 pandemic expenses as a regulatory asset because it is probable that the previously incurred costs will be recovered through rates. COVID-19 pandemic costs, provisions for uncollectible accounts, and waived reconnection and finance charges were approximately $0.1 million in FY 2022 and $30.3 million in FY 2021 and recorded on the balance sheets as a recoverable cost in other noncurrent assets. In June 2022, PGW received $2.0 million from Commonwealth of Pennsylvania which was used to offset a portion of the pandemic expenses. The recoverable pandemic costs reported in other noncurrent assets were $30.7 million and $32.5 million as of August 31, 2022 and 2021, respectively.

(5) Deferred Compensation Plan

The Company offers its employees a deferred compensation 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, up to a maximum of $500, that immediately vests to the employee. The Company contributed $0.4 million each in FY 2022 and in FY 2021. PGW's contributions are accounted for as part of administrative and general expenses on the statements of revenues and expenses and changes in net positions.

(6) Notes Payable

In September 2021, an Ordinance was introduced in City Council which extended the expiration date of the authority of the City to issue Gas Works Revenue Notes in a principal amount that, together with interest, may not exceed $150.0 million outstanding at any one time. The Ordinance was passed by City Council on October 14, 2021 and was signed by the Mayor on October 20, 2021. The expiration date of this Ordinance is October 20, 2026.

Pursuant to the provisions of the City of Philadelphia Note Ordinances, PGW may issue short-term notes to either support working capital requirements or pay the costs of certain capital projects and other project costs. PGW may issue 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 issue 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 a Note Purchase and Credit Agreement and a security interest in PGW's revenues. The Note Purchase and Credit Agreement supporting PGW's combined commercial paper programs set the maximum level of outstanding notes plus interest at $120.0 million in both 2022 and 2021. The commitment amount is $120.0 million under the current credit agreement. The expiration date of the credit agreement is June 16, 2026.

There were no Gas Works Revenue Capital Project Commercial Paper Notes (Capital Project Notes) or Gas Works Revenue Notes outstanding at August 31, 2022 and 2021.

(7) GCR Tariff Reconciliation

During the fiscal year ended August 31, 2022, the Company's actual gas costs were higher than its billed gas costs by approximately $5.8 million. This amount was netted with other applicable costs and recorded in other current assets on the balance sheet at August 31, 2022. Actual gas costs were $18.0 million lower than billed gas costs in FY 2021. This amount was netted with other applicable costs and recorded in other current liabilities on the balance sheet at August 31, 2021.

(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, 2022 and 2021 (thousands of U.S. dollars):

		August 31, 2022			August 31, 2021		
		Current portion	Long-term	Total	Current portion	Long-term	Total
Revenue bonds	$	53,770	943,250	997,020	54,030	1,004,600	1,058,630
Unamortized discount		(4)	(44)	(48)	(4)	(48)	(52)
Unamortized premium		10,437	107,481	117,918	11,391	118,057	129,448
Total revenue bonds	$	64,203	1,050,687	1,114,890	65,417	1,122,609	1,188,026

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, 2022 and 2021 (thousands of U.S. dollars):

		Year ended August 31, 2022				
		Beginning balance	Additions	Reductions	Ending balance	Due within one year
Revenue bonds	$	1,058,630	—	(61,610)	997,020	53,770
Other liabilities:						
Claims and judgments	$	9,981	—	(1,744)	8,237	3,902
Environmental cleanup		28,194	363	—	28,557	2,009
Interest rate swap liability		19,058	—	(13,014)	6,044	—
Total other liabilities	$	57,233	363	(14,758)	42,838	5,911

	Year ended August 31, 2021				
	Beginning balance	**Additions**	**Reductions**	**Ending balance**	**Due within one year**
Revenue bonds	$ 911,610	253,925	(106,905)	1,058,630	54,030
Other liabilities:					
Claims and judgments	$ 9,442	539	—	9,981	4,584
Environmental cleanup	35,166	—	(6,972)	28,194	968
Interest rate swap liability	25,250	—	(6,192)	19,058	—
Total other liabilities	$ 69,858	539	(13,164)	57,233	5,552

(a) Principal Maturities and Scheduled Interest and Swap Payments

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:				
2023	$ 53,770	42,420	2,309	98,499
2024	60,255	40,142	2,309	102,706
2025	56,480	37,773	1,910	96,163
2026	58,975	35,697	1,481	96,153
2027	59,850	33,536	1,031	94,417
2028–2032	214,895	137,311	526	352,732
2033–2037	194,640	92,072	—	286,712
2038–2042	137,225	55,806	—	193,031
2043–2047	124,835	27,736	—	152,571
2048–2050	36,095	3,669	—	39,764
Total	$ 997,020	506,162	9,566	1,512,748

This table assumes that there are no draws on letters of credit supporting variable rate debt issuances resulting in bank bonds. Bank bonds are subject to accelerated payment terms and increased interest rates. Variable rate debt issuances represent $152.8 million of the outstanding principal at August 31, 2022.

Future debt service is calculated using rates in effect at August 31, 2022 for variable rate bonds, which ranged from 1.42% to 1.82%. The variable rate received under the swaps is 70% of one-month London Interbank Offered Rate (LIBOR) until maturity, which was 1.65% at August 31, 2022.

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

(i) Tenth Series Bonds (1998 Ordinance) Defeasance

On October 1, 2021, the Company accelerated payment of $10.9 million of principal for City of Philadelphia, Pennsylvania Gas Works Revenue Refunding Bonds, Tenth Series issued under the 1998 General Ordinance with internally generated funds. The Tenth Series Bonds were redeemed using PGW's Cash-on-Hand and certain amounts released from the PGW Revenue Bond Sinking Fund.

The Company's Eight Series B variable rate bonds are backed by an irrevocable letter of credit, which had an original stated expiration date of August 24, 2024. On July 21, 2022, this letter of credit was extended for an additional four-year term from the original stated expiration date resulting in a new stated expiration date of August 12, 2028.

The Company's Eight Series C variable rate bonds are backed by an irrevocable letter of credit. The existing letter of credit was scheduled to expire on September 1, 2022. On July 21, 2022, a replacement letter of credit was issued with an expiration date of August 12, 2028.

The Company's Eight Series D variable rate bonds are backed by an irrevocable letter of credit, which had an original stated expiration date of August 12, 2023. On July 21, 2022, this letter of credit was extended for an additional five-year term from the original stated expiration date resulting in a new stated expiration date of August 12, 2028.

The Company's Eight Series E variable rate bonds are backed by an irrevocable letter of credit, which had an original stated expiration date of August 1, 2024. On July 21, 2022, this letter of credit was extended for an additional four-year term from the original stated expiration date resulting in a new stated expiration date of August 12, 2028.

The Company's Fifth Series A-2 variable rate bonds are backed by an irrevocable letter of credit, which had an original stated expiration date of December 21, 2019. On April 22, 2019, this letter of credit was extended for a five-year term from the original stated expiration date resulting in a new stated expiration date of December 21, 2024.

In the event that the letter of credit agreements supporting the Eighth and Fifth Series bonds are not extended or replaced prior to their expiration dates, a mandatory tender of the then outstanding bonds will occur. If such mandatory tender results in draws on the letters of credit, the bonds will become bank bonds subject to accelerated payment terms and increased interest rates.

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 2022	Balance outstanding August 31 2021
5th Series A-2	Variable *	2035	$ 30,000	30,000
8th Series B	Variable *	2028	27,370	27,370
8th Series C	Variable *	2028	27,225	27,225
8th Series D	Variable *	2028	40,845	40,845
8th Series E	Variable *	2028	27,370	27,370
10th Series	3.25%–5.00%	2026	—	10,865
13th Series	3.00%–5.00%	2034	139,215	158,340
14th Series	2.00%–5.00%	2038	208,435	231,885
15th Series	2.00%–5.00%	2047	245,955	250,810
16th Series A	4.00%–5.00%	2050	200,345	203,160
16th Series B	4.00%–5.00%	2040	50,260	50,760
			$ 997,020	1,058,630

* As of August 31, 2022, the LIBOR based rate was 1.65%.

(c) *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. Upon issuance of the Thirteenth Series Bonds, no debt under the 1975 General Ordinance remains outstanding.

Also provided by both general ordinances is the establishment of a Revenue Bond Sinking Fund Reserve into which deposits are made 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 Revenue Bond Sinking Fund Reserve are to be applied to the payment of debt service if, for any reason, other funds in the Sinking Fund, which operates as a debt service payment fund into which debt service payments are deposited as they come due, 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, including the Sinking Fund Reserve.

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 $7.2 million and $7.9 million in FY 2022 and FY 2021, respectively, is reported as a component of accrued accounts.

(d) Interest Rate Swap Agreements

Objective – In January 2006, the City entered into a fixed rate pay or 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.

Terms – The swaps had an original termination date of August 1, 2031, which was subsequently amended to August 1, 2028. The swaps 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 2016, the underlying variable rate bonds maturing in FY 2017 through FY 2023 were refunded with fixed rate bonds and the related portions of the swaps, totaling $102.7 million in notional amount, were terminated. PGW made a termination payment of $13.9 million to fund this partial termination of the swaps which is included in unamortized loss on bond refunding on the Company's balance sheet.

As of August 31, 2022, the swaps had a notional amount of $122.8 million and the associated variable rate debt had a $122.8 million principal amount, broken down by series as follows:

- The Series B swap had a notional amount of $27.4 million and the associated variable rate bonds had a $27.4 million principal amount.
- The Series C swap had a notional amount of $27.2 million and the associated variable rate bonds had a $27.2 million principal amount.
- The Series D swap had a notional amount of $40.8 million and the associated variable rate bonds had a $40.8 million principal amount.
- The Series E swap had a notional amount of $27.4 million and the associated variable rate bonds had a $27.4 million principal amount.

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

Fair Value – As of August 31, 2022, the swaps had a combined negative fair value of approximately $6.0 million. The fair values of the interest rate swaps were estimated using the zero-coupon method and are classified as Level 2 within the fair value hierarchy as described in note 1. That method calculates the future net settlement payments required by the swap, assuming current forward rates are implied by the current yield curve for hypothetical zero coupon bonds due on the date of each future net settlement on the swaps.

Risks – As of August 31, 2022, 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 International Swaps and Derivatives Association, Inc. 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 City of Philadelphia Gas Works Revenue 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 if 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 as of and for the years ended August 31, 2022 and 2021 is as follows (thousands of U.S. dollars):

	Interest rate swap liability	Deferred outflows of resources	Deferred inflows of resources
Balance, August 31, 2021	$ 19,058	9,116	—
Change in fair value through August 31, 2022	(13,014)	(9,116)	(3,898)
Amortization of terminated hedge	—	—	1,420
Balance, August 31, 2022	$ 6,044	—	(2,478)

	Interest rate swap liability	Deferred outflows of resources	Deferred inflows of resources
Balance, August 31, 2020	$ 25,250	13,888	—
Change in fair value through August 31, 2021	(6,192)	(6,192)	—
Amortization of terminated hedge	—	1,420	—
Balance, August 31, 2021	$ 19,058	9,116	—

Because the original hedging relationship was terminated when the Sixth Series Bonds were refunded by the Eighth Series Bonds in 2009, there is a difference between the interest rate swap liability and the related deferred outflows of resources. The difference is being amortized on a straight-line basis to expense over the life of the hedge.

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

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

(9) Leases

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset, as specified in the contract, for a contractual period greater than one year, in an exchange or exchange-like transaction. PGW leases nonfinancial assets such as land, buildings, office equipment, vehicles, and machinery. The related obligations are presented in the amounts equal to the present value of the lease payments, payable during the remaining lease term. As the lessee, the lease assets and the respective liabilities are recognized on PGW's balance sheet. In addition, the interest and depreciation expenses are recognized on PGW's statement of revenues and expenses.

There are no variable payment clauses in any of PGW's lease agreements. Lease payments are discounted using a fixed interest rate if implicit in the contract. In instances where an interest rate was not readily implicit in the lease contract, PGW used a fixed long-term borrowing rate of 4.6% to determine the present value of the of the lease obligations in fiscal year 2022 and 2021.

PGW did not incur expenses related to its leasing activities related to residual value guarantees, lease termination penalties or losses due to impairment. PGW did not enter into any lease arrangements with third parties in which PGW was a sublessee. As a lessee there are currently no agreements that include sale-leaseback and lease-leaseback transactions.

As of August 31, 2022, PGW had minimum principal and interest payment requirements for its leasing activities, with a remaining term greater than one year, as follows (thousands of U.S. dollars):

		Lease liability					
		Beginning balance	Additions	Principal payments	Interest payments	Total payments	Ending balance
Fiscal year ending August 31:							
2022	$	704	118	577	28	605	245
2023		245	—	132	9	141	113
2024		113	—	78	5	83	35
2025		35	—	31	1	32	4
2026		4	—	4	—	4	—
Total	$			822	43	865	

Furthermore, commitments for leases that have not yet commenced as of August 31, 2022 and the liability associated with these leases equal approximately $79.7 million in the aggregate.

Currently there are no agreements where PGW is the lessor.

(10) Defined Benefit Pension Plan

(a) Plan Description

The single employer Pension Plan provides pension benefits for all eligible employees of PGW and other eligible class employees of PFMC and PGC.

The Pension Plan provides 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 thirty 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 PGW to the Sinking Fund Commission of the City, which serves as the Trustee. Management believes that the Pension Plan is in compliance with all applicable laws.

(b) Benefits Provided

Normal Retirement Benefits: 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 ten 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.

Death Benefits: Before retirement, the death beneficiary of deceased active participants or of deferred vested participants are entitled to vested benefits provided such participants died after having attained age 45 and completed at least fifteen years of Credited Service and whose age plus years of credited service equals at least 65 or whom have completed at least fifteen years (effective May 15, 2015 – formerly twenty years) of Credited Service regardless of age. The benefit is payable for the death beneficiary's remaining lifetime equal to the amount the participant would have received had the participant retired due to a disability on the day preceding his/her death and elected the 100% contingent annuitant option.

Disability Benefits: Disability benefits are the same as the Normal Retirement Benefits and are based on Final Average Compensation and Credited Service as of the date of disability.

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

Except as noted in the following paragraph, covered employees are not required to contribute to the Pension Plan.

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.

(c) Employees Covered by Benefit Terms

At June 30, 2022, the date of the most recent actuarial valuation, the Pension Plan membership consisted of the following:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving them	2,527
Participants:	
Vested	836
Nonvested	226
Total participants	1,062
Total membership	3,589

(d) Contributions

The Pension Plan funding policy provides for periodic employer contributions at actuarially determined amounts that are sufficient to accumulate assets to pay benefits when due considering employee contributions required for new hires after December 2011 who elect to participate in the Pension Plan. The employer contribution is determined using the Projected Unit Credit actuarial funding method. For the fiscal years ended August 31, 2022 and 2021, the actuarially determined employer contribution was $26.2 million and $23.5 million, respectively. For the fiscal years ended August 31, 2022 and 2021, PGW contributed $30.0 million and $30.0 million, respectively. The contributions for fiscal years ended August 31, 2022 and 2021 were based on the direction of the City of Philadelphia Director of Finance. Employee contributions were approximately $1.9 million and $1.6 million in the plan year ended June 30, 2022 and June 30, 2021, respectively.

(e) Net Pension Liability

The Company’s net pension liability as of August 31, 2022 and 2021 was measured as of June 30, 2022 and 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2022 and June 30, 2021, respectively.

The total pension liability was determined using the entry age normal actuarial method and the following actuarial assumptions:

	2022	2021
Inflation	2.00 %	2.00 %
Investment rate of return	7.00	7.00
Salary increases:		
Years of service		
—	8.86	8.86
1	8.59	8.59
2	8.31	8.31
3	8.04	8.04
4	7.77	7.77
5	7.49	7.49
6	7.22	7.22
7	6.94	6.94
8	6.67	6.67
9	6.39	6.39
10	6.12	6.12
11	5.84	5.84
12	5.57	5.57
13	5.29	5.29
14	5.02	5.02
15	4.74	4.74
16	4.54	4.54
17	4.33	4.33
18	4.12	4.12
19	3.91	3.91
20 or more	3.71	3.71

Mortality rates: Mortality rates for FY 2022 were based on the Pri-2012 mortality tables projected generationally from the central year using Scale MP-2021. The mortality rates for FY2022 reflect the Pri-2012 employees and healthy annuitants, disabled retiree, and contingent survivor mortality tables as appropriate projected generationally from the central year using Scale MP-2021 as published by the Society of Actuaries. Mortality rates for FY 2021 were based on the Pri-2012 mortality tables projected generationally from the central year using Scale MP-2020. Plan specific mortality data is not applied due to the size of the plan in producing credible mortality data.

Long-term rate of return: The long-term expected rate of return on Pension Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Pension Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by

(Continued)

expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class for FY 2022 are summarized in the following table:

Asset class	Minimum	Maximum	Target	Expected annual return
Domestic equity	35.0 %	55.0 %	41.5 %	8.9 %
International equity	10.0	30.0	18.5	8.8
Fixed income	25.0	45.0	32.5	4.0
Alternatives	—	10.0	7.5	—
Cash equivalents	—	10.0	—	—
			100.0 %	

Discount rate: The discount rate used to measure the total pension liability at June 30, 2022 and 2021 was 7.0% in each year. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that Company contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee contributions. Based on those assumptions, the Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on Pension Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

(Thousands of U.S. dollars)

	Increase (decrease)		
	Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability (a)-(b)
Balances at September 1, 2021	$ 811,758	673,542	138,216
Changes for the year:			
Service cost	7,152	—	7,152
Interest	55,276	—	55,276
Differences between expected and actual experience	9,665	—	9,665
Contributions – employer	—	30,043	(30,043)
Contributions – employee	—	1,854	(1,854)
Net investment income	—	(80,989)	80,989
Benefit payments, including refunds of employee contributions	(58,502)	(58,502)	—
Administrative expenses	—	(200)	200
Change in assumptions	1,481	—	1,481
Net changes	15,072	(107,794)	122,866
Balances at August 31, 2022	$ 826,830	565,748	261,082

Changes in Net Pension Liability

(Thousands of U.S. dollars)

		Increase (decrease)		
		Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability (a)-(b)
Balances at September 1, 2020	$	780,793	543,231	237,562
Changes for the year:				
Service cost		7,178	—	7,178
Interest		55,454	—	55,454
Differences between expected and actual experience		2,057	—	2,057
Contributions – employer		—	29,728	(29,728)
Contributions – employee		—	1,607	(1,607)
Net investment income		—	155,840	(155,840)
Benefit payments, including refunds of employee contributions		(56,647)	(56,647)	—
Administrative expenses		—	(217)	217
Change in assumptions		22,923	—	22,923
Net changes		30,965	130,311	(99,346)
Balances at August 31, 2021	$	811,758	673,542	138,216

Sensitivity of the net pension liability to changes in the discount rate: The following table presents the net pension liability, in thousands of U.S. dollars, of the Company at June 30, 2022, calculated using the discount rate of 7.00%, as well as what the Company's net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.00%) or one-percentage-point higher (8.00%) than the current rate:

		1% Decrease 6.00%	Current discount rate 7.00%	1% Increase 8.00%
Net pension liability	$	349,404	261,082	186,360

Pension Plan's fiduciary net position: Detailed information about the Pension Plan's fiduciary net position is available in the separately issued Pension Plan financial report. Requests for additional information should be addressed to Chief Investment Officer, Philadelphia Board of Pensions and Retirements, 1500 John F. Kennedy Boulevard, Two Penn Center Plaza, 17th Floor, Philadelphia, PA 19102.

(f) Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the years ended August 31, 2022 and 2021, the Company recognized pension expense of $20.7 million and ($3.1) million, respectively. At August 31, 2022 and 2021, the Company reported deferred outflows of resources and deferred inflows of resources related to the pension from the following sources (thousands of U.S. dollars):

		August 31, 2022		August 31, 2021	
		Deferred outflows of resources	**Deferred inflows of resources**	**Deferred outflows of resources**	**Deferred inflows of resources**
Differences between expected and actual experience	$	7,887	645	1,493	4,111
Changes of assumptions		11,429	5,292	16,643	12,230
Net difference between projected and actual earnings on pension plan investments		42,477	—	—	78,173
Contributions made after measurement date		6,396	—	6,439	—
Total	$	68,189	5,937	24,575	94,514

The $6.4 million reported as deferred outflows of resources related to employer contributions made after the measurement date as of June 30, 2022 will be recognized as a reduction of the net pension liability in the Company’s FY 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (thousands of U.S. dollars):

Fiscal year:		
2023	$	11,991
2024		14,630
2025		3,796
2026		25,439

(Continued)

(g) Fair Value Measurements

The following table sets forth by level, within the fair value hierarchy described in note 1(o), the plan's assets at fair value as of June 30, 2022 (thousands of U.S. dollars):

		Level 1	Level 2	Level 3	Total
Corporate bonds	$	—	62,260	—	62,260
Common and preferred stock		381,246	1	3	381,250
U.S. government securities		53,000	29,696	—	82,696
Financial agreements		—	7,916	—	7,916
Asset backed securities		779	—	—	779
Municipal obligations		—	343	—	343
	$	435,025	100,216	3	535,244

The following table sets forth by level, within the fair value hierarchy described in note 1, the plan's assets at fair value as of June 30, 2021 (thousands of U.S. dollars):

		Level 1	Level 2	Level 3	Total
Corporate bonds	$	—	74,356	—	74,356
Common and preferred stock		479,269	1	2	479,272
U.S. government securities		48,007	40,988	—	88,995
Financial agreements		—	10,656	—	10,656
Asset backed securities		839	—	—	839
Municipal obligations		—	498	—	498
	$	528,115	126,499	2	654,616

(11) Other Postemployment Benefits

(a) Plan Description

The Company sponsors a single-employer defined-benefit healthcare plan, which provides postemployment healthcare and life insurance benefits to retirees and their beneficiaries and dependents in accordance with their retiree medical program.

The OPEB Plan comprises (1) the PGW OPEB Trust (the Trust), which is used to receive, hold, and disburse assets accumulated to pay for some of the postemployment benefits other than pensions provided by PGW to its eligible retired employees and other eligible beneficiaries and (2) OPEB expenses paid for directly by PGW out of its general resources rather than through the Trust. The Trust was established for the exclusive benefit of PGW's retired employees and other eligible beneficiaries designated under the plan. Management believes that the OPEB Plan is in compliance with all applicable laws.

(b) Benefits Provided

Medical Benefits: For pre-65 retirees, a choice of medical plans is offered through Independence Blue Cross including Personal Choice, Blue Cross Blue Shield with Major Medical, or Keystone HMO's. Employees who retire after December 1, 2001 are provided the Keystone 5 Plan at PGW's expense and they can buy up to a more expensive plan. Employees who retire on or after September 1, 2007 are provided the Keystone 10 Plan at PGW's expense, and they can buy up to a more expensive plan. Union employees who retire after August 31, 2011 are provided the Keystone 15 Plan at PGW's expense and can buy up to a more expensive plan. Management employees who retire after August 31, 2011 continue to receive the Keystone 10 as the base plan and can buy up to a more expensive plan.

Reinsurance provides specific stop-loss coverage of $0.3 million on pre-65 Medical and Prescription Drug claims.

Eligible pre-65 retirees who relocate outside of the Keystone coverage area may elect to participate in the PGW Retiree Health Reimbursement Arrangement (HRA). Under the HRA, the Keystone base plan premium-equivalent will be credited to a participant's HRA account and will be available to reimburse the participant for eligible medical insurance premiums.

Medicare eligible retirees are provided a fully insured Medicare Supplement Plan through Independence Blue Cross.

Opt-out benefits of $1,500 per year for single coverage and $3,000 per year for married coverage are available to eligible retirees. This benefit is not available to a married couple who both retired from PGW and who are eligible for Medicare benefits. Retirees can maintain prescription drug and dental coverage even if they opt out of medical coverage.

Prescription Drug Benefits: Employees who retired on or after April 15, 1976 and prior to December 1, 2001, are offered a Prescription Drug Plan that has been established specifically for retirees and is separate from the plan that is offered to active employees. The retiree Prescription plan consists of a $2 copay for generic drugs, a $2 copay for brand name drugs when no generic drugs are available, and a $15 copay for brand name drugs when generic drugs are available. There are no deductibles and no lifetime maximums. Employees who retired prior to April 15, 1976 or on or after December 1, 2001 but before September 1, 2007 have a $5 copay for generics and a $10 copay for brand drugs. Employees who retire on or after September 1, 2007 have a $5 copay for generics and a $15 copay for brand drugs.

Effective, January 1, 2012, PGW moved Medicare eligible retirees into an Employee Group Waiver Plan arrangement. Covered drugs and copays remain the same. Prescription drug benefits are self-funded for all retirees.

Dental Benefits: For employees who retired after April 15, 1978, a basic dental plan is offered at no cost to the retiree. For employees who retired after June 1, 1984, an enhanced dental plan is offered. For eligible retirees who enroll in the enhanced dental plan, the retiree must pay the difference between the basic and enhanced plans. The dental plans were fully insured through August 31, 2016. Effective September 1, 2016, the dental benefits are self-funded.

Death Benefits: Nonunion employees are offered voluntary life insurance equal to two times their salary at retirement. At age 65, the life insurance benefit decreases by 5.0% per year for fifteen years until the benefit equals 25.0% of the original life insurance benefit at age 65. PGW pays the cost of the first $75,000 of coverage. Retirees in this category pay $0.35 per $1,000 per month for coverage in excess of $75,000.

Union employees are offered voluntary life insurance equal to one times their salary at retirement. At retirement, the life insurance benefit decreases by 10.0% per year for five years until the benefit equals 50.0% of the original life insurance benefit at retirement. Retirees in this category pay $0.35 per $1,000 of coverage per month and PGW pays the balance.

Upon the death of an active employee prior to satisfying the requirements for Preretirement Spouse's Death Benefits, surviving spouses and dependents are entitled to receive two years of health coverage paid by PGW. Upon the death of an active employee on or after satisfying the requirements for Preretirement Spouse's Death Benefits, surviving spouses and dependents are entitled to receive health coverage for life (or for five years if hired on or after May 21, 2011 if Union or hired on or after December 21, 2011 if Nonunion) paid by PGW.

Contributions: The OPEB Plan 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 the Keystone 5, Keystone 10, or Keystone 15 plan at PGW's expense and can buy up to a more expensive plan. Retirees also contribute toward enhanced dental plan and life insurance coverage as described above. PGW pays 100.0% of the cost for the prescription drug plan after drug copays.

(c) Participants Covered

At December 31, 2021, the date of the latest actuarial valuation, the OPEB Plan's combined membership consisted of the following:

	Number
Retirees	1,440
Beneficiaries	379
Active employees – Union	1,076
Active employees – Management	517
Total number of participants	3,412

(d) Contributions

Contributions to the OPEB Plan are the amounts received (additions) from PGW as sponsor of the Plan. These contributions include both amounts paid by PGW out of general resources to fund benefits on a pay-as-you-go basis, and contributions related to rate surcharges approved by the PUC in May 2010 and continued in July 2015. For the OPEB Plan year ended December 31, 2021, PGW contributed $25.2 million on a pay-as-you-go basis, $16.0 million resulting from rate surcharges, and $2.5 million of its resources. For the OPEB Plan year ended December 31, 2020, PGW contributed $27.6 million on a pay-as-you-go basis, $16.0 million resulting from rate surcharges, and $2.5 million of its resources.

(e) Net OPEB Liability

The Company's net OPEB liability as of August 31, 2022 and 2021 was measured as of December 31, 2021 and 2020, and the OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2021 and 2020, respectively. The valuation and measurement date was December 31, 2021. The September 1, 2020 actuarial valuation was rolled forward to the December 31, 2020 measurement date.

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. 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 total OPEB liability was determined using the entry age, level percent of pay actuarial method and the following actuarial assumptions used to value the postemployment medical liabilities can be categorized into the following three groups:

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

  The demographic assumptions were updated based upon the experience study completed in 2020 which reviewed experience data from 2014 to 2019.

- *Economic assumptions*: the discount rate and health care cost trend rates.

Benefit assumptions:

- *Per capita claims:* Using actuarial standards, specifically Actuarial Standard of Practice No. 6, *Measuring Retiree Group Benefits Obligations and Determining Retiree Group Benefits Program Periodic Costs or Actuarially Determined Contributions*, the annual age specific per capital claims cost rate were projected at the following assumed trend rates for future years (whole U.S. dollars):

	Medical		
Age	**Medical**	**Prescription drug**	**Dental**
50	$ 7,008	2,664	158
55	8,940	3,396	158
60	11,220	4,260	158
64	13,524	5,136	158
65	2,460	4,380	158
70	2,376	4,212	158
75	2,532	4,500	158

- *Life insurance*: The claims cost for life insurance is based on the actuarial present value of projected life insurance claims.
- *Morbidity*: The below healthcare cost for prescription drug coverage and pre-65 medical coverage reflects the following changes due to increased or decreased usage as a result of aging:

Ages	Blended Medical/Rx
50–54	5.08 %
55–59	4.86
60–64	4.65
65–69	(1.11)
70–74	1.18
75–79	1.67
80–84	1.87
85+	—

Demographic assumptions:

- *Mortality rates*: Mortality rates for FY 2022 is assumed to follow:
  - *Preretirement Mortality* – Pri-2012 Total Employee Amount Weighted Table, projected with SOA Scale MP-2020.

– *Postretirement Mortality* – Pri-2012 Total Retiree Amount Weighted Table, projected with SOA Scale MP-2020.

– *Disabled Retirement Mortality – Pri-2012 Total Disabled Retiree Amount Weighted Table, Projected with SOA Scale MP-2020*.

Mortality rates for FY 2021 is assumed to follow the sex-distinct, Pri-2012 Employee, Healthy Annuitant, and Disabled Retiree Mortality Tables projected with scale MP-2020.

- *Salary Scale*: Salary Scale is based on years of service as follows:

Years of service	Annual increase	Years of service	Annual increase
0	8.86 %	11	5.84 %
1	8.59	12	5.57
2	8.31	13	5.29
3	8.04	14	5.02
4	7.77	15	4.74
5	7.49	16	4.54
6	7.22	17	4.33
7	6.94	18	4.12
8	6.67	19	3.91
9	6.39	20 or more	3.71
10	6.12		

- *Retirement rates*: Retirement rates applicable once an employee is eligible for retirement benefits vary by age and service with rates as follows:

Age	Service < 30	Service > 30	Age	Service < 30	Service > 30
50	— %	15.00 %	61	10.00 %	15.00 %
51	—	15.00	62	10.00	40.00
52	—	15.00	63	10.00	25.00
53	—	15.00	64	10.00	25.00
54	—	15.00	65	20.00	25.00
55	5.00	15.00	66	20.00	40.00
56	5.00	15.00	67	20.00	40.00
57	10.00	15.00	68	20.00	40.00
58	10.00	15.00	69	20.00	40.00
59	10.00	15.00	70+	100.00	100.00
60	10.00	15.00			

- *Withdrawal rates*: Turnover rates applicable before an employee is eligible for retirement benefits vary by age and service with illustrative rates as follows:

Age	Service < 1 year	1 year of service	2 years of service	3 years of service	4 years of service	Service > 4 years
18 – 37	25.00 %	15.00 %	12.00 %	10.00 %	7.00 %	3.00 %
38	23.00	15.00	12.00	9.00	6.60	2.80
39	21.00	15.00	12.00	8.00	6.20	2.60
40	19.00	15.00	12.00	7.00	5.80	2.40
41	17.00	15.00	12.00	6.00	5.40	2.20
42	15.00	15.00	12.00	5.00	5.00	2.00
43	14.00	14.00	10.60	4.60	4.60	3.00
44	13.00	13.00	9.20	4.20	4.20	3.00
45	12.00	12.00	7.80	3.80	3.80	3.00
46	11.00	11.00	6.40	3.40	3.40	3.00
47	10.00	10.00	5.00	3.00	3.00	3.00
48	10.00	10.00	5.00	2.80	2.80	3.00
49	10.00	10.00	5.00	2.60	2.60	3.00
50	10.00	10.00	5.00	2.40	2.40	3.00
51	10.00	10.00	5.00	2.20	2.20	3.00
52+	10.00	10.00	5.00	2.00	2.00	3.00

- *Participation rate*: Participation assumes 100% of future retirees who meet the eligibility requirements will participate in the postemployment welfare plans upon retirement.
- Disability rates vary by age with illustrative rates as follows:

Age	Males	Females	Age	Males	Females
18 – 27	0.03 %	0.03 %	47	0.23 %	0.33 %
28	0.03	0.04	48	0.28	0.37
29	0.03	0.04	49	0.31	0.40
30	0.03	0.04	50	0.37	0.45
31	0.03	0.06	51	0.43	0.49
32	0.03	0.06	52	0.51	0.55
33	0.03	0.07	53	0.59	0.60
34	0.03	0.07	54	0.68	0.66
35	0.04	0.08	55	0.77	0.71
36	0.04	0.09	56	0.86	0.77
37	0.06	0.10	57	0.96	0.83
38	0.07	0.11	58	1.06	0.89
39	0.08	0.13	59	1.17	0.95
40	0.09	0.14	60	1.28	1.00
41	0.10	0.17	61	1.40	1.07
42	0.11	0.19	62	1.54	1.13
43	0.13	0.21	63	1.68	1.17
44	0.16	0.25	64	1.83	1.22
45	0.18	0.27	65+	—	—
46	0.20	0.30			

Economic assumptions:

- *Long-term rate of return*: The long-term expected rate of return on OPEB Plan investments was determined using a building block method in which expected future real rates of returns (expected returns, net of OPEB Plan investment expense and inflation) are developed for each major asset class. The calculated investment rate of return was set equal to the expected 10-year compound (geometric) real return plus inflation (rounded to the nearest 25 basis points, where appropriate). The table below provides the long-term expected real rates of return by asset class (based on published capital market assumptions). The target allocation for each major asset class as of December 31, 2021 is summarized in the following table:

Asset class	Minimum	Maximum	Target	Expected annual return
Domestic equity large cap	27.5 %	37.5 %	34.8 %	9.5 %
Domestic equity small cap	10.0	15.0	14.7	8.3
Emerging market equity	5.0	10.0	6.5	6.9
International equity	15.0	20.0	16.0	6.5
Fixed income	20.0	40.0	28.0	2.7
Commodities/real assets	—	10.0	—	—
Cash equivalents	—	5.0	—	—
			100.0 %	

Inflation Rate: 2.0%

- *Healthcare cost trend*:

Year	Medical (Pre-65)	Medical (Post-65)	Prescription drugs	Dental
2022 – 2023	5.50 %	4.50 %	6.00 %	4.00 %
2024 – 2029	5.20	4.50	6.20	4.00
2030 – 2049	5.20	4.50	6.00	4.00
2050 – 2059	5.20	4.50	5.50	4.00
2060 – 2069	5.20	4.50	5.00	4.00
2070+	4.50	4.50	4.50	4.00

- *Discount rate*: The discount rate used for determining the total OPEB liability is the long-term expected rate of return on plan investments of 7.0% as of December 31, 2021 and 7.30% as of December 31, 2020, which represents the long-term expected rate of return on Plan investments at the applicable measurement date.

Changes in Net OPEB Liability

(Thousands of U.S. dollars)

		Increase (decrease)		
		Total OPEB liability (a)	**Plan fiduciary net position (b)**	**Net OPEB liability (a)-(b)**
Balances at September 1, 2021	$	507,667	306,079	201,588
Changes for the year:				
Service cost		5,762	—	5,762
Interest		36,577	—	36,577
Differences between expected and actual experience		(25,286)	—	(25,286)
Assumption changes		15,652	—	15,652
Benefit payments		(25,197)	—	(25,197)
Contributions-employer		—	43,697	(43,697)
Project investment return on year		—	23,012	(23,012)
Plan asset gain/(loss)		—	18,405	(18,405)
Benefit payments		—	(25,197)	25,197
Administrative expenses and bank fees		—	(52)	52
Net changes		7,508	59,865	(52,357)
Balances at August 31, 2022	$	515,175	365,944	149,231

Changes in Net OPEB Liability

(Thousands of U.S. dollars)

		Increase (decrease)		
		Total OPEB liability (a)	**Plan fiduciary net position (b)**	**Net OPEB liability (a)-(b)**
Balances at September 1, 2020	$	493,570	245,361	248,209
Changes for the year:				
Service cost		4,999	—	4,999
Interest		35,387	—	35,387
Differences between expected and actual experience		(30,648)	—	(30,648)
Assumption changes		31,995	—	31,995
Benefit payments		(27,636)	—	(27,636)
Contributions-employer		—	46,136	(46,136)
Project investment return on year		—	18,585	(18,585)
Plan asset gain/(loss)		—	23,673	(23,673)
Benefit payments		—	(27,636)	27,636
Administrative expenses and bank fees		—	(40)	40
Net changes		14,097	60,718	(46,621)
Balances at August 31, 2021	$	507,667	306,079	201,588

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate: The following presents the Net OPEB liability, in thousands of U.S. dollars, of the Company at December 31, 2021, as well as what the Net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current discount rate:

		1% Decrease 6.00 %	**Current discount rate 7.00 %**	**1% Increase 8.00 %**
Net OPEB liability	$	220,489	149,231	91,183

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates: The following presents the Net OPEB liability of the Company at December 31, 2021, as well as what the Net OPEB liability would be if it were calculated using healthcare cost trend rates are one-percentage-point lower or one-percentage-point higher than the current healthcare cost trend rates:

		1% Decrease	Current healthcare cost trend rates	1% Increase
		(Thousands of U.S. dollars)		
Net OPEB liability	$	91,216	149,231	221,130

OPEB Plan's fiduciary net position: Detailed information about the OPEB Plan's fiduciary net position is available in the separately issued OPEB Plan financial report. Requests for additional information should be addressed to Administrator – PGW OPEB Trust, 800 W. Montgomery Avenue, Philadelphia, Pennsylvania 19122.

(f) OPEB Expense and Deferred Outflow of Resources and Deferred Inflows of Resources Related to Other Postemployment Benefits

For the years ended August 31, 2022 and 2021, the Company recognized OPEB expense of $(1.2) million and $(0.9) million, respectively. At August 31, 2022 and 2021, the Company reported deferred outflows of resources and deferred inflow of resources related to other postemployment benefits from the following sources (thousands of U.S. dollars):

		August 31, 2022		August 31, 2021	
		Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$	—	58,253	—	61,502
Changes of assumptions		33,260	9,829	40,956	14,744
Difference between projected and actual earnings on OPEB plan investments		—	34,525	—	26,639
Contributions made after measurement date		29,316	—	30,765	—
Total	$	62,576	102,607	71,721	102,885

The $29.3 million and $30.8 million reported as deferred outflows of resources related to employer contributions made after the measurement date as of December 31, 2021 and 2020, respectively, will be recognized as a reduction of the net OPEB liability in FY 2022 and FY 2021, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (thousands of U.S. dollars):

Fiscal year:		
2023	$	(29,661)
2024		(24,006)
2025		(10,073)
2026		(5,609)
2027		—
Thereafter		—

(g) Fair Value Measurements

The following table sets forth by level, within the fair value hierarchy described in note 1(o), the plan's assets at fair value as of December 31, 2021 (thousands of U.S. dollars):

		Level 1	Level 2	Level 3	Total
Domestic equity mutual funds	$	180,800	—	—	180,800
International equity mutual funds		81,417	—	—	81,417
Corporate bonds		—	519	—	519
U.S. treasuries		9,297	1,880	—	11,177
U.S. government agency		—	1,030	—	1,030
Bond mutual funds		71,412	—	—	71,412
Municipal bonds – mutual funds		17,310	—	—	17,310
	$	360,236	3,429	—	363,665

The following table sets forth by level, within the fair value hierarchy described in note 1(o), the plan's assets at fair value as of December 31, 2020 (thousands of U.S. dollars):

		Level 1	Level 2	Level 3	Total
Bond mutual funds	$	292,581	—	—	292,581
U.S. government securities		9,768	3,596	—	13,364
	$	302,349	3,596	—	305,945

Mutual funds consist of open-end mutual funds that are registered with the SEC and are valued daily using quoted prices in active markets as provided by the pricing vendor for these securities (Level 1 inputs).

Fixed income consists of corporate bonds, U.S. Government and agency securities, and mortgage/asset backed securities. The fair values of these investments are determined using third party pricing services using quoted prices in active markets (Level 1 inputs) or prices derived from observable market inputs such as benchmark curves, broker/dealer quotes, and other industry and economic factors (Level 2 inputs).

(h) Investment Policy

The Trust's investment policy in regard to the allocation of invested assets is defined in its Statement of Investment Guidelines (the Guidelines) developed in conjunction with the Trust's Board and its financial advisors. The long-term goals of the Guidelines are to manage the assets in a manner in the best of interest of participants, produce investment return that meets the actuarially assumed rate, and to produce consistent performance to protect against excessive volatility. There has not been any significant change in the Trust's investment policy during the reporting period.

The asset allocation strategy was as follows (as adjusted in February 2019):

	Target	Actual
Domestic equity large cap	32.5 %	34.7 %
Domestic equity small cap	12.5	14.7
Emerging market international equity	7.5	6.3
Developed market international equity	17.5	15.9
Fixed income	30.0	27.7
Cash and cash equivalents	—	0.6

(i) Rate of Return

For the years ended December 31, 2021 and 2020, the annual money-weighted rate of return on investments, net of investment expense, was 13.15% and 16.65%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

(ii) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is measured by nationally recognized statistical rating agencies such as Moody's.

(iii) Custodial Credit Risk

The assets of the Plan are held by the Trust.

Custodial credit risk is the risk that in the event of a bank failure, the Trust's deposits may not be returned to the Trust. The Trust held no cash and cash equivalents at December 31, 2021 and 2020, covered by federal deposit insurance.

(Continued)

Custodial credit risk for investments is the risk that, in the event of a failure to a counterparty to a transaction, the value of the investment or collateral securities that are in possession of an outside party may not be recovered. Investments are exposed to custodial credit risk if the securities are uninsured, are not held in the name of the Trust, or are held by either the counterparty or the counterparty's trust department or agent but not in the Trust's name. The Trust's investments are not exposed to custodial credit risk as they are held by the Trust's custodian in the name of the Trust.

(iv) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of fixed income investments. The Trust's investment policy does not specifically address limitations on the maturities of investments.

(v) Investment Concentration Risk

Investment concentration risk is the risk that the investment portfolio is disproportionately exposed to market changes in specific sectors or securities. As of December 31, 2021, the Trust held the following investments in excess of 5.0% of the fair value of the Trust's net position: DFA US Small Cap Fund, American Funds Europac Growth R6 Fund, Vanguard Total Stock Market Index Fund, and Baird Core Bond Fund. As of December 31, 2020, the Trust held the following investments in assets in excess of 5.0% of the fair value of the Trust's net position: DFA US Small Cap Fund, American Funds Europac Growth R6 Fund, Vanguard Total Stock Market Index Fund, and Baird Core Bond Fund.

(12) Defined Contribution Pension Plan

PGW contributes to a defined-contribution pension plan for all employees hired after May 21, 2011 (Union) or December 8, 2011 (Nonunion) who elect not to contribute to the defined-benefit plan. The Defined Contribution Plan (DC) is administered by the PGW Investment Committee. Benefit terms, including contribution requirements, for the DC Plan are established and may be amended by Ordinance of the City. For each employee in the DC Plan, the Company is required to contribute annually 5.5% of applicable wages to an individual employee account. Employees are not required to make contributions to the plan. For the years ended August 31, 2022 and 2021, the Company recognized pension expense of $1.9 million and $1.9 million, respectively, related to contributions to the DC Plan.

Participants are immediately vested in Company contributions and earnings on Company contributions.

The Company had no accrued liabilities for contributions payable to the DC Plan at August 31, 2022 and 2021.

(Continued)

The DC Plan is a "tax-qualified" 401 (a) plan that is designed to comply with appropriate federal tax laws under the Internal Revenue Code (Tax Code). The DC Plan is a "defined contribution" plan as defined by the Tax Code. It is considered a "defined contribution" plan because the benefit consists of a defined contribution made by PGW for the benefit of the employee. The defined contribution is calculated as an amount equal to five and one half percent (5.5%) of the employee's applicable wages. These amounts are deposited into an account for the benefit of the employee under the guidelines of the plan. The Company contributed $1.9 million and $1.9 million in FY 2022 and FY 2021, respectively. PGW's contributions are accounted for as part of administrative and general expenses in the statements of revenues and expense and changes in net position.

(13) Pollution Remediation Obligation

The pollution remediation obligations at August 31, 2022 and 2021 were $28.6 million and $28.2 million, respectively, which reflect the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

The Company recorded an increase in the total liability for pollution remediation obligations of $0.4 million in FY 2022 and a reduction in the total liability for pollution obligations of $7.0 million in FY 2021. The pollution remediation liability is reflected in other noncurrent and current liabilities in the balance sheets. 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. The regulatory asset is reflected in regulatory asset – environmental on the balance sheets.

(14) 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 $0.3 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 $1.0 million per occurrence self-insured retention.

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 maintains $5.0 million in coverage for liability arising from nonowned Disposal Sites subject to each incident deductible of $0.1 million. During FY 2022, the Company maintained Cyber (Privacy) Liability coverage, with a limit of $10.0 million with a $0.5 million retention covering costs arising from a data or security breach through August 31, 2022. Effective September 1, 2022, and through September 1, 2023, the limit on this coverage was increased to $11.0 million with a $0.4 million retention covering costs arising from a data or security breach.

The Company maintains a medical stop-loss insurance program for its self-insured healthcare plans. The coverage provides for a $0.4 million deductible per covered participant.

The Company has evaluated all open claims as of August 31, 2022 and has appropriately accrued for these claims on the balance sheets.

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:						
2022	$	9,981	792	(2,520)	8,253	3,917
2021		9,442	2,384	(1,845)	9,981	4,584
2020		9,560	1,973	(2,091)	9,442	5,435

(15) Commitments and Contingencies

Commitments

Commitments for major construction and maintenance contracts were approximately $76.8 million and $84.0 million, as of August 31, 2022 and 2021, respectively.

The Company has entered into long-term and seasonal contracts with suppliers providing the Company with natural gas. The Company has the ability to fix the price of the purchase of natural gas with these contracts.

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

The Company's FY 2023 Capital Budget was approved by City Council in the amount of $187.4 million. Within this approval, funding was provided to continue the implementation of an 18-mile CIMR Program. The cost for this program in FY 2023 is expected to be $28.4 million. The total six-year cost of the CIMR Program is forecasted to be $186.3 million. In addition to the 18-mile CIMR Program, the FY 2023 Capital Budget includes funding for an accelerated CIMR Program which PGW will include in its DSIC surcharge. This incremental program in FY 2023 is expected to cost $38.0 million. The total six-year cost of this incremental program is forecasted to be $228.0 million. The FY 2023 Capital Budget also includes $1.4 million for the purchase of smartpoint devices for the Automatic Meter Infrastructure (AMI) units, which will replace the Automatic Meter Reading (AMR) devices. The total six-year cost of this program to replace AMR units is approximately $2.4 million.

Contingencies

The Company's material legal proceedings are as described below. The Company believes that it has valid defenses to these legal proceedings and intends to defend them vigorously. PGW records reserves for estimated losses from contingencies when information available indicates that a loss is probable and the amount of the loss, or range of loss, can be reasonably estimated. Management has assessed the following matters based on current information and made a judgment concerning their potential outcomes, considering the nature of the claim, the amount and nature of damages sought, and the probability of success. The Company is unable to predict the outcome of these legal proceedings or reasonably estimate the scope or amount of any associated costs and potential liabilities.

Philadelphia Gas Works, Petitioner v. Pennsylvania Public Utility Commission and SBG Management Services, et. al., Respondents, Pennsylvania Commonwealth Court Docket Nos. 1291 CD 2018, 1405 CD 2018 and 1404 CD 2018. These are an appeal by PGW dated October 19, 2018 from the Orders of the PUC issued (a) December 8, 2016, and the related Opinions and Orders denying reconsideration that were issued on May 18, 2018 and on August 23, 2018; (b) September 20, 2018; and (c) October 4, 2018.

Eight complaints were filed by landlords and by SBG Management Services, Inc. (collectively, SBG), the property management company that manages the day-to-day operations of certain residential properties owned by the landlords. The complaints which challenged amounts owned by SBG to PGW that, inter alia, were subject to late payment charges by PGW were divided into three groups by the Commission. The Commission's Regulations and PGW's Commission approved tariff authorizes PGW to charge interest (in the form of a late payment charge) at the rate of 1.5% per month on the overdue balance of a utility bill. In addition, if a customer does not pay for natural gas services provided by PGW, a municipal lien (which is created by operation of the Pennsylvania Municipal Claim and Tax Lien Law, 53 P.S. §§ 7101, et. seq. (MCTLL)) may be docketed with the appropriate local court. The Commission held that it lacks jurisdiction over unpaid amounts for natural gas service provided by PGW when a municipal lien is docketed under the MCTLL. Based upon that conclusion, the Commission determined that once a lien is docketed, PGW may not apply rules set forth in its Commission-approved tariff to the arrearage amount giving rise to the lien and may not show that arrearage amount on its monthly bills to nonpaying customers. The PUC assessed civil penalties in the total amount of approximately $0.1 million against PGW, ordered PGW to refund sums totaling approximately $1.0 million to the complainants, correct its practices in the assessment of late payment charges on unpaid balances, and modify the payment application sequence associated with partial payments. This would require PGW to make changes to PGW's billing system.

In response to the PUC's determination, PGW filed timely appeals with the Pennsylvania Commonwealth Court from the PUC's decision in each group of complaints. Oral argument took place on November 12, 2019.

On December 9, 2019, the Pennsylvania Commonwealth Court reversed the orders of the PUC related to amounts owed by SBG Management Services, Inc. to PGW that, inter alia, were subject to late payment charges by PGW.[1] The Commonwealth Court found that (i) the PUC committed an error of law in holding that it lacked jurisdiction over gas charges subject to docketed liens, (ii) the PUC committed an error of law in holding that PGW could not continue to impose late fees of 1.5% per month on delinquent accounts once the City dockets a lien, and (iii) the PUC erred in imposing penalties, ordering refunds of previously imposed late fees, and directing billing changes relating to charges subject to docketed liens.

On January 8, 2020 SBG petitioned the Pennsylvania Supreme Court ("PA Supreme Court") to reverse the decision of the Commonwealth Court. On June 23, 2020, the PA Supreme Court granted SBG's petition for appeal. On December 1, 2020, the parties presented oral arguments before the PA Supreme Court. On April 29, 2021, the PA Supreme Court reversed the order of the Commonwealth Court, and held that liens filed of record under Section 7106(b) of the Municipal Claims and Tax Lien Law (53 P.S. § 7106(b)) have the effect of judgments, and accordingly accrue interest at the "lawful rate" of post-judgment interest of 6% per annum. (See 42 Pa.C.S. §8101; 41 P.S. § 202) (see *https://casetext.com/case/phila-gas-works-v-pa-pub-util-commn-3).*

On May 13, 2021 PGW filed an "Application for Reargument" with the PA Supreme Court. In its Application, PGW requested that the PA Supreme Court grant reargument on a number of grounds, including due to PGW's assertion that the determination of the interest rate on liens was not properly the subject of the appeal before the PA Supreme Court.

[1] PGW did not appeal the decision of the PUC regarding partial payment application. This matter was independently resolved per a settlement agreement reached with the Office of Consumer Advocate, and approved by the PUC on June 13, 2019, as part of a prior PGW's base rate case. Per the settlement, PGW agreed to modify its partial payment allocation practices so that no priority is given to the satisfaction of late payment charges.

On June 15, 2021, Philadelphia Gas Works' Application for Reargument was granted in part by the PA Supreme Court. The case was remanded to the Commonwealth Court for consideration of any outstanding issues. (PGW's Application for Relief (including the request for reargument) was denied in all other respects.) On August 3, 2021, the Commonwealth Court issued an order establishing a Supplemental Briefing Schedule for the matter on remand, and also fixed the questions on remand.[2] The parties' briefs were filed in September/October of 2021. Oral argument took place on February 7, 2022 before the Commonwealth Court, and on March 16, 2022 the Commonwealth Court held that PGW II applies retroactively only to the parties of PGW II as well as other proceeding pending at the time PGW II was decided on April 28, 2021. The Commonwealth Court remanded the proceeding to the Commission for a determination of the correct amounts.

Upon remand to the Commission, PGW filed a motion to dismiss the issue related to the amounts due on docketed liens. PGW argued that the amount due on docketed liens (which are judgments according to PGW II) are outside of the Commission's jurisdiction. In response, SBG argued that it is proper for the Commission to determine how much SBG was overcharged. The motion was argued before the Administrative Law Judge (the "ALJ") on November 8, 2022. An evidentiary hearing is scheduled for January 19, 2023.

SBG Management Services, Inc. Et Al. v. City of Philadelphia c/o Philadelphia Gas Works. In a separate, but related matter to the SBG matter described above, various and several new SBG entities filed a Praecipe for Writ of Summons against "the City of Philadelphia c/o PGW" in the Philadelphia Court of Common Pleas on April 29, 2021, and docketed a complaint on August 24, 2021. The complaint sets forth a cause of action for "recoupment" (Count I), a claim for unjust enrichment (Count II), a cause of action for fraud (Count III), and a claim for violation of the UTPCPL (Count IV). Under SBG's view of the decision of the Pennsylvania Supreme Court (PGW v. PUC, 249 A.3d 963 (Pa. 2021)) in the above-described litigation, SBG is entitled to damages based on the amounts paid by them to satisfy the judgments (docketed municipal liens) against them for unpaid gas service. In their complaint, Plaintiffs allege they have incurred hundreds of millions of dollars in damages from PGW's billing practices since at least 2004 and are seeking a refund of late payment charges paid to PGW in excess of $10.2 million, as well as other substantial (including punitive and treble) damages, interest, costs, fees and penalties based upon allegations of unjust enrichment, fraud, and unfair trade practices arising from PGW's late payment charges. PGW filed its response to the complaint in September 2021, wherein it raised objections and defenses to all of the causes of action raised in the complaint. On January 20, 2022, the Court issued an

[2] Questions on remand: 1. Whether the PA Supreme Court's opinion and order in Appeal of: SBG Management Services, 249 A.3d 963 (Pa. No. 14 EAP 2020, filed April 29, 2021), applies retroactively to the case at bar; 2. Whether the [Commission's] orders violate [PGW's] constitutional rights to due process by, without prior notice, announcing, applying and enforcing a new legal interpretation against [PGW] in the context of individual consumer complaints; 3. Whether substantial evidence of record supports the Commission's imposition of a civil penalty and whether the Commission abused its discretion and acted arbitrarily and capriciously in imposing penalties; 4. Whether the Commission's mandate for system-wide modifications is arbitrary and capricious and an abuse of the Commission's discretion; and 5. Whether a remand is appropriate to the Commission for a determination of [PGW]'s compliance with the mandate for system-wide modifications or for imposition of a new period in which [PGW] must comply.

order in response to PGW's Preliminary Objections, dismissing two of SBG's claim with prejudice (fraud and unfair trade practices), and dismissing a third claim (breach of contract) without prejudice, and leave to SBG to amend its complaint. SBG has subsequently filed multiple amended complaints including a

Third Amended Complaint ("TAC"). The TAC asserts claims of breach of contract (Count 1) and unjust enrichment (Count II). PGW responded by filing preliminary objections to the TAC. On August 10, 2022, the Court sustained one of PGW's preliminary objections and dismissed the nine other property owners. PGW's other preliminary objections were overruled. PGW filed an answer with new matter on August 30, 2022. SBG's reply was filed on September 23, 2022. Under the Court's Revised Case Management Order, the case will be ready for trial on or after April 3, 2023.

Pennsylvania Public Utility Commission, Bureau of Investigation and Enforcement v. Philadelphia Gas Works. Docket No. C-2019-3013933. On December 19, 2019, an explosion occurred on the 1400 Block of South Eighth Street in Philadelphia that resulted in two fatalities. The Commission's Bureau of Investigation and Enforcement ("BI&E) conducted an investigation . Part of the investigation is to gather physical evidence at the scene as described in 49 CFR 190.203.

On July 15, 2022, BI&E filed a formal complaint against PGW alleging violations of the Public Utility Code arising from the incident. The formal complaint seeks corrective actions and civil penalties of $1,311,882. PGW responded to the complaint on August 23, 2022, denying the allegations. The proceeding is in the discovery phase. Evidentiary hearings are currently scheduled for April 2023.

PHILADELPHIA GAS WORKS

(A Component Unit of the City of Philadelphia)

Required Supplementary Information (Unaudited)

Schedule of Changes in Net Pension Liability and Related Ratios

(Thousands of U.S. dollars)

	Fiscal year ending								
	2022	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**
Total pension liability:									
Service cost	$ 7,152	7,178	6,400	6,554	6,103	5,823	5,399	4,890	8,924
Interest cost	55,276	55,454	56,893	57,241	55,718	55,443	55,903	52,377	47,098
Changes in benefit terms	—	—	—	—	—	—	—	—	—
Differences between expected and actual experience	9,665	2,057	(3,034)	(12,089)	15,706	2,182	(8,840)	17,961	59,326
Changes in assumptions	1,481	22,923	(24,891)	(1,834)	(3,864)	(7,952)	26,748	44,876	—
Benefit payments	(58,502)	(56,647)	(55,061)	(53,893)	(52,627)	(51,376)	(50,447)	(46,917)	(42,913)
Net change in total pension liability	15,072	30,965	(19,693)	(4,021)	21,036	4,120	28,763	73,187	72,435
Total pension liability (beginning)	811,758	780,793	800,486	804,507	783,471	779,351	750,588	677,401	604,966
Total pension liability (ending)	826,830	811,758	780,793	800,486	804,507	783,471	779,351	750,588	677,401
Plan fiduciary net position:									
Contributions – employer	30,043	29,728	29,414	28,570	29,143	27,918	21,123	21,106	24,934
Contributions – employee	1,854	1,607	1,520	1,249	1,078	852	602	393	239
Net investment income (loss)	(80,989)	155,840	14,286	34,260	44,310	61,003	2,872	24,472	75,303
Benefit payments	(58,502)	(56,647)	(55,061)	(53,893)	(52,627)	(51,376)	(50,447)	(46,917)	(42,913)
Administrative expense	(200)	(217)	(168)	(192)	(184)	(129)	(1,611)	(1,480)	(732)
Net change in fiduciary net position	(107,794)	130,311	(10,009)	9,994	21,720	38,268	(27,461)	(2,426)	56,831
Plan fiduciary net position (beginning)	673,542	543,231	553,240	543,246	521,526	483,258	510,719	513,145	456,314
Plan fiduciary net position (ending)	565,748	673,542	543,231	553,240	543,246	521,526	483,258	510,719	513,145
Net pension liability (ending)	$ 261,082	138,216	237,562	247,246	261,261	261,945	296,093	239,869	164,256
Net position as a percentage of total pension liability	68.42 %	82.97 %	69.57 %	69.11 %	67.53 %	66.57 %	62.01 %	68.04 %	75.75 %
Covered payroll for the year ended June 30,	$ 97,435	97,959	95,934	98,453	101,271	94,767	90,860	95,187	103,530
Net pension liability as a percentage of covered payroll	267.96 %	141.10 %	247.63 %	251.13 %	257.98 %	276.41 %	325.88 %	252.00 %	158.66 %

Notes to schedule:

The amounts presented in each fiscal year were determined as of the June 30 that occurred within the fiscal year.

Historical information:

The Company has presented the information noted above for those years for which information is available.

Ten-year trend information will be presented prospectively.

Changes in assumptions:

Investment Rate of Return: 7.00% in 2021-2022, 7.30% in 2016-2020, 7.65% in 2015 and 7.95% in 2014.

Mortality Rates Adopted:

PRI-2012 mortality tables projected generationally from the central year using Scale MP-2021 in FY 2022.

PRI-2012 mortality tables projected generationally from the central year using Scale MP-2020 in FY 2020 and FY 2021.

RP-2014 static mortality table in FY 2016 generationally projected with scale MP-2015 in FY 2016, MP-2016 in FY 2017, MP-2017 in FY 2018, and MP-2018 in FY 2019.

RP-2000 static mortality projected to the year of valuation prior to FY 2018.

Unaudited – see accompanying independent auditors' report.

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

Required Supplementary Information (Unaudited)

Schedule of Pension Contributions

(Thousands of U.S. dollars)

Fiscal year ending		2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Actuarially determined contribution	$	26,151	23,492	26,844	28,797	28,395	29,260	26,476	21,526	24,385	23,673
Contributions made		30,000	30,000	29,227	28,797	28,395	29,260	26,476	21,526	24,385	23,673
Contribution deficiency/(excess)	$	(3,849)	(6,508)	(2,383)	—	—	—	—	—	—	—
Covered payroll for the year ended August 31,	$	92,374	93,601	94,634	99,494	97,431	91,176	87,416	91,579	99,606	101,968
Contributions as a percent of covered payroll		32.48 %	32.05 %	30.88 %	28.94 %	29.14 %	32.09 %	30.29 %	23.51 %	24.48 %	23.22 %

Notes to schedule:

Actuarial Valuation Date: July 1 for FY 2015-2022 and September 1 for prior periods.

Methods and assumptions used to determine contributions:

Actuarial Cost Method: Projected Unit Credit.

Asset Valuation Method: Assets smoothed over a five-year period beginning in FY 2016 and Market Value in FY 2015 and prior periods.

Amortization Method: Contributions based on greater of 20-year level dollar open amortization method or 30-year level dollar closed amortization method.

Salary Increases:

Varies by participant years of service {see Note 10(e)}.

4.5% in 2019 and prior periods.

General Inflation: 2.00%.

Investment Rate of Return: 7.00% in FY 2022-2021, 7.30% in FY 2020-2016, 7.65% in FY 2015, and 7.95% in FY 2014 and prior.

Mortality Rates: Adopted RP-2014 static mortality table in FY 2016 generationally projected.

PRI-2012 mortality tables projected generationally from the central year using Scale MP-2021 in FY 2022.

PRI-2012 mortality tables projected generationally from the central year using Scale MP-2020 in FY 2020 and FY 2021.

RP-2014 static mortality table in FY 2016 generationally projected with scale MP-2015 in FY 2016, MP-2016 in FY 2017, MP-2017 in FY 2018, and MP-2018 in FY 2019.

RP-2000 static mortality projected to the year of valuation prior to FY 2018.

Unaudited – see accompanying independent auditors' report.

PHILADELPHIA GAS WORKS

(A Component Unit of the City of Philadelphia)

Required Supplementary Information (Unaudited)

Schedule of Changes in the Net OPEB Liability and Related Ratios

(Thousand of U.S. Dollars)

	Fiscal year ending					
	2022	**2021**	**2020**	**2019**	**2018**	**2017**
Total OPEB liability:						
Service cost	$ 5,762	4,999	5,867	6,268	5,180	5,315
Interest cost	36,577	35,387	37,374	40,262	38,182	39,961
Differences between expected and actual experience	(25,286)	(30,648)	(16,787)	(64,606)	(5,345)	(30,973)
Changes in assumptions	15,652	31,995	(24,572)	7,707	61,382	(6,481)
Benefit payments	(25,197)	(27,636)	(28,845)	(28,729)	(29,747)	(30,370)
Net change in total OPEB liability	7,508	14,097	(26,963)	(39,098)	69,652	(22,548)
Total OPEB liability (beginning)	507,667	493,570	520,533	559,631	489,979	512,527
Total OPEB liability (ending)	$ 515,175	507,667	493,570	520,533	559,631	489,979
Plan fiduciary net position:						
Contributions - employer	$ 43,697	46,136	47,345	47,229	48,247	48,870
Investment income	41,417	42,258	42,444	(14,754)	22,669	10,710
Benefit payments	(25,197)	(27,636)	(28,845)	(28,729)	(29,747)	(30,370)
Administrative, investment management expenses and bank fees	(52)	(40)	(37)	(35)	(49)	(30)
Net change in plan fiduciary net position	59,865	60,718	60,907	3,711	41,120	29,180
Plan fiduciary net position (beginning)	306,079	245,361	184,454	180,743	139,623	110,443
Plan fiduciary net position (ending)	365,944	306,079	245,361	184,454	180,743	139,623
Net OPEB liability (ending)	$ 149,231	201,588	248,209	336,079	378,888	350,356
Plan fiduciary net position as a percentage of the total OPEB liability	71.0 %	60.3 %	49.7 %	35.4 %	32.3 %	28.5 %
Covered employee payroll as of December 31,	115,798	127,907	125,270	120,132	118,636	109,440
Net OPEB liability as a percentage of covered employee payroll	128.87 %	157.61 %	198.14 %	279.76 %	319.37 %	320.14 %

Notes to Schedule:

The amounts presented for each fiscal year were determined as of the calendar-year end that occurred within the fiscal year.

Historical information:

The Company has presented the information noted above for those years for which information is available.

Ten-year trend information will be presented prospectively.

Changes in assumptions:

Salary increases: ranges from 8.86% for new hires to 3.71% for employees with 20+ years of service.

Discount rate: 7.00% in 2022, 7.30% in 2021, in 2020, in 2019, in 2018, and in 2017; 7.95% in 2016.

Inflation Rate: 2.0% in 2022, in 2021, in 2020, in 2019, in 2018, in 2017, and in 2016.

Mortality Rates:

Preretirement Mortality is assumed to follow Pri-2012 Total Employee Amount Weighted Table, Projected with SOA Scale MP-2020 in 2021.

Postretirement Mortality is assumed to follow Pri-2012 Total Retiree Amount Weighted Table, Projected with SOA Scale MP-2020 in 2021.

Disabled Retirement Mortality is assumed to use Pri-2012 Total Disabled Retiree Amount Weighted Table, Projected with SOA Scale MP-2020 in 2021.

Mortality is assumed to follow the sex distinct, Pri-2012 Employee, Healthy Annuitant, and Disabled Retiree Mortality Tables projected with scale MP-2020 in 2021 and 2020.

Adopted the sex-distinct U.S. Public Pension General (PUB-G) Employee, Healthy Annuitant and Disabled Retiree Mortality Tables in 2020.

Adopted the sex-distinct RP-2014 Employee, Healthy Annuitant and Disabled Retiree in 2018 and 2017.

Mortality Tables: (head-count weighted) projection with scale MP-2020 in 2021 and 2020, MP-2019 in 2019, MP-2018 in 2018 and MP-2017 in 2019.

Unaudited - See accompanying independent auditors’ report.

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Required Supplementary Information (Unaudited)
Schedule of OPEB Contributions
(Thousand of U.S. Dollars)

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Actuarially determined contribution	$ 19,085	22,541	25,972	33,405	37,638	37,639	41,782	37,980	38,062	41,216
Contributions made	42,248	44,880	47,104	47,548	47,114	48,065	49,551	48,847	44,362	42,242
Contribution deficiency/(excess)	$ (23,163)	(22,339)	(21,132)	(14,143)	(9,476)	(10,426)	(7,769)	(10,867)	(6,300)	(1,026)
Covered employee payroll as of August 31,	136,105	135,243	131,595	128,642	130,171	119,667	112,956	114,074	115,174	110,120
Contributions as a percent of covered employee payroll	31.04 %	33.18 %	35.79 %	36.96 %	36.19 %	40.17 %	43.87 %	42.82 %	38.52 %	38.36 %

Notes to schedule:

Actuarial Valuation Date: December 31, 2021 and 2020 for fiscal year 2022 and 2021,respectively, September 1 (beginning of each fiscal year) in prior periods.

Methods ad assumptions used to determine contributions:

Actuarial Cost Method: Entry Age Level Percent of Pay Cost Method FY 2022, Entry Age Normal Cost Method FY 2021 and prior.
Asset Valuation Method: Market Value
Per Capita Claims: ASOP Actuarial Standards
Salary Increases: Varies by participant years of service {see Note 11(e)} in FY 2022, FY 2021, 4.5% in FY 2015 through FY 2020; and 3.0% in prior periods.
General Inflation: 2.0% in FY 2022, FY 2021 and 2020 and 3.0% in prior period.
Participation Rates: Assumed 100.0% of future retirees who meet the eligibility requirements will participate in the OPEB plan. Current retirees who have opted out of coverage are assumed to continue to receive opt out payments in the future.
Life Insurance: The claims cost for life insurance is based on the actuarial present value of projected life insurance claims in FY 2022.
Life Insurance: The claims cost for life insurance is based on the actuarial present value of projected life insurance claims increased by 15.0% to reflect the cost of the insurance funding vehicle in prior fiscal years.
Discount rate: 7.00% in 2022, 7.30% in 2021 through 2017, 7.95% in FY 2016 through FY 2013, 8.00% in FY 2012.
Mortality Rates: Adopted:

Preretirement Mortality – Pri-2012 Total Employee Amount Weighted Table, projected with SOA Scale MP-2020, Postretirement Mortality – Pri-2012 Total Retiree Amount Weighted Table, projected with SOA Scale MP-2020.
Disabled Retirement Mortality – Pri-2012 Total Disabled Retiree Amount Weighted Table, Projected with SOA Scale MP-2020 in FY 2021
The mortality tables and improvement projection scales were updated from PUB-2010 with projection scale MP-2019 to PRI-2012 with projection scale MP-2020 to reflect the latest mortality tables and improvement projection scales in FY2021.
Sex-distinct U.S. Public Pension General (PUB-G) Employee, Healthy Annuitant and Disabled Retiree Mortality Tables (head-count weighted) projected with scale MP-2019 in FY 2020.
Sex-distinct RP-2014 Employee, Healthy Annuitant and Disabled Retiree Mortality tables (head-count weighted) projection with scale MP-2018 in FY 2019, MP-2017 in FY 2018, MP-2016 in FY 2017, MP-2015 in FY 2016, and MP-2014 in FY 2015.
2014 Static Annuitant and Non-Annuitant Mortality table as set forth in Treasury Regulation Section 1.430(h)(3)-1e in FY 2014.
2013 Static Annuitant and Non-Annuitant Mortality table as set forth in Treasury Regulation Section 1.430(h)(3)-1e in FY 2013.

See accompanying independent auditors' report.