



PHILADELPHIA GAS WORKS

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October 30, 2015

The Honorable Marian B. Tasco
Chairwoman
PHILADELPHIA GAS COMMISSION
One Parkway Building
1515 Arch Street, 9th Floor
Philadelphia, PA 19102

Re: PGW's Fiscal Year 2016 Compliance Operating Budget

Dear Chairwoman Tasco:

Enclosed is an original along with six (6) copies of the schedules that detail the revisions made to PGW's Fiscal Year 2016 Operating Budget. These adjustments reflect the Commission's Motion adopted at the October 20, 2015 meeting.

If you have any questions regarding the enclosed schedules, please feel free to call me.

Sincerely,

A handwritten signature in blue ink that reads "William J. Gallagher".

William J. Gallagher

WJG/pr
Enclosure

cc: All Gas Commissioners
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PHILADELPHIA GAS WORKS

FISCAL YEAR 2016 COMPLIANCE OPERATING BUDGET

PHILADELPHIA GAS WORKS
STATEMENT OF INCOME
(Dollars in Thousands)

Line No.		Actual 2013-14	Budget 2014-15	Estimate 2014-15	Budget 2015-16	Adjustment	Compliance Budget 2015-16	Line No.
OPERATING REVENUES								
1.	Non-Heating	39,610	35,071	30,527	26,431		26,431	1.
2.	Gas Transportation Service	41,705	43,815	39,673	43,872		43,872	2.
3.	Heating	667,117	650,957	635,059	578,682		578,682	3.
4.	Weather Normalization Adjustment	(12,299)	5,031	(14,960)	5,952		5,952	4.
5.	Unbilled Gas Adjustment	5	277	(431)	(196)		(196)	5.
6.	Total Gas Revenues	736,138	735,151	689,868	654,741		654,741	6.
7.	Appliance Repair & Other Revenues	8,317	8,300	8,215	8,431		8,431	7.
8.	Other Operating Revenues	14,681	14,547	12,464	11,616		11,616	8.
9.	Total Other Operating Revenues	22,998	22,847	20,679	20,047		20,047	9.
10.	Total Operating Revenues	759,136	757,998	710,547	674,788		674,788	10.
OPERATING EXPENSES								
11.	Natural Gas	304,040	292,111	260,594	220,857		220,857	11.
12.	Other Raw Material	11	10	10	10		10	12.
13.	Sub-Total Fuel	304,051	292,121	260,604	220,867		220,867	13.
14.	CONTRIBUTION MARGINS	455,085	465,877	449,943	453,921		453,921	14.
15.	Gas Processing	19,637	15,792	17,530	15,853		15,853	15.
16.	Field Services	37,577	38,414	37,664	39,057	(679)	38,378	16.
17.	Distribution	36,929	33,243	36,880	38,073	356	38,429	17.
18.	Collection	3,629	3,287	3,152	3,406		3,406	18.
19.	Customer Service	11,187	12,971	12,556	13,011		13,011	19.
20.	Account Management	7,644	8,178	8,145	8,298		8,298	20.
21.	Bad Debt Expense	38,848	39,833	37,873	35,216		35,216	21.
22.	Marketing	7,783	7,491	4,415	4,392	(105)	4,287	22.
23.	Administrative & General	47,938	50,601	55,449	58,651	120	58,771	23.
24.	Energy Sense Program (DSM)	11,024	15,163	10,455	10,956	(264)	10,692	24.
25.	Health Insurance	46,483	51,176	51,176	56,409		56,409	25.
26.	Capitalized Fringe Benefits	(9,951)	(12,139)	(9,922)	(10,838)		(10,838)	26.
27.	Capitalized Administrative Charges	(9,622)	(9,065)	(9,044)	(12,285)		(12,285)	27.
28.	Pensions	24,521	26,313	21,986	23,871		23,871	28.
29.	Taxes	7,687	7,699	7,801	7,875		7,875	29.
30.	Other Post Employment Benefits	11,228	10,241	11,167	5,445		5,445	30.
31.	Labor/Cost Savings	-	(2,456)	(1,754)	(1,191)	(1,951)	(3,142)	31.
32.	Sub-Total Other Oper.& Maintenance	292,542	296,742	295,529	296,199	(2,523)	293,676	32.
33.	Depreciation	44,804	44,727	45,400	46,654		46,654	33.
34.	Cost of Removal	2,624	2,000	2,500	2,600		2,600	34.
35.	To Clearing Accounts	(5,771)	(5,662)	(6,010)	(6,231)		(6,231)	35.
		41,657	41,065	41,890	43,023		43,023	
36.	Sub-Total Other Oper.& Maint. & Depreciat	334,199	337,807	337,419	339,222	(2,523)	336,699	36.
37.	TOTAL OPERATING EXPENSES	638,250	629,928	598,023	560,089	(2,523)	557,566	37.
38.	OPERATING INCOME	120,886	128,070	112,524	114,699	2,523	117,222	38.
39.	Interest Gain / (Loss) and Other Income	3,597	2,821	3,619	3,687	3	3,690	39.
40.	INCOME BEFORE INTEREST	124,483	130,891	116,143	118,386	2,526	120,912	40.
INTEREST								
41.	Long-Term Debt	48,261	46,413	44,318	42,249		42,249	41.
42.	Other	4,852	5,270	4,369	1,311		1,311	42.
43.	AFUDC	(506)	(555)	(656)	(891)		(891)	43.
44.	Loss From Extinguishment of Debt	4,528	4,076	3,703	4,814		4,814	44.
45.	Total Interest	57,135	55,204	51,732	47,483	-	47,483	45.
46.	NET INCOME	67,348	75,687	64,411	70,903	2,526	73,429	46.
47.	City Payment	18,000	18,000	18,000	18,000		18,000	47.
48.	NET EARNINGS	49,348	57,687	46,411	52,903	2,526	55,429	48.

PHILADELPHIA GAS WORKS
STATEMENT OF INCOME
(Dollars in Thousands)

Line No.	Actual 2013-14	Budget 2014-15	Estimate 2014-15	Budget 2015-16	Adjustment	Compliance Budget 2015-16	Line No.
<u>OPERATING REVENUES</u>							
1.	39,610	35,071	30,527	26,431		26,431	1.
2.	41,705	43,815	39,673	43,872		43,872	2.
3.	667,117	650,957	635,059	578,682		578,682	3.
4.	(12,299)	5,031	(14,960)	5,952		5,952	4.
5.	5	277	(431)	(196)		(196)	5.
6.	736,138	735,151	689,868	654,741		654,741	6.
7.	8,317	8,300	8,215	8,431		8,431	7.
8.	14,681	14,547	12,464	11,616		11,616	8.
9.	22,998	22,847	20,679	20,047		20,047	9.
10.	759,136	757,998	710,547	674,788		674,788	10.
<u>OPERATING EXPENSES</u>							
11.	304,040	292,111	260,594	220,857		220,857	11.
12.	11	10	10	10		10	12.
13.	304,051	292,121	260,604	220,867		220,867	13.
14.	455,085	465,877	449,943	453,921		453,921	14.
15.	178,420	184,005	180,638	191,482	(2,274) a)	189,208	15.
16.	38,848	39,833	37,873	35,216		35,216	16.
17.	116,931	113,969	118,908	112,524	(249) b)	112,275	17.
18.	334,199	337,807	337,419	339,222	(2,523)	336,699	18.
19.	638,250	629,928	598,023	560,089		560,089	19.
20.	120,886	128,070	112,524	114,699	2,523	117,222	20.
21.	3,597	2,821	3,619	3,687	3 c)	3,690	21.
22.	124,483	130,891	116,143	118,386	2,526	120,912	22.
<u>INTEREST</u>							
23.	48,261	46,413	44,316	42,249		42,249	23.
24.	4,852	5,270	4,369	1,311		1,311	24.
25.	(506)	(555)	(656)	(891)		(891)	25.
26.	4,528	4,076	3,703	4,814		4,814	26.
27.	57,135	55,204	51,732	47,483		47,483	27.
28.	67,348	75,687	64,411	70,903	2,526	73,429	28.
29.	18,000	18,000	18,000	18,000		18,000	29.
30.	49,348	57,687	46,411	52,903	2,526	55,429	30.

PHILADELPHIA GAS WORKS
CASH FLOW STATEMENT
(Dollars in Thousands)

Line No.	Actual 2013-14	Budget 2014-15	Estimate 2014-15	Budget 2015-16	Adjustment	Compliance Budget 2015-16	Line No.
SOURCES							
1. Net Income	67,348	75,687	64,411	70,903	2,526 d)	73,429	1.
2. Depreciation & Amortization	48,288	48,061	47,405	46,734		46,734	2.
3. Earnings on Restricted Funds	482	(532)	(487)	(1,098)		(1,098)	3.
4. Proceeds from Bond Refunding to Pay Cost of Issuance	-	-	507	-		-	4.
5. Increased/(Decreased) Other Assets/Liabilities	(16,477)	(8,166)	2,586	(12,153)		(12,153)	5.
6. Available From Operations	99,641	115,050	114,422	104,386	2,526	106,912	6.
7. Drawdown of Bond Proceeds	43,294			-		-	7.
8. Grant Income	-	-	-	-		-	8.
9. Release of Sinking Fund Asset	-	-	-	-		-	9.
10. Temporary Financing	-	34,706	30,000	48,600		48,600	10.
11. TOTAL SOURCES	\$142,935	\$149,756	\$144,422	\$152,986	\$2,526	\$155,512	11.
USES							
12. Net Construction Expenditures	\$83,331	\$92,550	\$90,327	\$110,752		\$110,752	12.
Funded Debt Reduction:							
13. Revenue Bonds	49,800	50,975	54,190	48,655		48,655	13.
14. Revenue Bonds Subordinate Debt	-	-	-	-		-	14.
15. Temporary Financing Repayment	-	-	-	-		-	15.
16. Distribution of Earnings	18,000	18,000	18,000	18,000		18,000	16.
Additions to (Reductions of):							
17. Non-Cash Working Capital	(12,997)	(16,917)	(18,497)	(14,687)		(14,687)	17.
18. Cash Needs	138,134	144,608	144,020	162,720		162,720	18.
19. Cash Surplus (Shortfall)	4,801	5,148	402	(9,734)	2,526	(7,208)	19.
20. TOTAL USES	\$142,935	\$149,756	\$144,422	\$152,986	\$2,526	\$155,512	20.
21. Cash - Beginning of Period	\$100,933	\$97,812	\$105,734	\$106,136		\$106,136	21.
22. Cash - Surplus (Shortfall)	4,801	5,148	402	(9,734)	2,526	(7,208)	22.
23. Ending Cash	\$105,734	\$102,960	\$106,136	\$96,402	\$2,526	\$98,928	23.
24. Outstanding Commercial Paper	-	-	-	-	-	-	24.
25. Outstanding Commercial Paper - Capital	-	34,706	30,000	78,600	-	78,600	25.
26. Incremental DSIC Revenue	13,914	22,844	14,743	27,116	-	27,116	26.
27. Internally Generated Funds	36,123	35,000	35,584	35,036	-	35,036	27.

**PHILADELPHIA GAS WORKS
DEBT SERVICE COVERAGE**
(Dollars in Thousands)

Line No.	Actual 2013-14	Budget 2014-15	Estimate 2014-15	Budget 2015-16	Adjustment	Compliance Budget 2015-16	Line No.
FUNDS PROVIDED							
1. Total Gas Revenues	\$736,138	\$735,151	\$689,868	\$654,741		\$654,741	1.
2. Other Operating Revenues	<u>22,998</u>	<u>22,847</u>	<u>20,679</u>	<u>20,047</u>		<u>20,047</u>	2.
3. Total Operating Revenues	759,136	757,998	710,547	674,788		674,788	3.
4. Other Income Inc. / (Dec.) Restricted Funds	4,079	2,289	3,132	2,589	3 c)	2,592	4.
5. Grant Income	-	-	-	-		-	5.
6. AFUDC (Interest)	<u>506</u>	<u>555</u>	<u>656</u>	<u>891</u>		<u>891</u>	6.
7. TOTAL FUNDS PROVIDED	\$763,721	\$760,842	\$714,335	\$678,268	\$3	\$678,271	7.
FUNDS APPLIED							
8. Fuel Costs	\$304,051	\$292,121	\$260,604	\$220,867		\$220,867	8.
9. Other Operating Costs	<u>334,199</u>	<u>337,807</u>	<u>337,419</u>	<u>339,222</u>	(2,523) e)	<u>336,699</u>	9.
10. Total Operating Expenses	638,250	629,928	598,023	560,089	(2,523)	557,566	10.
11. Less: Non-Cash Expenses	<u>50,346</u>	<u>48,065</u>	<u>48,973</u>	<u>50,082</u>		<u>50,082</u>	11.
12. TOTAL FUNDS APPLIED	\$587,904	\$581,863	\$549,050	\$510,007	(\$2,523)	\$507,484	12.
13. Funds Available to Cover Revenue Bond Debt	175,817	178,980	165,285	168,261	2,526	170,787	13.
14. 1975 Ordinance Bonds Debt Service	\$28,592	\$26,904	\$4,161	-		-	14.
15. Debt Service Coverage 1975 Revenue Bonds	6.15	6.65	39.72	-		-	15.
16. Net Available after Prior Debt Service	\$147,225	\$152,076	\$161,124	\$168,261	\$2,526	\$170,787	16.
17. Equipment Leasing Debt Service	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>		<u>-</u>	17.
18. Net Available After Prior Capital Leases	147,225	152,076	161,124	168,261	2,526	170,787	18.
19. 1998 Ordinance Bonds Debt Service	\$69,749	\$70,827	93,159	91,175		91,175	19.
20. 1999 Ordinance Subordinate Bonds Debt Service - (TXC)	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,917</u>		<u>1,917</u>	20.
21. Total New Debt Service	\$69,749	\$70,827	\$93,159	\$93,092		\$93,092	21.
22. Debt Service Coverage 1998 Revenue Bonds	2.11	2.15	1.73	1.81	0.03	1.84	22.
23. Net Available After 1998 Debt Service	\$77,476	\$81,249	\$67,965	\$75,169	\$2,526	\$77,695	23.
24. Fixed Coverage Charge	1.79	1.83	1.70	1.81	0.03	1.83	24.
25. Fixed Coverage Charge including \$18.0MM City Fee	1.60	1.65	1.51	1.61	0.03	1.64	25.

PHILADELPHIA GAS WORKS
BALANCE SHEET
(Dollars in Thousands)

Line No.	Actual 2013-14	Budget 2014-15	Estimate 2014-15	Budget 2015-16	Adjustment	Compliance Budget 2015-16	Line No.
ASSETS							
1. Utility Plant Net	\$1,193,552	\$1,259,413	\$1,238,479	\$1,302,577		\$1,302,577	1.
2. Sinking Fund Reserve	105,909	106,099	106,393	107,463		107,463	2.
3. Capital Improvement Fund	-	-	-	-		-	3.
4. Capital Expenditures	10,000	-	-	-		-	4.
5. Restricted Investment Worker Comp Fund & Health Insurance Escrow	5,820	5,824	5,822	5,850		5,850	5.
6. Cash	105,734	102,960	106,136	96,402	2,526	98,928	6.
Accounts Receivable:							
7. Gas Receivable	196,868	207,697	194,806	188,523		188,523	7.
8. Other	4,635	1,950	4,527	4,443		4,443	8.
9. Accrued Gas Revenues	7,303	7,828	6,872	6,676		6,676	9.
10. Reserve for Uncollectible	(107,349)	(114,172)	(110,207)	(111,373)		(111,373)	10.
11. Accounts Receivable Net	<u>101,457</u>	<u>103,303</u>	<u>95,998</u>	<u>88,269</u>		<u>88,269</u>	11.
12. Materials & Supplies	69,989	72,953	54,896	57,776		57,776	12.
13. Other Current Assets	411	640	484	534		534	13.
14. Deferred Debits	18,810	3,513	10,679	2,833		2,833	14.
15. Unamortized Bond Issuance Expense	14,136	12,627	3,473	3,181		3,181	15.
16. Unamortized Extraordinary Loss	27,244	23,179	38,512	33,698		33,698	16.
17. Other Assets	36,997	32,551	28,792	28,792		28,792	17.
18. Deferred Environmental	29,217	28,433	40,250	38,052		38,052	18.
19. TOTAL ASSETS	<u>\$1,719,276</u>	<u>\$1,751,495</u>	<u>\$1,729,914</u>	<u>\$1,765,427</u>	<u>\$2,528</u>	<u>\$1,767,953</u>	19.
EQUITY & LIABILITIES							
20. City Equity	\$407,935	\$472,118	\$454,346	\$507,249	\$2,526	\$509,775	20.
Long Term Debt:							
21. Revenue Bonds	1,015,920	964,945	939,395	890,740		890,740	21.
22. Unamortized Discount	(2,160)	(1,827)	(2,270)	(2,035)		(2,035)	22.
23. Unamortized Premium	20,216	17,729	45,778	40,516		40,516	23.
24. Notes Payable	-	34,706	30,000	78,600		78,600	24.
Accounts Payable:							
25. Natural Gas	12,248	18,556	13,412	14,141		14,141	25.
26. General	46,640	48,645	43,595	45,684		45,684	26.
27. Customer Deposits	2,245	3,400	2,500	2,500		2,500	27.
28. Other Current Liabilities	5,189	4,593	5,682	5,173		5,173	28.
29. Deferred Credits	14,132	2,311	3,308	2,405		2,405	29.
Accrued Credits:							
30. Interest	10,676	10,605	11,862	11,591		11,591	30.
31. Taxes & Wages	3,970	4,633	4,627	5,535		5,535	31.
32. Distribution to City	3,000	3,000	3,000	3,000		3,000	32.
33. Other Liabilities	179,265	168,181	174,679	160,328		160,328	33.
34. TOTAL EQUITY & LIABILITIES	<u>\$1,719,276</u>	<u>\$1,751,495</u>	<u>\$1,729,914</u>	<u>\$1,765,427</u>	<u>\$2,528</u>	<u>\$1,767,953</u>	34.
35. Debt to Equity	71.7%	67.5%	68.4%	64.7%		64.6%	35.

**Philadelphia Gas Works
Fiscal Year 2016
Operating Budget Adjustments**

Statement of Income

- a) The \$2,274,000 overall decrease in Labor and Fringe Benefit expenses reflects the impact of reducing personnel levels from 1,660 FTEs to 1,641 FTEs, overtime levels from 267,503 hours to 263,178 hours, and healthcare and other benefit expenses by approximately 1%. The breakdown of the savings is as follows:
- \$1,369,000 decrease in regular labor expenses:
 - (19.0 FTEs @ \$72,040 annual salary);
 - \$726,000 decrease in fringe benefit expenses including payroll taxes:
 - (19.0 FTEs @ \$38,226 annual benefit expense);
 - \$179,000 decrease in overtime expenses;
 - Field Service Department - \$535,000
 - Distribution Department - \$356,000
- b) The \$249,000 overall decrease in Other Expenses and Depreciation costs reflects the following expenditure adjustments:
- \$264,000 decrease in the Customer Program Department's purchase services budget reflecting the removal of double counted costs associated with the Demand Side Management program;
 - \$105,000 decrease in the Marketing Department's purchase services budget relating to the removal of technical consulting expenses;
 - \$105,000 increase in the Administrative Consulting purchase services budget relating to energy consultant expenses;
 - \$15,000 upward adjustment to budgeted outside legal counsel for Special Legal projects.
- c) The \$3,000 increase in Other Income represents additional earnings on increased investable cash balances associated with lower operating and maintenance expenses.

Cash Flow Statement

- d) Net income increased by \$2,526,000 reflecting increased earnings.

Debt Service Coverage

- e) Operating expenses are anticipated to decrease reflecting previously mentioned adjustments.