



PHILADELPHIA GAS WORKS

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October 3, 2014

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 2015 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 2015 Operating Budget. These adjustments reflect the Commission's Motion adopted at the September 23, 2014 meeting.

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

Sincerely,

A handwritten signature in blue ink, appearing to read 'William J. Gallagher', is written over a printed name.

William J. Gallagher

WJG/de
Enclosure

cc: All Gas Commissioners
Robert W. Ballenger, Esq.
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Michael A. Bleiweis
Andre C. Dasent, Esq.
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PHILADELPHIA GAS WORKS

FISCAL YEAR 2015 COMPLIANCE OPERATING BUDGET

PHILADELPHIA GAS WORKS
STATEMENT OF INCOME
(Dollars in Thousands)

| Line No. | Actual 2012-13 | Budget 2013-14 | Estimate 2013-14 | Budget 2014-15 | Adjustments 2014-15 | Compliance Budget 2014-15 |
|--|-------------------|-------------------|---------------------|-------------------|------------------------|---------------------------------|
| <u>OPERATING REVENUES</u> | | | | | | |
| 1. Non-Heating | 35,262 | 39,786 | 38,239 | 35,071 | | 35,071 |
| 2. Gas Transportation Service | 36,747 | 39,239 | 44,909 | 43,815 | | 43,815 |
| 3. Heating | 593,354 | 661,412 | 677,045 | 650,957 | | 650,957 |
| 4. Weather Normalization Adjustment | 8,392 | - | (12,942) | 5,031 | | 5,031 |
| 5. Unbilled Gas Adjustment | 1,398 | (118) | 253 | 277 | | 277 |
| 6. Total Gas Revenues | <u>675,153</u> | <u>740,319</u> | <u>747,504</u> | <u>735,151</u> | - | <u>735,151</u> |
| 7. Appliance Repair & Other Service Revenues | 8,333 | 8,102 | 7,971 | 8,300 | | 8,300 |
| 8. Other Operating Revenues | <u>9,984</u> | <u>9,864</u> | <u>14,760</u> | <u>14,547</u> | | <u>14,547</u> |
| 9. Total Other Revenues | 18,317 | 17,966 | 22,731 | 22,847 | - | 22,847 |
| 10. Total Operating Revenues | 693,470 | 758,285 | 770,235 | 757,998 | - | 757,998 |
| <u>OPERATING EXPENSES</u> | | | | | | |
| 11. Natural Gas | 255,496 | 298,128 | 311,819 | 292,111 | | 292,111 |
| 12. Other Raw Material | 5 | 6 | 10 | 10 | | 10 |
| 13. Sub-Total Fuel | <u>255,501</u> | <u>298,134</u> | <u>311,829</u> | <u>292,121</u> | - | <u>292,121</u> |
| 14. Contribution Margins | 437,969 | 460,151 | 458,406 | 465,877 | - | 465,877 |
| 15. Labor & Fringe Benefits | 167,179 | 178,848 | 178,315 | 184,005 | (1,272) a) | 182,733 |
| 16. Bad Debt Expense | 39,971 | 35,119 | 42,812 | 39,833 | | 39,833 |
| 17. Other Expenses & Depreciation | <u>111,360</u> | <u>117,591</u> | <u>109,589</u> | <u>115,392</u> | (151) b) | <u>115,241</u> |
| 18. Sub-Total Other O&M & Depreciation | 318,510 | 331,558 | 330,715 | 339,230 | (1,423) | 337,807 |
| 19. Total Operating Expenses | 574,011 | 629,692 | 642,544 | 631,351 | (1,423) | 629,928 |
| 20. Operating Income | 119,459 | 128,593 | 127,691 | 126,647 | 1,423 | 128,070 |
| 21. Interest Gain / (Loss) and Other Income | <u>1,147</u> | <u>3,405</u> | <u>2,846</u> | <u>2,820</u> | 1 c) | <u>2,821</u> |
| 22. Income Before Interest | 120,606 | 131,998 | 130,537 | 129,467 | 1,424 | 130,891 |
| <u>INTEREST</u> | | | | | | |
| 23. Long Term Debt | 49,655 | 48,546 | 48,397 | 46,413 | | 46,413 |
| 24. Other Interest | 5,619 | 6,588 | 4,412 | 5,270 | | 5,270 |
| 25. AFUDC | (430) | (946) | (635) | (555) | | (555) |
| 26. Loss from Extinguishment of Debt | <u>5,121</u> | <u>4,739</u> | <u>4,518</u> | <u>4,076</u> | | <u>4,076</u> |
| 27. Total Interest | 59,965 | 58,927 | 56,692 | 55,204 | - | 55,204 |
| 28. Net Income | <u>60,641</u> | <u>73,071</u> | <u>73,845</u> | <u>74,263</u> | <u>1,424</u> | <u>75,687</u> |

PHILADELPHIA GAS WORKS
STATEMENT OF INCOME
(Dollars in Thousands)

| Line No. | Actual 2012-13 | Budget 2013-14 | Estimate 2013-14 | Budget 2014-15 | Adjustments 2014-15 | Compliance Budget 2014-15 |
|-----------------------------|-------------------|-------------------|---------------------|-------------------|------------------------|---------------------------------|
| OPERATING REVENUES | | | | | | |
| 1. | 35,262 | 39,786 | 38,239 | 35,071 | | 35,071 |
| 2. | 36,747 | 39,239 | 44,909 | 43,815 | | 43,815 |
| 3. | 593,354 | 661,412 | 677,045 | 650,957 | | 650,957 |
| 4. | 8,392 | - | (12,942) | 5,031 | | 5,031 |
| 5. | 1,398 | (118) | 253 | 277 | | 277 |
| 6. | 675,153 | 740,319 | 747,504 | 735,151 | - | 735,151 |
| 7. | 8,333 | 8,102 | 7,971 | 8,300 | | 8,300 |
| 8. | 9,984 | 9,864 | 14,760 | 14,547 | | 14,547 |
| 9. | 18,317 | 17,966 | 22,731 | 22,847 | - | 22,847 |
| 10. | 693,470 | 758,285 | 770,235 | 757,998 | - | 757,998 |
| OPERATING EXPENSES | | | | | | |
| 11. | 255,496 | 298,128 | 311,819 | 292,111 | | 292,111 |
| 12. | 5 | 6 | 10 | 10 | | 10 |
| 13. | 255,501 | 298,134 | 311,829 | 292,121 | - | 292,121 |
| 14. | 437,969 | 460,151 | 458,406 | 465,877 | - | 465,877 |
| CONTRIBUTION MARGINS | | | | | | |
| 15. | 17,592 | 15,907 | 17,257 | 15,747 | 45 | 15,792 |
| 16. | 34,926 | 37,558 | 36,855 | 38,524 | (110) | 38,414 |
| 17. | 30,259 | 29,841 | 34,058 | 33,243 | | 33,243 |
| 18. | 3,766 | 3,360 | 3,261 | 3,287 | | 3,287 |
| 19. | 11,102 | 12,318 | 11,872 | 12,971 | | 12,971 |
| 20. | 7,531 | 7,957 | 7,675 | 8,178 | | 8,178 |
| 21. | 39,971 | 35,119 | 42,812 | 39,833 | | 39,833 |
| 22. | 6,789 | 7,192 | 7,045 | 7,491 | | 7,491 |
| 23. | 45,029 | 49,601 | 48,838 | 50,797 | (196) | 50,601 |
| 24. | 9,708 | 14,244 | 10,775 | 15,163 | | 15,163 |
| 25. | 42,787 | 50,090 | 45,026 | 51,569 | (393) | 51,176 |
| 26. | (10,958) | (12,625) | (10,801) | (12,139) | | (12,139) |
| 27. | (8,360) | (9,833) | (10,529) | (9,065) | | (9,065) |
| 28. | 23,614 | 27,715 | 27,192 | 26,313 | | 26,313 |
| 29. | 7,220 | 7,464 | 7,737 | 7,699 | | 7,699 |
| 30. | 16,492 | 16,030 | 12,759 | 10,241 | | 10,241 |
| 31. | - | (2,425) | (988) | (1,687) | (769) | (2,456) |
| 32. | 277,468 | 289,513 | 290,844 | 298,165 | (1,423) | 296,742 |
| 33. | 43,037 | 44,393 | 43,643 | 44,727 | | 44,727 |
| 34. | 2,875 | 2,000 | 2,000 | 2,000 | | 2,000 |
| 35. | (4,870) | (4,348) | (5,772) | (5,662) | | (5,662) |
| | 41,042 | 42,045 | 39,871 | 41,065 | - | 41,065 |
| 36. | 318,510 | 331,558 | 330,715 | 339,230 | (1,423) | 337,807 |
| 37. | 574,011 | 629,692 | 642,544 | 631,351 | (1,423) | 629,928 |
| 38. | 119,459 | 128,593 | 127,691 | 126,647 | 1,423 | 128,070 |
| 39. | 1,147 | 3,405 | 2,846 | 2,820 | 1 | 2,821 |
| 40. | 120,606 | 131,998 | 130,537 | 129,467 | 1,424 | 130,891 |
| INTEREST | | | | | | |
| 41. | 49,655 | 48,546 | 48,397 | 46,413 | | 46,413 |
| 42. | 5,619 | 6,588 | 4,412 | 5,270 | | 5,270 |
| 43. | (430) | (946) | (635) | (555) | | (555) |
| 44. | 5,121 | 4,739 | 4,518 | 4,076 | | 4,076 |
| 45. | 59,965 | 58,927 | 56,692 | 55,204 | - | 55,204 |
| 46. | 60,641 | 73,071 | 73,845 | 74,263 | 1,424 | 75,687 |

PHILADELPHIA GAS WORKS
CASH FLOW STATEMENT
(Dollars in Thousands)

| Line No. | Actual 2012-13 | Budget 2013-14 | Estimate 2013-14 | Budget 2014-15 | Adjustments 2014-15 | Compliance Budget 2014-15 |
|---|-----------------------|-----------------------|-----------------------|-----------------------|------------------------|---------------------------------|
| <u>SOURCES</u> | | | | | | |
| 1. Net Income | 60,641 | 73,071 | 73,845 | 74,263 | 1,424 d) | 75,687 |
| 2. Depreciation & Amortization | 46,895 | 48,723 | 47,154 | 48,061 | | 48,061 |
| 3. Earnings on Restricted Funds | (360) | (616) | (387) | (532) | | (532) |
| 4. Net Impact of Refunded Debt | - | - | - | - | | - |
| 5. Increased/(Decreased) Other Assets/Liabilities | (5,053) | (2,807) | (3,819) | (8,166) | | (8,166) |
| 6. Available From Operations | <u>102,123</u> | <u>118,371</u> | <u>116,793</u> | <u>113,626</u> | <u>1,424</u> | <u>115,050</u> |
| 7. Drawdown of Bond Proceeds | 45,018 | 30,200 | 44,150 | - | | - |
| 8. Grant Income | - | - | - | - | | - |
| 9. Release of Sinking Fund Asset | - | - | - | - | | - |
| 10. Temporary Financing | - | 17,889 | - | 34,706 | | 34,706 |
| 11. TOTAL SOURCES | <u>147,141</u> | <u>166,460</u> | <u>160,943</u> | <u>148,332</u> | <u>1,424</u> | <u>149,756</u> |
| <u>USES</u> | | | | | | |
| 12. Net Construction Expenditures | 72,375 | 105,089 | 100,246 | 92,550 | | 92,550 |
| Funded Debt Reduction: | | | | | | |
| 13. Revenue Bonds | 27,720 | 49,800 | 49,800 | 50,975 | | 50,975 |
| 14. Revenue Bonds Subordinate Debt | - | - | - | - | | - |
| 15. Temporary Financing Repayment | - | - | - | - | | - |
| 16. Distribution of Earnings | 18,000 | 18,000 | 18,000 | 18,000 | | 18,000 |
| Additions to (Reductions of): | | | | | | |
| 17. Non-Cash Working Capital | 3,939 | (4,695) | (3,982) | (16,917) | | (16,917) |
| 18. Cash Needs | 122,034 | 168,194 | 164,064 | 144,608 | - | 144,608 |
| 19. Cash Surplus (Shortfall) | 25,107 | (1,734) | (3,121) | 3,724 | 1,424 | 5,148 |
| 20. TOTAL USES | <u>147,141</u> | <u>166,460</u> | <u>160,943</u> | <u>148,332</u> | <u>1,424</u> | <u>149,756</u> |
| 21. Cash - Beginning of Period | 75,826 | 93,352 | 100,933 | 97,812 | | 97,812 |
| 22. Cash - Surplus (Shortfall) | 25,107 | (1,734) | (3,121) | 3,724 | 1,424 | 5,148 |
| 23. Ending Cash | <u>100,933</u> | <u>91,618</u> | <u>97,812</u> | <u>101,536</u> | <u>1,424</u> | <u>102,960</u> |
| 24. Outstanding Commercial Paper | - | - | - | - | | - |
| 25. Outstanding Commercial Paper - Capital | - | 17,889 | - | 34,706 | | 34,706 |
| 26. Incremental DSIC Revenue | 681 | 22,000 | 19,827 | 22,844 | | 22,844 |
| 27. Internally Generated Funds | 26,676 | 35,000 | 36,269 | 35,000 | | 35,000 |

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

| Line No. | Actual 2012-13 | Budget 2013-14 | Estimate 2013-14 | Budget 2014-15 | Adjustments 2014-15 | Compliance Budget 2014-15 |
|---|-------------------|-------------------|---------------------|-------------------|------------------------|---------------------------------|
| <u>FUNDS PROVIDED</u> | | | | | | |
| 1. Total Gas Revenues | 675,153 | 740,319 | 747,504 | 735,151 | | 735,151 |
| 2. Other Operating Revenues | 18,317 | 17,966 | 22,731 | 22,847 | | 22,847 |
| 3. Total Operating Revenues | 693,470 | 758,285 | 770,235 | 757,998 | | 757,998 |
| 4. Other Income Inc. / (Dec.) Restricted Funds | 787 | 2,789 | 2,459 | 2,288 | 1 c) | 2,289 |
| 5. Grant Income | - | - | - | - | | - |
| 6. AFUDC (Interest) | 430 | 946 | 635 | 555 | | 555 |
| 7. TOTAL FUNDS PROVIDED | 694,687 | 762,020 | 773,329 | 760,841 | 1 | 760,842 |
| <u>FUNDS APPLIED</u> | | | | | | |
| 8. Fuel Costs | 255,501 | 298,134 | 311,829 | 292,121 | | 292,121 |
| 9. Other Operating Costs | 318,510 | 331,558 | 330,715 | 339,230 | (1,423) e) | 337,807 |
| 10. Total Operating Expenses | 574,011 | 629,692 | 642,544 | 631,351 | (1,423) | 629,928 |
| 11. Less: Non-Cash Expenses | 47,512 | 47,712 | 47,894 | 48,065 | | 48,065 |
| 12. TOTAL FUNDS APPLIED | 526,499 | 581,980 | 594,650 | 583,286 | (1,423) | 581,863 |
| 13. Funds Available to Cover Revenue Bond Debt | 168,188 | 180,040 | 178,679 | 177,556 | 1,424 | 178,980 |
| 14. 1975 Ordinance Bonds Debt Service | 30,163 | 28,592 | 28,592 | 26,904 | | 26,904 |
| 15. Debt Service Coverage 1975 Revenue Bonds | 5.58 | 6.30 | 6.25 | 6.60 | | 6.65 |
| 16. Net Available after Prior Debt Service | 138,025 | 151,448 | 150,087 | 150,652 | 1,424 | 152,076 |
| 17. Equipment Leasing Debt Service | - | - | - | - | | - |
| 18. Net Available After Prior Capital Leases | 138,025 | 151,448 | 150,087 | 150,652 | 1,424 | 152,076 |
| 19. 1998 Ordinance Bonds Debt Service | 47,668 | 70,178 | 70,028 | 70,827 | | 70,827 |
| 20. New Proposed Bond Debt Service | - | - | - | - | | - |
| 21. Total New Debt Service | 47,668 | 70,178 | 70,028 | 70,827 | | 70,827 |
| 22. Debt Service Coverage 1998 Revenue Bonds | 2.90 | 2.16 | 2.14 | 2.13 | | 2.15 |
| 23. Net Available After 1998 Debt Service | 90,357 | 81,270 | 80,059 | 79,825 | 1,424 | 81,249 |
| 24. Net Available To Service Aggregate Debt Service | 162,078 | 174,989 | 171,043 | 171,087 | 1,424 | 172,511 |
| 25. Aggregate Debt Service including TXCP | 78,898 | 100,990 | 99,375 | 99,079 | | 99,079 |
| 26. Fixed Coverage Charge | 2.05 | 1.73 | 1.72 | 1.73 | | 1.74 |
| 27. Fixed Coverage Charge including \$18.0 M City Fee | 1.67 | 1.47 | 1.46 | 1.46 | | 1.47 |

**PHILADELPHIA GAS WORKS
BALANCE SHEET
(Dollars in Thousands)**

| Line No. | | Actual | Budget | Estimate | Budget | Adjustments | Compliance |
|---------------------------------|--|------------------|------------------|------------------|------------------|--------------|------------------|
| | | 2012-13 | 2013-14 | 2013-14 | 2014-15 | 2014-15 | Budget 2014-15 |
| ASSETS | | | | | | | |
| 1. | Utility Plant Net | 1,154,987 | 1,226,288 | 1,211,590 | 1,259,413 | | 1,259,413 |
| 2. | Sinking Fund Reserve | 105,280 | 106,198 | 105,570 | 106,099 | | 106,099 |
| 3. | Capital Improvement Fund | 44,055 | 807 | - | - | | - |
| 4. | Restricted Investment Worker Comp Fund & Health Insurance Escrow | 5,820 | 6,642 | 5,821 | 5,824 | | 5,824 |
| 5. | Cash | 100,933 | 91,618 | 97,812 | 101,536 | 1,424 | 102,960 |
| Accounts Receivable: | | | | | | | |
| 6. | Gas Receivable | 193,606 | 176,370 | 211,909 | 207,697 | | 207,697 |
| 7. | Other | 2,422 | 1,450 | 2,150 | 1,950 | | 1,950 |
| 8. | Accrued Gas Revenues | 7,298 | 7,846 | 7,551 | 7,828 | | 7,828 |
| 9. | Reserve for Uncollectible | (105,577) | (98,190) | (110,389) | (114,172) | | (114,172) |
| 10. | Accounts Receivable Net | 97,749 | 87,476 | 111,221 | 103,303 | | 103,303 |
| 11. | Materials & Supplies | 80,234 | 84,150 | 71,212 | 72,953 | | 72,953 |
| 12. | Other Current Assets | 1,249 | 631 | 825 | 640 | | 640 |
| 13. | Deferred Debits | 14,946 | 4,605 | 24,792 | 3,513 | | 3,513 |
| 14. | Unamortized Bond Issuance Expense | 15,736 | 18,416 | 14,136 | 12,627 | | 12,627 |
| 15. | Unamortized Extraordinary Loss | 31,772 | 27,024 | 27,255 | 23,179 | | 23,179 |
| 16. | Other Assets | 33,529 | 50,370 | 33,770 | 32,551 | | 32,551 |
| 17. | Deferred Environmental | 24,723 | 24,027 | 28,433 | 28,433 | | 28,433 |
| 18. | TOTAL ASSETS | 1,711,013 | 1,728,252 | 1,732,437 | 1,750,071 | 1,424 | 1,751,495 |
| EQUITY & LIABILITIES | | | | | | | |
| 19. | City Equity | 358,586 | 397,992 | 414,431 | 470,694 | 1,424 | 472,118 |
| Long Term Debt: | | | | | | | |
| 20. | Revenue Bonds | 1,065,720 | 1,015,920 | 1,015,920 | 964,945 | | 964,945 |
| 21. | Unamortized Discount | (2,408) | (2,160) | (2,160) | (1,927) | | (1,927) |
| 22. | Unamortized Premium | 23,070 | 20,216 | 20,216 | 17,729 | | 17,729 |
| 23. | Notes Payable | - | 17,889 | - | 34,706 | | 34,706 |
| | Accounts Payable: | 59,379 | 61,128 | 76,675 | 67,201 | | 67,201 |
| 24. | Natural Gas | | | | | | |
| 25. | General | | | | | | |
| 26. | Customer Deposits | 2,305 | 3,000 | 3,400 | 3,400 | | 3,400 |
| 27. | Other Current Liabilities | 5,517 | 3,253 | 5,676 | 4,593 | | 4,593 |
| 28. | Deferred Credits | 3,590 | 2,197 | 2,366 | 2,311 | | 2,311 |
| Accrued Credits: | | | | | | | |
| 29. | Interest | 11,372 | 10,955 | 10,948 | 10,605 | | 10,605 |
| 30. | Taxes & Wages | 3,451 | 4,589 | 4,402 | 4,633 | | 4,633 |
| 31. | Distribution to City | 3,000 | 3,000 | 3,000 | 3,000 | | 3,000 |
| 32. | Other Liabilities | 177,431 | 190,273 | 177,563 | 168,181 | | 168,181 |
| 33. | TOTAL EQUITY & LIABILITIES | 1,711,013 | 1,728,252 | 1,732,437 | 1,750,071 | 1,424 | 1,751,495 |
| 34. | Debt to Equity | 75.2% | 72.2% | 71.4% | 67.6% | | 67.5% |

**Philadelphia Gas Works
Fiscal Year 2015
Operating Budget Adjustments**

Statement of Income

- a) The \$1,272,000 overall decrease in Labor and Fringe Benefit expenses reflects the impact of reducing personnel levels from 1,640 FTEs to 1,633 FTEs, overtime levels from 259,190 hours to 256,590 hours, and healthcare expenses by approximately 1%. The breakdown of the savings is as follows:
- \$491,000 decrease in labor expenses;
 - \$393,000 decrease in active employee healthcare expenses;
 - \$278,000 decrease in fringe benefit expenses including payroll taxes;
 - \$110,000 decrease in overtime expenses.
- b) The \$151,000 overall decrease in Other Expenses and Depreciation costs reflects the following expenditure adjustments:
- \$196,000 decrease in the Sale/Merger and Acquisitions purchase service budget;
 - \$45,000 increase in the Gas Processing Department's purchase service budget reflecting an increase in LNG trucking expenses.
- c) The \$1,000 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 \$1,424,000 reflecting increased earnings.

Debt Service Coverage

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