



PHILADELPHIA GAS WORKS

800 West Montgomery Avenue • Philadelphia, PA 19122

August 26, 2019

Gemela McClendon, Esq.
Executive Director
Philadelphia Gas Commission
One Parkway Building
1515 Arch Street, Ninth Floor
Philadelphia, PA 19102

RE: PGW's Fiscal Year 2020 Compliance Operating Budget

Dear Ms. McClendon:

As directed in the Motion approved by the Philadelphia Gas Commission at its August 13, 2019 meeting, enclosed is an original along with five (5) copies of PGW's Fiscal Year 2020 Compliance Operating Budget.

I would like to commend the Commission's efforts in granting this approval prior to the beginning of PGW's FY 2020 Fiscal Year. This accomplishment allowed PGW to avoid the need to prepare an interim budget as in the past, thereby improving the efficiency of the budget review process. Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read 'William J. Gallagher', is written over a light blue horizontal line.

William J. Gallagher

Vice President Budget and Strategic Development

cc: Service List

PHILADELPHIA GAS WORKS
FISCAL YEAR 2020 COMPLIANCE OPERATING BUDGET

PHILADELPHIA GAS WORKS
STATEMENT OF INCOME
(Dollars in Thousands)

Line No.	Actual 2017-18	Budget 2018-19	Estimate 2018-19	Budget 2019-20	Adjustments	Compliance Budget 2019-20
OPERATING REVENUES						
1.	23,492	22,559	23,898	23,203	-	23,203
2.	51,682	54,525	59,847	61,882	-	61,882
3.	588,624	606,349	604,756	598,875	-	598,875
4.	-	-	-	-	-	-
5.	(3,806)	606	437	436	-	436
6.	-	-	-	-	-	-
7.	(912)	20	175	(191)	-	(191)
8.	659,080	684,059	689,113	684,205	-	684,205
9.	(30,826)	(30,983)	(31,464)	(30,588)	-	(30,588)
10.	8,121	7,909	7,112	6,835	-	6,835
11.	11,124	11,658	11,469	11,397	-	11,397
12.	(11,581)	(11,416)	(12,883)	(12,356)	-	(12,356)
13.	647,499	672,643	676,230	671,849	-	671,849
OPERATING EXPENSES						
14.	186,254	194,920	206,344	195,123	-	195,123
15.	11	10	5	10	-	10
16.	186,265	194,930	206,349	195,133	-	195,133
17.	461,234	477,713	469,881	476,716	-	476,716
18.	21,644	19,930	19,630	22,512	-	22,512
19.	39,291	-	-	-	-	-
20.	47,762	-	-	-	-	-
21.	-	83,067	82,450	85,188	-	85,188
22.	4,097	4,390	4,390	4,383	-	4,383
23.	13,904	15,327	15,327	15,433	(185)	15,248
24.	7,878	8,805	8,805	9,206	-	9,206
25.	3,751	4,683	4,683	4,999	-	4,999
26.	69,179	81,389	81,435	84,596	(522)	84,074
27.	22,242	23,652	23,652	26,124	(784)	25,340
28.	-	-	-	792	-	792
29.	(10,767)	(10,322)	(11,090)	(9,664)	-	(9,664)
30.	(16,396)	(14,028)	(16,152)	(17,050)	-	(17,050)
31.	43,159	32,672	37,451	29,531	-	29,531
32.	8,758	8,853	8,887	9,280	-	9,280
33.	32,889	30,325	23,520	17,892	-	17,892
35.	-	(2,776)	(1,286)	114	-	114
36.	287,391	285,967	281,702	283,336	(1,491)	281,845
37.	57,583	58,113	56,996	60,602	-	60,602
38.	6,387	4,500	4,500	4,500	-	4,500
39.	(7,516)	(6,905)	(6,905)	-	-	-
	56,454	55,708	54,591	65,102	-	65,102
40.	343,845	341,675	336,293	348,438	(1,491)	346,947
41.	530,110	536,605	542,642	543,571	(1,491)	542,080
42.	117,389	136,038	133,588	128,278	1,491	129,769
43.	4,634	3,003	4,996	3,885	-	3,885
44.	122,023	139,041	138,584	132,163	1,491	133,654
INTEREST						
45.	48,351	46,704	46,704	44,020	-	44,020
46.	(10,618)	(10,516)	(10,383)	(9,716)	-	(9,716)
47.	(1,353)	(1,374)	(1,654)	(1,959)	-	(1,959)
48.	5,560	5,262	5,262	4,845	-	4,845
49.	41,940	40,076	39,929	37,190	-	37,190
50.	\$ 80,083	\$ 98,965	\$ 98,655	\$ 94,973	\$ 1,491	\$ 96,464
51.	18,000	18,000	18,000	18,000	-	18,000
52.	\$ 62,083	\$ 80,965	\$ 80,655	\$ 76,973	\$ 1,491	\$ 78,464

PHILADELPHIA GAS WORKS
STATEMENT OF INCOME
(Dollars in Thousands)

Line No.	Actual 2017-18	Budget 2018-19	Estimate 2018-19	Budget 2019-20	Adjustments	Compliance Budget 2019-20
<u>OPERATING REVENUES</u>						
1. Non-Heating	23,492	22,559	23,898	23,203	-	23,203
2. Gas Transportation Service	51,682	54,525	59,847	61,882	-	61,882
3. Heating	588,624	606,349	604,756	598,875	-	598,875
4. Revenue Enhancement / Cost Reduction	-	-	-	-	-	-
5. Weather Normalization Adjustment	(3,806)	606	437	436	-	436
6. Unbilled Gas Adjustment	(912)	20	175	(191)	-	(191)
7. Total Gas Revenues	659,080	684,059	689,113	684,205	-	684,205
8. Appropriation for Uncollectible Reserve	(30,826)	(30,983)	(31,464)	(30,588)	-	(30,588)
9. Appliance Repair & Other Service Revenues	8,121	7,909	7,112	6,835	-	6,835
10. Other Operating Revenues	11,124	11,658	11,469	11,397	-	11,397
11. Total Other Revenues	(11,581)	(11,416)	(12,883)	(12,356)	-	(12,356)
12. Total Operating Revenues	647,499	672,643	676,230	671,849	-	671,849
<u>OPERATING EXPENSES</u>						
13. Natural Gas	186,254	194,920	206,344	195,123	-	195,123
14. Other Raw Material	11	10	5	10	-	10
15. Sub-Total Fuel	186,265	194,930	206,349	195,133	-	195,133
16. Contribution Margins	461,234	477,713	469,881	476,716	-	476,716
17. Labor & Fringe Benefits	217,238	175,015	182,655	184,842	(784)	184,058
18. Other Expenses & Depreciation	126,607	166,660	153,638	163,596	(707)	162,889
19. Sub-Total Other O&M & Depreciation	343,845	341,675	336,293	348,438	(1,491)	346,947
20. Total Operating Expenses	530,110	536,605	542,642	543,571	(1,491)	542,080
21. Operating Income	117,390	136,038	133,588	128,278	1,491	129,769
22. Interest Gain / (Loss) and Other Income	4,634	3,003	4,996	3,885	-	3,885
23. Income Before Interest	122,023	139,041	138,584	132,163	1,491	133,654
<u>INTEREST</u>						
24. Long Term Debt	48,351	46,704	46,704	44,020	-	44,020
25. Other Interest	(10,618)	(10,516)	(10,383)	(9,716)	-	(9,716)
26. AFUDC	(1,353)	(1,374)	(1,654)	(1,959)	-	(1,959)
27. Loss from Extinguishment of Debt	5,560	5,262	5,262	4,845	-	4,845
28. Total Interest	41,940	40,076	39,929	37,190	-	37,190
29. Net Income	<u>\$ 80,083</u>	<u>\$ 98,965</u>	<u>\$ 98,655</u>	<u>\$ 94,973</u>	<u>\$ 1,491</u>	<u>\$ 96,464</u>
30. City Payment	18,000	18,000	18,000	18,000	-	18,000
31. Net Earnings	<u>\$ 62,083</u>	<u>\$ 80,965</u>	<u>\$ 80,655</u>	<u>\$ 76,973</u>	<u>\$ 1,491</u>	<u>\$ 78,464</u>

PHILADELPHIA GAS WORKS
CASH FLOW STATEMENT
(Dollars in Thousands)

Line No.	Actual 2017-18	Budget 2018-19	Estimate 2018-19	Budget 2019-20	Adjustments	Compliance Budget 2019-20
SOURCES						
1. Net Income	80,083	98,965	98,655	94,973	1,491	96,464
2. Depreciation & Amortization	51,717	52,525	51,404	55,396	-	55,396
3. Earnings on Restricted Funds	(2,898)	(3,217)	(4,130)	2,011	-	2,011
4. Proceeds from Bond Refunding to Pay Cost of Issuance	-	-	-	-	-	-
5. Increased/(Decreased) Other Assets/Liabilities	(1,282)	(16,228)	(19,598)	(33,128)	-	(33,128)
6. Available From Operations	127,619	132,045	126,330	119,252	1,491	120,743
7. Drawdown of Bond Proceeds	55,000	61,000	49,500	60,805	-	60,805
8. Grant Income	-	-	-	-	-	-
9. Release of Sinking Fund Asset	-	-	-	-	-	-
10. Release of Bond Proceeds to Pay Temporary Financing	-	-	-	-	-	-
11. Temporary Financing	-	-	-	10,000	-	10,000
12. TOTAL SOURCES	\$ 182,619	\$ 193,045	\$ 175,830	\$ 190,057	\$ 1,491	\$ 191,548
USES						
13. Net Construction Expenditures	123,427	124,205	99,184	135,739	-	135,739
14. Funded Debt Reduction:	-	-	-	-	-	-
15. Revenue Bonds	38,425	51,820	51,820	52,870	-	52,870
16. Revenue Bonds Subordinate Debt	-	-	-	-	-	-
19. Temporary Financing Repayment	-	-	-	-	-	-
20. Distribution of Earnings	18,000	18,000	18,000	18,000	-	18,000
Additions to (Reductions of):						
21. Non-Cash Working Capital	(39,749)	(1,961)	13,832	(1,969)	-	(1,969)
22. Cash Needs	140,103	192,064	182,836	204,640	-	204,640
23. Cash Surplus (Shortfall)	42,516	981	(7,006)	(14,583)	1,491	(13,092)
24. TOTAL USES	\$ 182,619	\$ 193,045	\$ 175,830	\$ 190,057	\$ 1,491	\$ 191,548
25. Cash - Beginning of Period	88,535	114,954	131,051	124,045	-	124,045
26. Cash - Surplus (Shortfall)	42,516	981	(7,006)	(14,583)	1,491	(13,092)
27. Ending Cash	\$ 131,051	\$ 115,935	\$ 124,045	\$ 109,463	\$ 1,491	\$ 110,954
28. Outstanding Commercial Paper - Working Capital	-	-	-	-	-	-
29. Outstanding Commercial Paper - Capital	-	-	-	10,000	-	10,000
30. Incremental DSIC Revenue	33,000	33,000	33,000	33,000	-	33,000
31. Internally Generated Funds	35,427	30,205	16,684	31,934	-	31,934
32. TOTAL IGF + Incremental DSIC Revenue	68,427	63,205	49,684	64,934	-	64,934

PHILADELPHIA GAS WORKS
DEBT SERVICE COVERAGE
(Dollars in Thousands)

Line No.	Actual 2017-18	Budget 2018-19	Estimate 2018-19	Budget 2019-20	Adjustments	Compliance Budget 2019-20
FUNDS PROVIDED						
1. Total Gas Revenues	659,080	684,059	689,113	684,205	-	684,205
2. Other Operating Revenues	<u>(11,581)</u>	<u>19,567</u>	<u>(12,883)</u>	<u>(12,356)</u>	-	<u>(12,356)</u>
3. Total Operating Revenues	647,499	703,626	676,230	671,849	-	671,849
4. Other Income Inc. / (Dec.) Restricted Funds	4,634	(214)	866	5,896	-	5,896
5. AFUDC (Interest)	<u>1,353</u>	<u>1,374</u>	<u>1,654</u>	<u>1,959</u>	-	<u>1,959</u>
6. TOTAL FUNDS PROVIDED	653,486	704,786	678,749	679,705	-	679,705
FUNDS APPLIED						
7. Fuel Costs	186,265	194,930	206,349	195,133	-	195,133
8. Other Operating Costs	<u>343,845</u>	<u>372,658</u>	<u>336,293</u>	<u>348,438</u>	(1,491)	<u>346,947</u>
9. Total Operating Expenses	530,110	567,588	542,642	543,571	(1,491)	542,080
10. Less: Non-Cash Expenses	<u>82,846</u>	<u>70,823</u>	<u>74,148</u>	<u>70,588</u>	-	<u>70,588</u>
11. TOTAL FUNDS APPLIED	447,264	496,765	468,494	472,983	(1,491)	471,492
12. Funds Available to Cover Revenue Bond Debt	206,222	208,022	210,256	206,721	1,491	208,212
13. 1975 Ordinance Bonds Debt Service	-	-	-	-	-	-
14. Debt Service Coverage 1975 Revenue Bonds	-	-	-	-	-	-
15. Net Available after Prior Debt Service	206,222	208,022	210,256	206,721	1,491	208,212
16. Equipment Leasing Debt Service	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	-	<u>-</u>
17. Net Available After Prior Capital Leases	206,222	208,022	210,256	206,721	1,491	208,212
18. 1998 Ordinance Bonds Debt Service	87,690	99,051	99,051	97,534	-	97,534
19. 1999 Ordinance Subordinate Bonds Debt Service - (TXCP)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	-	<u>-</u>
20. Total New Debt Service	87,690	99,051	99,051	97,534	-	97,534
21. Debt Service Coverage 1998 Revenue Bonds	2.35	2.10	2.12	2.12	-	2.13
22. Net Available After 1998 Debt Service	\$118,532	\$108,971	\$111,205	\$109,187	\$1,491	\$110,678
23. Aggregate Debt Service (Combined Liens)	87,690	99,051	99,051	97,534	-	97,534
24. Fixed Coverage Charge (Combined Liens)	2.35	2.10	2.12	2.12	-	2.13
25. Fixed Coverage Charge including \$18.0MM City Fee	2.15	1.92	1.94	1.93	-	1.95

PHILADELPHIA GAS WORKS
BALANCE SHEET
(Dollars in Thousands)

Line No.	Actual 2017-18	Budget 2018-19	Estimate 2018-19	Budget 2019-20	Adjustments	Compliance Budget 2019-20
ASSETS						
1. Utility Plant Net	1,403,956	1,471,065	1,446,144	1,521,281	-	1,521,281
2. Sinking Fund Reserve	103,255	105,170	104,985	106,837	-	106,837
3. Capital Improvement Fund	111,815	47,326	64,695	-	-	-
4. Capital Expenditures	-	-	-	-	-	-
5. Restricted Investment Worker Comp Fund & Health Insurance Escrow	2,646	2,688	2,667	2,693	-	2,693
6. Cash	131,051	115,935	124,045	109,463	1,491	110,954
Accounts Receivable:						
7. Gas Receivable	141,346	142,232	138,742	135,204	-	135,204
8. Other	2,964	2,311	2,007	2,007	-	2,007
9. Accrued Gas Revenues	4,628	5,538	5,713	5,522	-	5,522
10. Reserve for Uncollectible	(66,328)	(67,146)	(65,791)	(64,479)	-	(64,479)
11. Accounts Receivable Net	<u>82,610</u>	<u>82,935</u>	<u>80,671</u>	<u>78,254</u>	-	<u>78,254</u>
12. Materials & Supplies	52,368	53,550	55,893	53,116	-	53,116
13. Deferred Debits	2,501	483	2,344	2,348	-	2,348
14. Unamortized Bond Issuance Expense	15,499	10,427	15,474	16,266	-	16,266
15. Unamortized Extraordinary Loss	290	259	259	233	-	233
16. Deferred Environmental	42,054	36,792	36,792	31,946	-	31,946
17. Deferred Pension Outflows	31,593	29,115	31,527	30,735	-	30,735
18. Deferred OPEB Outflows	24,943	-	29,950	18,375	-	18,375
19. Other Assets	81,048	-	81,168	65,792	-	65,792
20. Other Assets	9,650	20,503	30,736	28,817	-	28,817
21. TOTAL ASSETS	<u>\$2,095,279</u>	<u>\$1,976,248</u>	<u>\$2,107,349</u>	<u>\$2,066,156</u>	<u>\$1,491</u>	<u>\$2,067,647</u>
EQUITY & LIABILITIES						
22. City Equity	\$111,700	\$193,201	\$192,355	\$269,328	\$1,491	\$270,819
Long Term Debt:						
23. Revenue Bonds	1,016,300	964,480	964,480	911,610	-	911,610
24. Unamortized Discount	(64)	(60)	(60)	(56)	-	(56)
25. Unamortized Premium	109,237	98,352	98,352	88,270	-	88,270
26. Notes Payable	-	-	-	10,000	-	10,000
Accounts Payable:						
27. Natural Gas	12,423	13,206	14,391	13,814	-	13,814
28. General	60,197	44,060	57,869	57,593	-	57,593
29. Customer Deposits	2,644	3,094	2,532	2,425	-	2,425
30. Other Current Liabilities	5,942	5,829	3,228	6,321	-	6,321
31. Pension Liability	261,261	249,695	259,449	257,484	-	257,484
32. OPEB Liability	378,888	-	310,852	288,239	-	288,239
33. Deferred Credits	16,494	3,338	7,819	3,606	-	3,606
34. Deferred Pension Inflows	13,266	13,488	28,739	20,405	-	20,405
35. Deferred OPEB Inflows	36,134	-	79,554	54,991	-	54,991
Accrued Credits:						
36. Interest	8,080	7,883	7,355	6,827	-	6,827
37. Taxes & Wages	3,889	4,169	4,042	4,222	-	4,222
38. Distribution to City	3,000	3,000	3,000	3,000	-	3,000
39. Other Liabilities	55,888	372,513	73,392	68,077	-	68,077
40. TOTAL EQUITY & LIABILITIES	<u>\$2,095,279</u>	<u>\$1,976,248</u>	<u>\$2,107,349</u>	<u>\$2,066,156</u>	<u>\$1,491</u>	<u>\$2,067,647</u>
41. Debt to Equity	91.0%	84.8%	84.7%	78.8%	0.0%	78.7%

**Philadelphia Gas Works
Fiscal Year 2020
Operating Budget Adjustment**

Statement of Income

- a) The \$784,000 overall decrease in Health Insurance Expense is due to a downward adjustment to active employee costs due to revised projections from PGW Health Insurance Actuaries.
- b) The \$522,000 overall decrease in Administrative & General Expenses reflects a downward adjustment to PFMC purchase services consistent with the historical level of funding.
- c) The \$185,000 overall decrease in Customer Service reflects the closure of the Center City District Office.

Cash Flow Statement

- d) Net Income increases by \$1,491,000 which is described in detail in the previously mentioned adjustments.

Debt Service Coverage

- e) Other Operating Costs decreases by \$1,491,000; please reference a), b) and c) for the explanation.

Balance Sheet

- f) Cash increase by \$1,491,000; please refer to the previously mentioned adjustments on the Statement of Income and Cash Flow Statement.
- g) City Equity increases by \$1,491,000; this is due to the revised 2020 net income.