

August 18, 2022

Gemela McClendon
Executive Director
Philadelphia Gas Commission
One Parkway Building
1515 Arch Street, 9th Floor
Philadelphia, PA 19102

Re: PGW's Fiscal Year 2023 Compliance Operating Budget

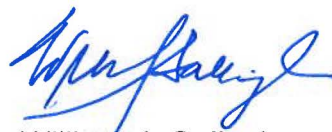
Dear Ms. McClendon:

As directed in the Motion approved by the Philadelphia Gas Commission at its August 9, 2022 meeting, enclosed is a copy of PGW's Fiscal Year 2023 Compliance Operating Budget.

If you have any questions, please let me know.

Thank you.

Sincerely,

A handwritten signature in blue ink, appearing to read "W. J. Gallagher".

William J. Gallagher
VP Budget and Strategic Development

WJG/mlo'b
Enclosure

cc: Service List



PHILADELPHIA GAS WORKS

COMPLIANCE FISCAL 2023 OPERATING BUDGET

PHILADELPHIA GAS WORKS
STATEMENT OF INCOME
(Dollars in Thousands)

Line No.	Actual <u>2020-21</u>	Budget <u>2021-22</u>	Estimate <u>2021-22</u>	Budget <u>2022-23</u>	Adjustments	Compliance Budget <u>2022-23</u>
<u>OPERATING REVENUES</u>						
1.	23,122	21,941	30,198	29,570	-	29,570
2.	66,684	74,584	73,813	79,447	-	79,447
3.	539,261	590,704	696,841	678,023	-	678,023
4.	11,763	1,900	4,086	4,228	-	4,228
5.	181	279	(1,215)	205	-	205
6.	641,011	689,408	803,723	791,473	-	791,473
7.	(16,261)	(30,287)	(34,892)	(34,955)	-	(34,955)
8.	6,019	7,832	7,827	7,983	-	7,983
9.	15,978	11,228	13,685	12,695	-	12,695
10.	5,736	(11,227)	(13,380)	(14,277)	-	(14,277)
11.	646,747	678,181	790,343	777,196	-	777,196
<u>OPERATING EXPENSES</u>						
12.	163,873	180,724	273,922	260,504	-	260,504
13.	19	23	23	23	-	23
14.	163,892	180,747	273,945	260,527	-	260,527
15.	482,855	497,434	516,398	516,669	-	516,669
<u>CONTRIBUTION MARGINS</u>						
16.	23,297	23,625	24,133	28,201	-	28,201
17.	79,901	88,760	92,846	99,494	-	99,494
18.	4,544	4,624	4,364	4,959	-	4,959
19.	13,903	17,152	13,550	19,219	(774)	18,445
20.	8,834	9,465	9,094	10,157	178	10,335
21.	4,128	4,384	4,250	4,432	-	4,432
22.	69,376	87,934	79,196	87,642	-	87,642
23.	22,712	25,000	23,000	25,000	-	25,000
24.	(11,935)	(10,896)	(10,172)	(11,036)	-	(11,036)
25.	(18,123)	(24,549)	(19,677)	(25,361)	-	(25,361)
26.	(3,146)	27,915	6,194	9,881	-	9,881
27.	8,894	9,852	9,175	10,098	-	10,098
28.	(902)	(1,249)	3,812	(7,025)	-	(7,025)
29.	-	(1,554)	-	1,367	(1,722)	(355)
30.	201,483	260,463	239,765	257,028	(2,318)	254,710
31.	63,768	68,242	68,954	71,939	-	71,939
32.	4,900	4,500	4,500	4,500	-	4,500
	68,668	72,742	73,454	76,439	-	76,439
33.	270,151	333,205	313,219	333,467	(2,318)	331,149
34.	434,043	513,952	587,164	593,994	(2,318)	591,676
35.	212,704	164,229	203,179	183,202	2,318	185,520
36.	1,322	7,302	3,055	3,191	-	3,191
37.	214,026	171,532	206,234	186,394	2,318	188,712
<u>INTEREST</u>						
38.	48,475	47,938	50,638	51,870	-	51,870
39.	(9,259)	(10,119)	(10,087)	(6,380)	-	(6,380)
40.	(2,413)	(2,369)	-	-	-	-
41.	4,651	4,047	4,047	3,615	-	3,615
42.	41,454	39,497	44,598	49,105	-	49,105
43.	\$ 172,572	\$ 132,035	\$ 161,636	\$ 137,289	\$ 2,318	\$ 139,607
44.	18,000	18,000	18,000	18,000	-	18,000
45.	\$ 154,572	\$ 114,035	\$ 143,636	\$ 119,289	\$ 2,318	\$ 121,607

PHILADELPHIA GAS WORKS
STATEMENT OF INCOME
(Dollars in Thousands)

Line No.	Actual 2020-21	Budget 2021-22	Estimate 2021-22	Budget 2022-23	Adjustments	Compliance Budget 2022-23
<u>OPERATING REVENUES</u>						
1. Non-Heating	23,122	21,941	30,198	29,570	-	29,570
2. Gas Transportation Service	66,684	74,584	73,813	79,447	-	79,447
3. Heating	539,261	590,704	696,841	678,023	-	678,023
4. Weather Normalization Adjustment	11,763	1,900	4,086	4,228	-	4,228
5. Unbilled Gas Adjustment	181	279	(1,215)	205	-	205
6. Total Gas Revenues	<u>641,011</u>	<u>689,408</u>	<u>803,723</u>	<u>791,473</u>	-	<u>791,473</u>
7. Appropriation for Uncollectible Reserve	(16,261)	(30,287)	(34,892)	(34,955)	-	(34,955)
8. Appliance Repair & Other Service Revenues	6,019	7,832	7,827	7,983	-	7,983
9. Other Operating Revenues	<u>15,978</u>	<u>11,228</u>	<u>13,685</u>	<u>12,695</u>	-	<u>12,695</u>
10. Total Other Revenues	5,736	(11,227)	(13,380)	(14,277)	-	(14,277)
11. Total Operating Revenues	<u>646,747</u>	<u>678,181</u>	<u>790,343</u>	<u>777,196</u>	-	<u>777,196</u>
<u>OPERATING EXPENSES</u>						
12. Natural Gas	163,873	180,724	273,922	260,504	-	260,504
13. Other Raw Material	19	23	23	23	-	23
14. Sub-Total Fuel	<u>163,892</u>	<u>180,747</u>	<u>273,945</u>	<u>260,527</u>	-	<u>260,527</u>
15. Contribution Margins	482,855	497,434	516,398	516,669	-	516,669
16. Labor & Fringe Benefits	145,725	189,662	160,010	179,436	(1,722)	177,714
17. Other Expenses & Depreciation	<u>124,426</u>	<u>143,543</u>	<u>153,208</u>	<u>154,030</u>	(596)	<u>153,434</u>
18. Sub-Total Other O&M & Depreciation	270,151	333,205	313,219	333,467	(2,318)	331,149
19. Total Operating Expenses	434,043	513,952	587,164	593,994	(2,318)	591,676
20. Operating Income	212,704	164,229	203,179	183,202	2,318	185,520
21. Interest Gain / (Loss) and Other Income	<u>1,322</u>	<u>7,302</u>	<u>3,055</u>	<u>3,191</u>	-	<u>3,191</u>
22. Income Before Interest	214,026	171,531	206,234	186,394	2,318	188,712
<u>INTEREST</u>						
23. Long Term Debt	48,475	47,938	50,638	51,870	-	51,870
24. Other Interest	(9,259)	(10,119)	(10,087)	(6,380)	-	(6,380)
25. AFUDC	(2,413)	(2,369)	-	-	-	-
26. Loss from Extinguishment of Debt	<u>4,651</u>	<u>4,047</u>	<u>4,047</u>	<u>3,615</u>	-	<u>3,615</u>
27. Total Interest	41,454	39,497	44,598	49,105	-	49,105
28. Net Income	<u>\$ 172,572</u>	<u>\$ 132,035</u>	<u>\$ 161,636</u>	<u>\$ 137,289</u>	<u>\$ 2,318</u>	<u>\$ 139,607</u>
29. City Payment	<u>18,000</u>	<u>18,000</u>	<u>18,000</u>	<u>18,000</u>	-	<u>18,000</u>
30. Net Earnings	<u>\$ 154,572</u>	<u>\$ 114,035</u>	<u>\$ 143,636</u>	<u>\$ 119,289</u>	<u>\$ 2,318</u>	<u>\$ 121,607</u>

PHILADELPHIA GAS WORKS
CASH FLOW STATEMENT
(Dollars in Thousands)

Line No.	Actual 2020-21	Budget 2021-22	Estimate 2021-22	Budget 2022-23	Adjustments	Compliance Budget 2022-23
SOURCES						
1. Net Income	172,572	132,035	161,636	137,289	2,318	139,607
2. Depreciation & Amortization	61,436	60,981	61,710	65,144	-	65,144
3. Earnings on Restricted Funds	(27)	1,070	(966)	(1,083)	-	(1,083)
4. Proceeds from Bond Refunding to Pay Cost of Issuance	-	-	-	-	-	-
5. Increased/(Decreased) Other Assets/Liabilities	(110,867)	(59,973)	(51,275)	(77,655)	-	(77,655)
6. Available From Operations	123,114	134,112	171,105	123,695	2,318	126,013
7. Drawdown of Bond Proceeds	55,000	93,595	77,570	107,822	-	107,822
8. Grant Income	-	-	-	-	-	-
9. Release of Sinking Fund Asset	-	-	-	-	-	-
10. Release of Bond Proceeds to Pay Temporary Financing	-	-	-	-	-	-
11. Temporary Financing	-	-	-	-	-	-
12. TOTAL SOURCES	\$ 178,114	\$ 227,708	\$ 248,674	\$ 231,517	\$ 2,318	\$ 233,835
USES						
13. Net Construction Expenditures	138,504	165,595	143,570	196,247	-	196,247
14. Funded Debt Reduction:	-	-	-	-	-	-
15. Revenue Bonds	49,825	54,030	54,030	58,135	-	58,135
16. Revenue Bonds Subordinate Debt	-	-	-	-	-	-
19. Temporary Financing Repayment	-	-	-	-	-	-
20. GASB 87 Lease Principal Payments	-	-	-	18,337	-	18,337
21. Distribution of Earnings	18,000	18,000	18,000	18,000	-	18,000
Additions to (Reductions of):						
22. Non-Cash Working Capital	(14,048)	16,020	40,684	(30,954)	-	(30,954)
23. Cash Needs	192,281	253,645	256,284	259,765	-	259,765
24. Cash Surplus (Shortfall)	(14,167)	(25,937)	(7,610)	(28,248)	2,318	(25,930)
25. TOTAL USES	\$ 178,114	\$ 227,708	\$ 248,674	231,517	2,318	233,835
26. Cash - Beginning of Period	172,434	131,213	158,267	150,658	-	150,658
27. Cash - Surplus (Shortfall)	(14,167)	(25,937)	(7,609)	(28,248)	-	(25,930)
28. Ending Cash	\$ 158,267	\$ 105,276	\$ 150,658	\$ 122,410	\$ -	\$ 124,728
29. Outstanding Commercial Paper - Working Capital	-	-	-	-	-	-
30. Outstanding Commercial Paper - Capital	-	-	-	-	-	-
31. Incremental DSIC Revenue	34,608	37,000	38,000	38,000	-	38,000
32. Internally Generated Funds	48,896	35,000	28,000	50,425	-	50,425
33. TOTAL IGF + Incremental DSIC Revenue	83,504	72,000	66,000	88,425	-	88,425

**PHILADELPHIA GAS WORKS
DEBT SERVICE COVERAGE**

(Dollars in Thousands)

Line No.	Actual 2020-21	Budget 2021-22	Estimate 2021-22	Budget 2022-23	Adjustments	Compliance Budget 2022-23
<u>FUNDS PROVIDED</u>						
1. Total Gas Revenues	641,011	689,408	803,723	791,473	-	791,473
2. Other Operating Revenues	5,736	(11,227)	(13,380)	(14,277)	-	(14,277)
3. Total Operating Revenues	646,747	678,181	790,343	777,196	-	777,196
4. Other Income Inc. / (Dec.) Restricted Funds	1,295	8,371	2,089	2,108	-	2,108
5. AFUDC (Interest)	2,413	2,369				
6. TOTAL FUNDS PROVIDED	650,455	688,921	792,431	779,305	-	779,305
<u>FUNDS APPLIED</u>						
7. Fuel Costs	163,892	180,747	273,945	260,527	-	260,527
8. Other Operating Costs	270,151	333,205	313,219	333,467	(2,318)	331,149
9. Total Operating Expenses	434,043	513,952	587,164	593,994	-	591,676
10. Less: Non-Cash Expenses	46,075	73,057	52,356	59,083	-	59,083
11. TOTAL FUNDS APPLIED	387,968	440,895	534,808	534,911		532,593
12. Funds Available to Cover Revenue Bond Debt	262,487	248,028	257,623	244,394		246,712
13. 1975 Ordinance Bonds Debt Service	-	-	-	-	-	-
14. Debt Service Coverage 1975 Revenue Bonds	-	-	-	-	-	-
15. Net Available after Prior Debt Service	262,487	248,028	257,623	244,394		246,712
16. Equipment Leasing Debt Service	-	-	-	-		-
17. Net Available After Prior Capital Leases	262,487	248,028	257,623	244,394		246,712
18. 1998 Ordinance Bonds Debt Service	97,383	102,598	105,314	106,467	-	106,467
19. 1999 Ordinance Subordinate Bonds Debt Service - (TXCP)	-	-	-	-	-	-
20. Total New Debt Service	97,383	102,598	105,314	106,467		106,467
21. Debt Service Coverage 1998 Revenue Bonds	2.70	2.42	2.45	2.30		2.32
22. Net Available After 1998 Debt Service	\$165,104	\$145,430	\$152,309	\$137,926		\$140,244
23. Aggregate Debt Service (Combined Liens)	97,383	102,598	105,314	106,467		106,467
24. Fixed Coverage Charge (Combined Liens)	2.70	2.42	2.45	2.30		2.32
25. Fixed Coverage Charge including \$18.0MM City Fee	2.51	2.24	2.28	2.13		2.15

PHILADELPHIA GAS WORKS
BALANCE SHEET
(Dollars in Thousands)

Line No.		Actual	Budget	Estimate	Budget	Adjustments	Compliance
		2020-21	2021-22	2021-22	2022-23		Budget 2022-23
ASSETS							
1.	Utility Plant Net	1,565,863	1,645,295	1,640,479	1,764,787	-	1,764,787
2.	Leasehold Asset	-	739	739	76,087	-	76,087
3.	Sinking Fund Reserve	107,684	107,079	107,421	107,959	-	107,959
4.	Capital Improvement Fund	93,600	103,403	107,285	-	-	0
5.	Capital Expenditures Restricted Investment Worker Comp Fund & Health Insurance Escrow	91,322	-	-	-	-	-
6.	Health Insurance Escrow	2,740	2,784	2,746	2,681	-	2,681
7.	Cash	158,265	105,276	150,658	122,410	2,318	124,728
Accounts Receivable:							
8.	Gas Receivable	182,516	147,695	178,448	174,287	-	174,287
9.	Other	4,650	1,825	4,675	4,700	-	4,700
10.	Accrued Gas Revenues	7,992	5,800	6,777	6,982	-	6,982
11.	Reserve for Uncollectible	(113,164)	(78,413)	(111,855)	(109,554)	-	(109,554)
12.	Accounts Receivable Net	81,994	76,907	78,045	76,415	-	76,415
13.	Materials & Supplies	53,370	55,582	69,194	58,203	-	58,203
14.	Other Current Assets	5,891	8,230	6,041	6,045	-	6,045
15.	Deferred Debits	7,035	12,912	10,763	7,610	-	7,610
16.	Unamortized Bond Issuance Expense	784	777	926	866	-	866
17.	Unamortized Extraordinary Loss	27,487	23,440	23,440	19,825	-	19,825
18.	Deferred Environmental	27,572	34,145	27,226	25,247	-	25,247
19.	Deferred Pension Outflows	24,575	35,225	28,719	15,930	-	15,930
20.	Deferred OPEB Outflows	71,721	42,173	70,621	59,794	-	59,794
21.	Other Assets	47,540	31,070	40,304	38,070	-	38,070
22.	TOTAL ASSETS	\$2,367,443	\$2,285,035	\$2,364,606	2,381,929	2,318	2,384,247
EQUITY & LIABILITIES							
23.	City Equity	\$450,100	\$503,429	\$593,736	\$713,058	\$2,318	\$715,376
Long Term Debt:							
24.	Revenue Bonds	1,058,637	1,010,911	1,004,607	946,472	-	946,472
25.	Unamortized Discount	(52)	(48)	(48)	(44)	-	(44)
26.	Unamortized Premium	129,442	118,057	118,083	107,609	-	107,609
27.	Lease Obligations	-	775	775	57,749	-	57,749
28.	Notes Payable	-	-	-	-	-	-
Accounts Payable:							
29.	Natural Gas	6,742	10,890	17,891	15,404	-	15,404
30.	General	73,186	59,484	72,889	72,595	-	72,595
31.	Customer Deposits	1,659	2,828	1,596	1,536	-	1,536
32.	Other Current Liabilities	4,931	4,647	3,341	2,991	-	2,991
33.	Pension Liability	138,216	251,730	124,647	117,241	-	117,241
34.	OPEB Liability	201,588	152,512	173,936	141,743	-	141,743
35.	Deferred Credits	36,929	8,939	2,389	3,085	-	3,085
36.	Deferred Pension Inflows	94,514	10,988	87,062	60,913	-	60,913
37.	Deferred OPEB Inflows	102,885	66,900	86,334	51,562	-	51,562
Accrued Credits:							
38.	Interest	7,573	7,073	8,220	26,072	-	26,072
39.	Taxes & Wages	6,412	4,222	4,731	4,558	-	4,558
40.	Distribution to City	3,000	3,000	3,000	3,000	-	3,000
41.	Other Liabilities	51,681	68,701	61,419	56,386	-	56,386
42.	TOTAL EQUITY & LIABILITIES	\$2,367,443	\$2,285,035	\$2,364,606	\$2,381,929	\$2,318	\$2,384,247
43.	Debt to Equity	72.5%	69.2%	65.4%	59.6%		59.6%

Philadelphia Gas Works
Fiscal Year 2023
Operating Budget Adjustment

Statement of Income

- a) The Compliance Budget reflects a \$2,318,000 overall decrease in Non-Fuel Operating Expenses. See below for details:
 - a. Expenses associated with Customer Service were adjusted downward (\$774,000) as a result of the decision to close the District Offices. See below for details:
 - i. Reduction of 9 FTEs (\$531,000).
 - ii. Reduction in purchased services of (\$97,000).
 - iii. Reduction in bank fees of (\$13,000).
 - iv. Reduction in allocated facilities charges of (\$133,000).
 - b. Expenses associated with the Commercial Resource Center were adjusted upward \$178,000. The increase was caused by two FTEs reassigned from Customer Service. This is related to the decision to close the District Offices.
 - c. A reduction in expenses (\$1,722,000) shown on the Labor Costs (Retirement Payout/Labor Savings) line associated with:
 - i. A reduction in the budgeted number of retirees from 50 to 39 which reduces the Retirement Benefit Allocations (\$308,000).
 - ii. A reduction in headcount of from 1,650 to 1637 (13 FTEs) which resulted in a downwards adjustment in Labor and Fringe Benefits (\$1,414,000).

Cash Flow Statement

- b) Ending cash increased \$2,318,000 from \$122,410,000 to \$124,728,000. This was caused by the increase to Net income described above.

Debt Service Coverage

- c) The Fixed Coverage Charge (Including the \$18.0 MM City Fee) increased 0.02 from 2.13 to 2.15. This was caused by the \$2,318,000 reduction to other operating costs described above.

Balance Sheet

- d) Cash increased by \$2,318,000 as a result of lower non-fuel operating expenses outlined above.
- e) City Equity increased by \$2,318,000; this is due to the revised FY2023 Net Income.