

GOOD  
ENERGY  
MAKES  
GOOD  
SENSE



[www.pgworks.com](http://www.pgworks.com)  
800 West Montgomery Avenue  
Philadelphia, PA 19122

**Philadelphia Gas Works**  
(A Component Unit of the City of Philadelphia)  
Comprehensive Annual Financial Report  
For Fiscal Years Ended August 31, 2013 and 2012



# GOOD ENERGY MAKES GOOD SENSE

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(A Component Unit of the City of Philadelphia)  
Comprehensive Annual Financial Report  
For Fiscal Years Ended August 31, 2013 and 2012

**Michael A. Nutter**

Mayor, City of Philadelphia, PA

**David Seltzer**

Chairman, Board of Directors  
Philadelphia Facilities Management Corporation

**Craig E. White**

President & Chief Executive Officer,  
Philadelphia Gas Works

**Joseph F. Golden, Jr.**

Executive Vice President &  
Acting Chief Financial Officer,  
Philadelphia Gas Works

**Prepared by:**

The Finance Organization  
Philadelphia Gas Works  
Philadelphia, PA





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

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September 23

We just made it a lot easier for you to audit your home's energy use AND get the proper upgrades to make your home greener. Oh yeah, you'll save some green too! Check out our announcement from last week.  
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# Introductory Section

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## PHILADELPHIA GAS WORKS

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The Chairman and Members of the Philadelphia Facilities Management Corporation  
Philadelphia, Pennsylvania:

The Comprehensive Annual Report of the Philadelphia Gas Works (PGW or the Company) for the years ended August 31, 2013 and 2012 is hereby submitted. The financial statements were prepared in accordance with Generally Accepted Accounting Principles in the United States of America (GAAP). Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures rests with PGW management.

The financial statements were audited by KPMG, a firm of licensed certified public accountants. The annual audits were conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that KPMG plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, no such opinion was expressed. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The audit evidence obtained is sufficient and reasonable to provide a basis for the audit opinion.

KPMG's opinion was unmodified and stated that the financial statements present fairly, in all material respects, the financial position of PGW as of August 31, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended, in conformity with GAAP. Accordingly, an unmodified opinion was rendered. This independent auditor's report is presented as the first component of the financial section of this report.

Management has provided a narrative to accompany the basic financial statements. This narrative is known as Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

### PROFILE OF PHILADELPHIA GAS WORKS

PGW began providing gas service to the City of Philadelphia (the City) in 1836, when the City's first gas lights were turned on along Second Street, between Vine and South Streets. In 1841, PGW came under City ownership. In 1897, the City contracted for PGW to be managed by UGI Corporation (then United Gas Improvement Company). Effective January 1, 1973 the City contracted with Philadelphia Facilities Management Corporation to operate and manage PGW.

Prior to July 1, 2000, PGW was under the regulatory jurisdiction of the Philadelphia Gas Commission (PGC). The PGC had the authority to set PGW's rates and tariffs. The PGC also approved PGW's annual Operating Budget and reviewed PGW's Capital Budget prior to approval by the City Council of the City (City Council).

Effective July 1, 2000, and pursuant to the passage of the Pennsylvania Natural Gas Choice and Competition Act (the Act), PGW came under the regulatory jurisdiction of the Pennsylvania Public Utility Commission (PUC). Under the PUC's jurisdiction, PGW filed a restructuring plan on July 1, 2002, which among other things, provided for an unbundled tariff permitting customer choice of the commodity supplier by September 1, 2003. Under the Act, the PUC is required to follow the "same ratemaking methodology and requirements" that were previously applicable to the PGC when determining PGW's revenue requirements and approving overall rates and charges. The PGC continues to approve PGW's Operating Budget and review its Capital Budget. PGW's Capital Budget must be approved by City Council.

PGW, as of September 1, 2003, is operating under its Restructuring Compliance Tariff. The Restructuring Compliance Tariff Rates are designed to maintain revenue neutrality and the Tariff Rules and Regulations are designed to comport with the Pennsylvania Public Utility Code.

Management is responsible for establishing and maintaining internal controls designed to protect the assets of PGW from loss, theft, or misuse, and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with GAAP. This internal control is subject to periodic evaluation by management in order to determine its adequacy. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

#### FACTORS AFFECTING FINANCIAL CONDITION

The information presented in this report is best understood in the context of the environment in which PGW operates. A more comprehensive analysis of these factors is available in PGW's Operating Budget and Five Year Forecast and Capital Budget and Five Year Forecast. These documents can be obtained online at [www.pgworks.com](http://www.pgworks.com).

The local economy is showing progress on several fronts despite continued fiscal challenges that arise from the demographic and economic changes that have occurred in recent Philadelphia history. PGW recognizes the challenges faced by our customers and has taken responsible action to assist our customers in need. PGW provides a discount on gas rates for senior citizens in a closed program. Participation in this program was closed as of September 1, 2003. There are approximately 25,000 "grandfathered" customers receiving this discount on their current gas bills. PGW also provides a discounted payment plan with a possible forgiveness of arrearages over a three year time period. This program is offered to low income customers. There are approximately 75,000 customers enrolled in this program.

The Company's single largest operating expense is the cost of natural gas. The rate charged to PGW'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 related costs. This GCR mechanism provides the flexibility to

rapidly reflect current conditions without the time delay inherent in a full base rate proceeding. The intent is to achieve an annual balance between the costs incurred for fuel and their pass through to customers. In fiscal year 2013 the average commodity price of natural gas was \$3.78 per thousand cubic feet (Mcf). This marks a decrease in price from prior fiscal years and is reflected in a lower monthly bill passed through to customers.

The temperature and other weather conditions greatly affect the gas usage of heating customers of PGW. Colder than normal weather conditions results in a greater demand for natural gas and warmer than normal weather conditions results in a lower demand for natural gas. In recent years the temperature in Philadelphia has been warmer than normal resulting in a decreased demand for natural gas. This decreased demand for natural gas results in lower operating margins.

PGW has recognized the need to stabilize and normalize revenue due to variations in weather from one fiscal year to another fiscal year. PGW requested a Weather Normalization Adjustment Clause (WNA) to address fluctuating revenue due to weather conditions. The WNA was approved by the PUC in 2002. The purpose of the WNA is to neutralize the impact of weather on PGW's revenues. This allows PGW to achieve the recovery of appropriate costs as authorized by the PUC. The WNA results in neither a rate increase nor a rate decrease, but acts as a billing adjustment. The main benefits of the WNA are the stabilization of cash flow and the reduction of the need for short-term borrowing from year to year. The WNA is applied to customer invoices rendered during the period of October 1 through May 31 of each year for each billing cycle.

At the end of fiscal year 2013, PGW reported a net income of \$60 million, doubling net income compared to the fiscal year 2012 net income. PGW also saw further reductions to long-term debt, and an 18.0% decrease in Other Postemployment Benefits (OPEB) expense, primarily due to continued funding of the OPEB trust. The challenge going forward is reducing the dependency on heating degree days, while continuing to increase revenue and generate positive cash flow. PGW intends to drive demand for natural gas in new markets, such as LNG sales and Combined Heat and Power (CHP) installations, and capitalize on new revenue streams.

### CAPITAL PROGRAM

PGW's annual capital program primarily supports an infrastructure investment plan to replace existing plant and facilities to ensure that PGW continues to operate the Company's assets at a high standard of safety and reliability. The budget also supports PGW's efforts to provide for new load additions that offer economic advantages. This helps to spread PGW's fixed costs over a larger volume of customer usage, thereby positively impacting customer rates. Lastly, funds are requested for investment in systems and technology to improve customer service and the efficiency of its delivery.

The vast majority of PGW's capital program is dedicated to maintaining the integrity of underground distribution facilities. To this end, PGW implemented an annual program to reduce the inventory of cast iron main by 18 miles a year. This program is believed to be sufficient to maintain the integrity of the underground infrastructure. On February 14, 2012, Act 11 was signed into law, providing Pennsylvania utility companies with a supplemental recovery mechanism (a Distribution System Improvement Charge, or DSIC) for costs related to incremental/accelerated distribution system repair, improvement and

replacement. Act 11 permits gas utilities to recover 5% of their non-gas revenues via the recovery mechanism, approximately \$22 million for PGW. In order for a utility company to establish such a recovery mechanism, it must submit, along with other requirements, a Long-Term Infrastructure Improvement Plan (LTIIIP) and a DSIC petition to the PUC for review and approval. Accordingly, PGW submitted its LTIIIP on December 3, 2012, and filed its DSIC petition on January 18, 2013. The PUC approved PGW's DSIC petition with an effective date of June 1, 2013 and PGW implemented the DSIC surcharge on July 1, 2013. This mechanism allows PGW to increase its main replacement program by \$22 million without being dependent on long-term debt to finance said amount.

## MARKETING EFFORTS

In a fast paced environment, the need for more customer-focused communication is essential. PGW redesigned its website, [www.pgworks.com](http://www.pgworks.com), to make it easier and faster for customers to find the information they need. The website's "3 clicks or less" philosophy is more than a design feature; it is a direct response to valuable customer feedback. The new website, combined with PGW's social media efforts, enhances the move into email marketing and the pursuit of greater levels of customer satisfaction.

PGW provides added-value services to our customers to satisfy their energy needs. This approach maximizes PGW's marketing efforts by differentiating PGW as the best source of fuel, providing safe, reliable service and valuable solutions to meet their energy requirements.

Large commercial and industrial sales are managed by the Major Accounts group, responsible for 1.1 billion cubic feet (Bcf) of new natural gas load in fiscal year 2013. The Major Accounts group is driven by customer service and is dedicated to developing energy solutions with operational and economic advantages. The Major Accounts group's management of an 80,000 Mcf oil conversion at a Philadelphia medical center was its most significant highlight of the year. Sales were bolstered by the surging customer interest in CHP. Another notable success was the installation of a biofuel engine at the Philadelphia Water Department. The customer built a new cogeneration plant to harness excess methane gas from its water treatment process and paired it with 10,000 Mcf of natural gas for on-site heating and electric generation. Also of note, a student housing facility replaced its defunct boiler and absorber package with a 65 kilowatt (kW) microturbine, adding an additional 7,000 Mcf to its natural gas consumption. In addition to these projects, another large commercial customer installed a 75kW cogeneration unit, adding 4,000 Mcf of new load.

In fiscal year 2014, the Major Accounts group anticipates increased development at the Navy Yard and sustained interest in conversions and upgrades to CHP. The emergence of new gas technologies with Micro-CHP and fuel cells will play an important role in the coming year. In addition, PGW anticipates continued interest from steam and oil customers seeking fuel conversion due to the stability and affordability of natural gas prices.

Small commercial and residential sales are managed by the Residential Commercial group, responsible for approximately 400,000 Mcf of new load in fiscal year 2013. The management of a 10,000 Mcf electric conversion at a large condominium/apartment complex was this group's most significant accomplishment. The complex has approximately 200 units. Property management cited renter retention as the reason for its conversion.

The Marketing team also oversees the advertising and sales of the Parts & Labor Plan (PLP) and residential conversion incentives. PLP serves to protect customers from parts and labor costs associated with repair or replacement of defective or worn parts as a result of normal usage of covered equipment. The program generated \$6.3 million in revenue with over 50,000 plans sold in fiscal year 2013. The residential conversion incentives subsidize home and water heaters if the customer switches from an alternative fuel to natural gas. The incentives accounted for 224 conversions and 15,680 Mcf in new load.


PGW also places heavy emphasis on the development and promotion of Compressed Natural Gas (CNG) fleets and Liquefied Natural Gas (LNG) markets. This includes developing external marketing sales plans to facilitate the location of third party fueling stations and encouraging the development of CNG and LNG vehicle fleets. Regarding CNG, Marketing applied for and was awarded funding for CNG vehicles via the Alternative Fuels Incentive Grant (AFIG). PGW plans to purchase CNG vehicles and will receive up to \$240,000 in AFIG funding. PGW is scheduled to purchase 24 CNG vehicles in fiscal year 2014. Additional vehicles will be purchased via the grant funding pending successful implementation and approval from external regulators. Regarding LNG, Marketing assisted with the fiscal year 2013 development of bulk LNG sales contracts.

PGW has more than 40 years of experience working with LNG and, in fiscal year 2013, PGW turned what had been a small incremental service into a meaningful source of revenues. From a standing start, this market was developed and PGW sold approximately 466,000 Mcf by year's end. That is the equivalent of heating over 5,000 additional Philadelphia homes. To date, most sales have come from long-haul trucking and natural gas extraction customers, but other prospects are emerging, including sales to marine and rail companies.

#### ACKNOWLEDGEMENTS

PGW was awarded the prestigious Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA) for the fiscal year 2012 CAFR. This report for the fiscal year 2013 CAFR is PGW's second submission to the program. The preparation of the Comprehensive Annual Financial Report on a timely basis was made possible by the dedicated service of the entire staff of the Finance organization as well as various other departments within the Company. Each has my sincere appreciation for their valuable contributions.

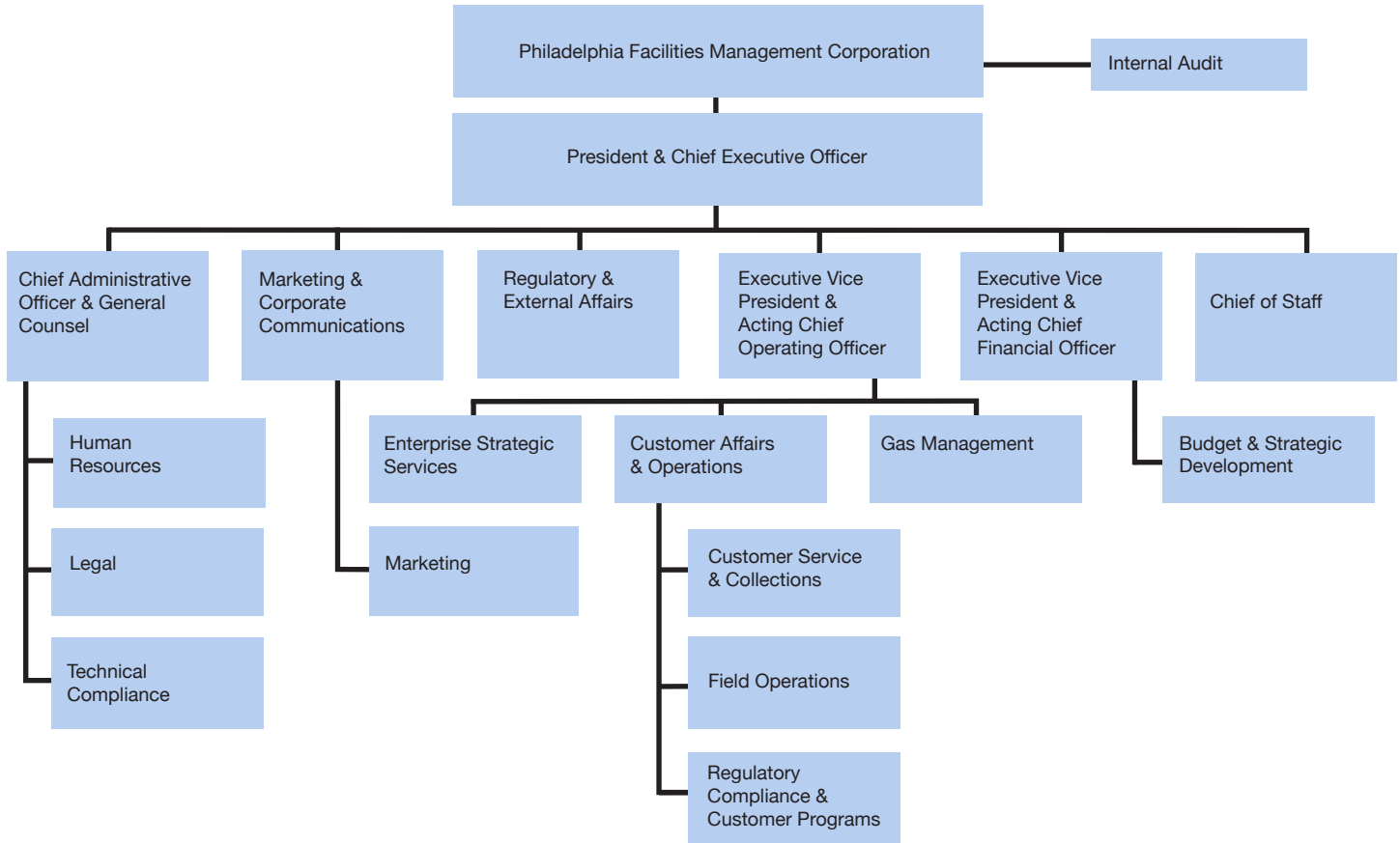
Respectfully submitted,



Joseph F. Golden, Jr.  
Executive Vice President and Acting Chief Financial Officer

February 25, 2014

# ORGANIZATIONAL CHART



## LEADERSHIP

**Craig E. White**  
President & Chief Executive Officer

**Douglas A. Moser**  
Executive Vice President &  
Acting Chief Operating Officer

**Joseph F. Golden, Jr.**  
Executive Vice President &  
Acting Chief Financial Officer

**Abby L. Pozefsky, Esquire**  
Chief Administrative Officer &  
General Counsel

**Daniel P. Murray**  
Senior Vice President,  
Customer Affairs & Operations

**Douglas I. Oliver**  
Senior Vice President,  
Marketing & Corporate  
Communications

**Denise Adamucci**  
Vice President,  
Regulatory Compliance &  
Customer Programs

**Bernard L. Cummings**  
Vice President,  
Customer Service & Collections

**William J. Gallagher**  
Vice President,  
Budget & Strategic Development

**Charles J. Grant**  
Chief of Staff

**Raquel N. Guzmán, Esquire**  
Vice President,  
Legal & Associate General Counsel

**Steven P. Hershey**  
Vice President,  
Regulatory & External Affairs

**Michael H. Jones**  
Vice President,  
Technical Compliance

**Paul A. Mondimore**  
Vice President,  
Field Operations

**Raymond M. Snyder**  
Vice President,  
Gas Management

**Lorraine S. Webb**  
Vice President,  
Human Resources

**Eloise N. Young**  
Vice President &  
Chief Information Officer

**John C. Zuk**  
Vice President,  
Marketing

# Philadelphia Facilities Management Corporation Board of Directors

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**David Seltzer**  
*Principal, Mercator Advisors LLC*  
Board Chairman  
Audit Committee  
Business Development Committee  
Finance Committee  
Workforce Development Committee



**Clarence D. Armbrister**  
*President, Girard College*  
Board Vice Chair  
Chair, Audit Committee  
Chair, Finance Committee



**Suzanne R. Biemiller**  
*First Deputy Chief of Staff,  
City of Philadelphia*  
Business Development Committee



**Catherine M. Paster**  
*First Deputy Director of Finance,  
City of Philadelphia*  
Board Treasurer  
Audit Committee  
Finance Committee



**Sharmain Matlock-Turner**  
*President and CEO,  
Urban Affairs Coalition*  
Workforce Development Committee



**Andrew Stober**  
*Chief of Staff,  
Office of Transportation & Utilities,  
City of Philadelphia*  
Business Development Committee  
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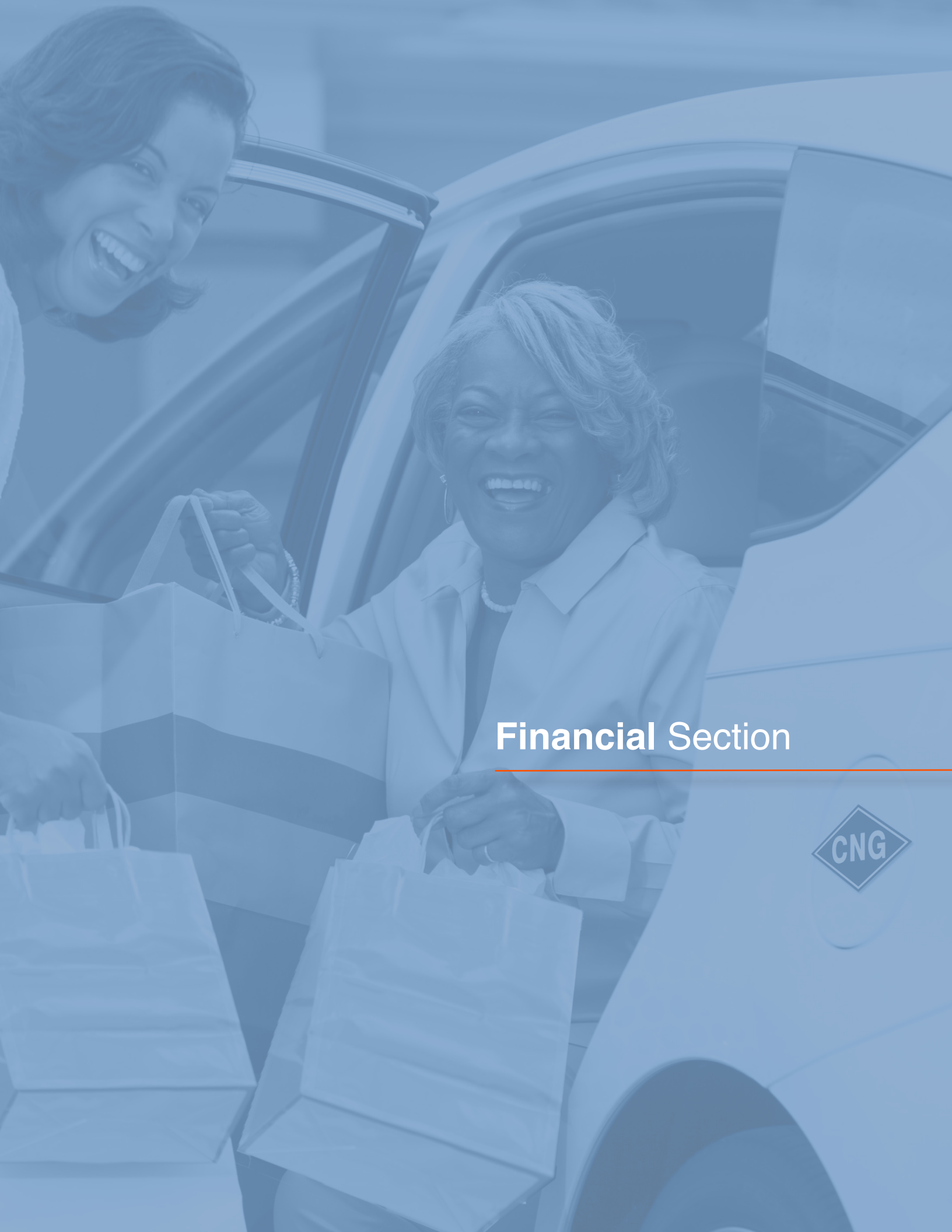
**Philadelphia Gas Works  
Pennsylvania**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**August 31, 2012**

Executive Director/CEO





## Financial Section

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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 the Philadelphia  
Facilities Management Corporation  
Philadelphia, Pennsylvania:

We have audited the accompanying financial statements of Philadelphia Gas Works (the Company), a component unit of the City of Philadelphia, Pennsylvania, as of and for the years ended August 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Philadelphia Gas Works as of August 31, 2013 and 2012, and the changes in its financial position, and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



***Emphasis of Matter***

As discussed in note 1(t) to the financial statements, the Company changed its method of accounting for certain items that were previously reported as assets and liabilities to report them as deferred outflows of resources, deferred inflows of resources, outflows of resources (expenses), or inflows of resources (revenues) due to the adoption of Government Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). The Company retroactively adopted GASB 65 on September 1, 2012. Our opinion is not modified with respect to this matter.

***Other Matters***

***Required Supplementary Information***

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3-14 and the schedules of pension funding progress and other postemployment benefits funding progress on pages 59 and 60 be presented to supplement the basic financial statements. Such information, 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 have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, 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.

***Other Information***

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

**KPMG LLP**

Philadelphia, Pennsylvania

December 23, 2013, except for note 15, as to which the date is February 25, 2014

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

Required Supplementary Information (Unaudited)

Management's Discussion and Analysis

August 31, 2013 and 2012

The narrative overview and analysis of the financial statements of Philadelphia Gas Works (the Company or PGW) for the years ended August 31, 2013 and 2012 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 financial statements.

**Financial Highlights**

- The Fiscal Year (FY) 2013 reflected a 10.2% warmer than normal winter. The FY 2013 period was 28.1% colder than the prior year and firm gas sales increased by 6.4 billion cubic feet (Bcf). In addition, the Weather Normalization Adjustment (WNA), which was in effect from October 2012 through May 2013, resulted in heating customers receiving charges totaling \$8.4 million as a result of the temperatures experienced during the period. FY 2012 reflected a 30.3% warmer than normal winter. The FY 2012 period was 24.2% warmer than the prior year and firm gas sales decreased by 9.7 Bcf. In addition, the WNA, which was in effect from October 2011 through May 2012, resulted in heating customers receiving charges totaling \$45.4 million as a result of the temperatures experienced during the period.
- PGW achieved a collection rate of 91.9% in the current period, 96.6% in FY 2012, and 95.1% in FY 2011. The drop in collection rate of 4.7% between FY 2013 and FY 2012 was caused by an extended cold period late in the heating season during FY 2013. By the nature of PGW's business, receipts lag behind billings, as a result receipts associated with the late heating season demand will continue into the next FY. The collection rate is calculated by dividing the total gas receipts collected in FY 2013 by the total gas billings that were applied to PGW customers' accounts from September 1 through August 31. The same methodology was utilized in FY 2012 and FY 2011.
- 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 2013 and FY 2012, had no tax exempt commercial paper outstanding and a cash balance of \$100.9 million and \$75.8 million, respectively. This reflects an overall increase of \$25.1 million in PGW's liquidity. PGW had a cash balance of \$105.4 million at the end of FY 2011.
- In FY 2013, the Company adopted the provisions of Governmental Accounting Standards Board (GASB), Statement No. 65, *Items Previously Reported as Assets and Liabilities*. For further information, see note 1(t), New Accounting Pronouncements, of the Financial Statements.
- *Liquidity/Cash Flow* – At December 17, 2013, \$60.0 million was available from the commercial paper program. Additionally, PGW had \$43.9 million available in its Capital Improvement Fund to be utilized for construction expenditures. These funding sources may be utilized during the fall and early winter period to provide liquidity until billings from the winter heating season are collected. The cash balance at December 17, 2013 was \$71.0 million.
- The Company's recent debt activity is as follows:
  - On August 28, 2012, the Company accelerated payment of \$20.2 million of principal for bonds issued under the 1998 General Ordinance with internally generated resources. The defeased bonds were for these respective series and amounts: Fourth Series – \$3.1 million, Fifth Series – \$2.9 million, Seventh Series – \$6.1 million, Eighth Series A – \$5.3 million and Ninth Series – \$2.8 million.

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Required Supplementary Information (Unaudited)  
Management's Discussion and Analysis  
August 31, 2013 and 2012

- On September 28, 2011, the City issued:
  - Gas Works Revenue Bonds, Twentieth Series (1975 General Ordinance) in the amount of \$16.2 million for the purpose of refunding the entire Sixteenth Series Bond (1975 General Ordinance), and paying the costs of issuing the bonds. The Twentieth Series Bonds, with fixed interest rates that range from 2.0% to 5.0%, have maturity dates through 2015.
  - Gas Works Revenue Bonds, Tenth Series (1998 General Ordinance) in the amount of \$72.6 million for the purpose of refunding the entire First Series A, First Series C, Second Series, and Third Series Bonds (1998 General Ordinance), and paying the costs of issuing the bonds. The Tenth Series Bonds, with fixed interest rates that range from 3.0% to 5.0%, have maturity dates through 2026.
- On September 1, 2011, the City defeased \$29.5 million of the Eighth Series variable rate Bonds utilizing internally generated funds. As a result of this defeasance, a portion of the related interest rate swap agreement was terminated. The termination payment was approximately \$7.0 million. Concurrently, the letters of credit for the Eighth Series B, C, and D Bonds were extended and the Series E letter of credit was replaced. The remaining Eighth Series Bonds in the amount of \$225.5 million were then remarketed, with the remaining aggregate principal being reallocated among the Eighth Series B Bonds (\$50.3 million), the Eighth Series C Bonds (\$50.0 million), the Eighth Series D Bonds (\$75.0 million), and Eighth Series E Bonds (\$50.2 million). The related swap agreement was amended to reflect these new notional amounts for each of the issuances.
- The Company's only derivative instruments within the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53), are four interest rate swaps entered into to hedge the interest payments on its variable rate debt. These swaps originate from an interest rate swap used as a hedge of the Sixth Series Bonds. Because the hedges were effective at August 31, 2013, the favorable change in fair value of the swaps of \$24.0 million for FY 2013 has been recorded as a decrease in the interest rate swap liability and the related deferred outflow of resources. The balance of the interest rate swap liability at August 31, 2013 is \$33.4 million, and the related deferred outflow of resources balance is \$12.0 million. The difference between the balances is due to the impact of refunding the Sixth Series Bonds, which the original swap previously hedged, during FY 2009, and establishing a hedging relationship between the portion of the original swap remaining after the refunding (divided into four swaps) and the refunding Eighth Series Bonds. Because the hedges were determined effective for both periods presented, there was no impact on the Statements of Revenues and Expenses for either year other than swap settlement payments.

### **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 are comprised of:

*Financial statements* provide both long-term and short-term information about PGW's overall financial condition, results of operations, and cash flows.

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Required Supplementary Information (Unaudited)  
Management's Discussion and Analysis  
August 31, 2013 and 2012

*The notes to 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 four statements presented are:

*The statement of revenues and expenses* presents revenue and expenses and their effects on the change in equity during the fiscal year. These changes in equity are recorded as soon as the underlying event giving rise to the change occurs, regardless of when cash is received or paid.

*The balance sheet* includes all of PGW's assets and liabilities, with the difference between the two reported as equity. Over time, increases or decreases in fund equity are indicators of whether PGW's financial position is improving or deteriorating.

*The statement of cash flows* provides relevant information about the cash receipts and cash payments of an enterprise during a period and the impact on PGW's financial position.

*The statement of changes in net position* provides a rollforward of the net position balance of PGW based upon the results from the statement of revenues and expenses.

**Condensed Statements of Revenues and Expenses**

(Thousands of U.S. dollars)

	Years ended August 31		
	2013	2012	2011
Total gas revenues	\$ 675,154	628,387	749,268
Other revenues	18,317	16,596	17,011
Total operating revenues	<u>693,471</u>	<u>644,983</u>	<u>766,279</u>
Fuel expense	255,501	233,713	330,932
All other operating expenses	318,510	316,625	310,708
Total operating expenses	<u>574,011</u>	<u>550,338</u>	<u>641,640</u>
Operating income	119,460	94,645	124,639
Interest and other income	1,147	4,659	4,348
Total interest expense	<u>(59,965)</u>	<u>(69,544)</u>	<u>(75,682)</u>
Excess of revenues over expenses	<u>\$ 60,642</u>	<u>29,760</u>	<u>53,305</u>

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***Operating Revenues***

Operating revenues in FY 2013 were \$693.5 million, an increase of \$48.5 million or 7.5% from FY 2012. The increase in FY 2013 was due to increased heating demand. Operating revenues in FY 2012 were \$645.0 million, a decrease of \$121.3 million or 15.8% from FY 2011. The decrease in FY 2012 was due to decreased heating demand and lower natural gas commodity prices. Please see the discussion of the cost of fuel in the Operating Expenses section below.

Total sales volumes, including gas transportation deliveries, in FY 2013 increased by 9.9 Bcf to 72.2 Bcf or 15.9% from FY 2012 sales volumes of 62.3 Bcf. In FY 2012, total sales volumes, including gas transportation deliveries, decreased by 12.2 Bcf to 62.3 Bcf or 16.4% from FY 2011 sales volumes of 74.5 Bcf. In FY 2013, firm gas sales of 44.7 Bcf were 6.4 Bcf or 16.7% higher than FY 2012 firm gas sales of 38.3 Bcf, which were 9.7 Bcf, or 20.1% lower than FY 2011. Interruptible customer sales increased by 0.7 Bcf compared to FY 2012 which decreased by 0.8 Bcf compared to FY 2011. Gas transportation sales in FY 2013 increased by 2.1 Bcf to 26.5 Bcf from the 24.4 Bcf level experienced in FY 2012. In FY 2012, the volume of gas transportation sales decreased by 0.9 Bcf to 24.4 Bcf from the 25.3 Bcf level experienced in FY 2011.

In FY 2013, the number of customers served by PGW decreased from the previous year and was approximately 501,000 customers. The number of customers served by PGW at the end of FY 2012 and FY 2011 was approximately 503,000. Commercial accounts were approximately 25,000 customers, reflecting no change from the previous two fiscal years. Industrial accounts were unchanged, from the previous two fiscal years at 700 customers. The number of residential accounts in FY 2013 decreased to approximately 475,000 customers, a decrease of 2,000 customers from the FY 2012 and 2011 level.

***Operating Expenses***

Total operating expenses, including fuel costs, in FY 2013 were \$574.0 million, an increase of \$23.7 million or 4.3% from FY 2012. The increase for FY 2013 reflects higher natural gas demand. Total operating expenses, including fuel costs, in FY 2012 were \$550.3 million, a decrease of \$91.3 million or 14.2% from FY 2011. The decrease for FY 2012 reflects lower natural gas demand and a decrease in the commodity price of natural gas.

*Cost of Fuel* – The cost of natural gas utilized increased by \$21.8 million or 9.3% to \$255.5 million in FY 2013 compared with \$233.7 million in FY 2012. The average commodity price per thousand cubic feet (Mcf) decreased by \$0.13 or \$6.6 million, while the volume of gas utilized increased by 7.2 Bcf, 16.6% or \$28.1 million. In addition, pipeline supplier refunds in FY 2013 increased by \$0.1 million while demand charges increased by \$0.4 million, compared to FY 2012.

The cost of natural gas utilized decreased by \$97.2 million or 29.4% to \$233.7 million in FY 2012 compared with \$330.9 million in FY 2011. The average commodity price per Mcf decreased by \$0.80 or \$34.9 million, while the volume of gas utilized decreased by 12.0 Bcf, 21.8% or \$56.5 million. In addition, pipeline supplier refunds in FY 2011 decreased by \$0.1 million while demand charges decreased by \$5.9 million, compared to FY 2011.

Variations in the cost of purchased gas are passed through to customers under the gas cost rate (GCR) provision of PGW's rate schedules. Over-recoveries or under-recoveries of purchased gas costs are subtracted from or



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added to gas revenues and are included in other current assets or other current liabilities, thereby eliminating the effect that recovery of gas costs would otherwise have on net income.

The average natural gas commodity prices for utilized gas for FY 2013, FY 2012, and FY 2011 were \$3.78, \$3.91, and \$4.71 per Mcf, respectively.

*Other Operating Expenses* – Expenditures for street operations, infrastructure improvements, and plant operations in FY 2013 were \$82.8 million, a \$5.5 million or 7.1% increase from the FY 2012 total of \$77.3 million. The increase in FY 2013 was caused by higher labor costs for main replacement and higher costs associated with running the liquefied natural gas plants. The FY 2012 total of \$77.3 million was \$0.7 million lower than the FY 2011 total of \$78.0 million as a result of lower costs associated with maintenance of mains and gas operations.

Additionally, expenses of \$107.4 million related to, collection and account management, customer services, marketing, and the administrative area decreased by \$3.9 million or 3.5% in FY 2013 primarily due to lower healthcare expenses and an increase in the credit to operating expenses associated with capital spending. This category increased by \$5.7 million or 5.4% in FY 2012 compared to FY 2011 primarily due to costs related to the implementation of the demand side management program and higher costs associated with Workers' Compensation expenses.

Pension costs decreased in FY 2013 due to a slight decrease in the factor utilized as a percentage of covered payroll to calculate pension expense. Additionally, the covered payroll reflected a modest decrease of \$0.3 million from the FY 2012 level of \$106.3 million. The new payroll factor is based on a new actuarial study applicable to FY 2013. Pension costs decreased by \$0.4 million to \$23.6 million in FY 2013 as compared to FY 2012. Pension costs increased \$1.4 million to \$24.0 million in FY 2012 as compared to FY 2011.

OPEB costs decreased \$3.6 million to \$16.5 million in FY 2013 when compared to FY 2012. OPEB costs decreased \$2.4 million to \$20.1 million in FY 2012 compared to \$22.5 million in FY 2011. OPEB costs decreased in both fiscal years due to higher fund balances in the OPEB Trust.

The net OPEB obligation was \$109.1 million for the fiscal year ended August 31, 2013, a \$2.0 million decrease from the \$111.1 million obligation at August 31, 2012. This was a \$1.7 million increase over the net OPEB obligation of \$109.4 million at August 31, 2011.

*Provision for Uncollectible Accounts* – The provision for uncollectible accounts in FY 2013 totaled \$40.0 million, an increase of \$3.3 million or 9.0% higher than FY 2012. The increase in provision for uncollectible accounts is mainly due to higher accounts receivable balances in FY 2013. The provision for uncollectible accounts in FY 2012 totaled \$36.7 million, an increase of \$0.7 million or 1.9% higher than FY 2011. The accumulated provision for uncollectible accounts at August 31, 2013 reflects a balance of \$105.6 million, compared to the \$97.8 million balance in FY 2012 and \$99.9 million in FY 2011. 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 help those customers maintain their gas service.

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*Depreciation Expense* – Depreciation expense increased by \$0.9 million in FY 2013 compared with FY 2012. Depreciation expense increased by \$1.3 million in FY 2012 compared with FY 2011. The effective composite depreciation rates for FY 2013, FY 2012, and FY 2011 were 2.2%, 2.3%, and 2.5%, respectively. Cost of removal is charged to expense as incurred.

*Interest and Other Income* – Interest and other income in FY 2013 was \$3.6 million lower than FY 2012, primarily due to the termination of the Guaranteed Investment Contract related to the 1998 General Ordinance bonds. Interest and other income in FY 2012 was \$0.4 million higher than FY 2011 due to an increase in capacity release revenue.

*Interest Expense* – Total interest expense was \$60.0 million in FY 2013 a decrease of \$9.5 million or 13.7% when compared with FY 2012. Interest expense was lower in FY 2013 primarily due to a swap termination payment made in FY 2012. Total interest expense was \$69.5 million in FY 2012 a decrease of \$6.2 million or 8.2% when compared with FY 2011. In FY 2012, interest on long-term debt was lower due to the defeasance of \$29.5 million of the Eighth Series B, C, D, and E Bonds and the refunding of \$93.6 million of fixed rate bonds at lower interest rates. Other interest costs decreased in FY 2013 by \$6.1 million or 36.3% due to the swap termination payments made in FY 2012. Other interest costs decreased by \$2.1 million or 11.1% in FY 2012 compared with FY 2011 due to the additional number of years over which the cost of the refunding will be amortized.

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*Excess of Revenues over Expenses* – In FY 2013, the Company's excess of revenues over expenses was \$60.6 million, an increase of \$30.8 million from FY 2012. The Company had an excess of revenues over expenses of \$29.8 million in FY 2012, a decrease of \$23.5 million from FY 2011.

**Condensed Balance Sheets**

(Thousands of U.S. dollars)

Assets	Years ended August 31		
	2013	2012	2011
Utility plant, net	\$ 1,154,987	1,125,650	1,111,078
Restricted investment funds	155,155	199,969	236,966
Current assets:			
Accounts receivable (net of accumulated provision for uncollectible accounts of \$105,577, \$97,758, and \$99,932 for 2013, 2012, and 2011, respectively)	97,749	81,997	98,925
Other current assets and deferred debits, cash and cash equivalents, gas inventories, materials, and supplies	197,363	183,851	226,902
Total current assets	295,112	265,848	325,827
Unamortized bond insurance costs	15,736	17,417	19,167
Other assets	33,097	30,996	36,058
Total non-current assets	48,833	48,413	55,225
Total assets	1,654,087	1,639,880	1,729,096
<b>Deferred outflows of resources</b>			
Accumulated fair value of hedging derivatives	12,059	34,712	25,360
Unamortized losses on reacquired debt	44,868	53,241	62,039
Total assets and deferred outflows of resources	\$ 1,711,014	1,727,833	1,816,495

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<b>Net Position and Liabilities</b>	<b>Years ended August 31</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Net position	\$ 358,587	315,945	309,740
Total long-term debt	1,033,976	1,086,502	1,166,992
Current liabilities:			
Current portion of long-term debt	52,406	30,545	50,549
Other current liabilities	88,614	88,396	91,336
Total current liabilities	141,020	118,941	141,885
Other liabilities	177,431	206,445	197,878
Total net position and liabilities	\$ 1,711,014	1,727,833	1,816,495

**Assets**

*Utility Plant* – Utility plant, net of depreciation, totaled \$1,155.0 million in FY 2013, an increase of \$29.3 million or 2.6% compared with the FY 2012 balance of \$1,125.7 million. The FY 2012 balance increased by \$14.6 million or 1.3% compared with the FY 2011 balance of \$1,111.1 million. Capital expenditures for construction of distribution facilities, purchase of equipment, information technology enhancements, and other general improvements were \$70.4 million in FY 2013 compared to \$54.7 million in FY 2012 and \$58.8 million in FY 2011. PGW funded capital expenditures through drawdowns from the Capital Improvement Fund in the amounts of \$44.8 million, \$34.0 million, and \$48.1 million in FY 2013, FY 2012, and FY 2011, respectively. 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 which PGW will request recovery through a Distribution System Improvement Charge (DSIC). For additional information, see note 1(g) Utility Plant of the Financial Statements.

*Restricted Investment Funds* – Restricted investment funds decreased by \$44.8 million in FY 2013 primarily due to proceeds being drawn from the Capital Improvement Fund to fund capital expenditures in the amount of \$44.8 million. A drawdown from the Sinking Fund Reserve in FY 2012 in the amount of \$6.7 million was utilized for payment of debt service of which \$2.0 million was principal and \$4.7 million was interest income. Interest income, to the extent not drawn, is reflected as an increase of \$0.4 million in FY 2013, \$0.6 million in FY 2012, and \$1.2 million in FY 2011. A drawdown of the accrued interest in the Capital Improvement Fund in the amount of \$9.4 million was utilized for working capital purposes in FY 2011. Effective September 1, 2011, PGW self-insured the healthcare for active employees and retirees under the age of 65. Retirees over the age of 65 are insured on an experience rated basis. Prior to September 1, 2011, the Company had entered into several one-year contracts to provide healthcare for both active and retired employees that were experience rated, and premiums were adjusted annually. Per the terms of the self-insured program PGW established a health insurance escrow fund that at August 31, 2013 was funded in the amount of \$3.2 million.

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*Accounts Receivable* – In FY 2013, accounts receivable (net) of \$97.7 million increased by \$15.7 million, or 19.1%, from FY 2012 due to higher gas billings during FY 2013 which resulted from colder winter heating conditions. In FY 2012 accounts receivable (net) of \$82.0 million decreased by \$16.9 million, or 17.1%, from FY 2011 due to lower gas billings during FY 2012 as compared to FY 2011. The accumulated provision for uncollectible accounts, totaling \$105.6 million increased by \$7.8 million in FY 2013 and totaled \$97.8 million in FY 2012 and \$99.9 million in FY 2011.

*Cash and Cash Equivalents, Gas Inventories, Materials and Supplies and, Other Current Assets* – In FY 2013, cash and cash equivalents totaled \$100.9 million, an increase of \$25.1 million from the FY 2012 total of \$75.8 million and totaled \$105.4 million in FY 2011. In FY 2013 gas inventories, materials and supplies totaled \$80.2 million, a decrease of \$0.9 million from the FY 2012 total of \$81.1 million. Gas inventories, materials and supplies totaled \$86.0 million in FY 2011. In FY 2013, gas storage decreased by \$2.4 million or 3.3% when compared to FY 2012. The decrease in gas inventory reflects a decrease in the volume of gas in storage. In FY 2012, gas storage decreased by \$5.5 million or 7.0% compared to FY 2011. The decrease in gas inventory for FY 2012 reflects a decrease in the gas cost per Mcf. Other current assets totaled \$16.2 million in FY 2013, a decrease of \$10.7 million from FY 2012, primarily as a result of a decrease in the GCR. This was partially offset by an increase in the pension receivable from the City. In FY 2012 other current assets totaled \$26.9 million, a decrease of \$8.6 million from FY 2011 primarily as a result of a decrease in the pension receivable from the City of Philadelphia. This was partially offset by a \$4.7 million increase in the GCR.

*Other Assets and Deferred Outflow of Resources* – In FY 2013, other assets including unamortized bond insurance costs, regulatory assets for unamortized loss on reacquired debt and environmental expenses totaled \$105.8 million, a decrease of \$30.6 million from FY 2012. This decrease was primarily due to the change in valuation of the swap agreement. In FY 2011, other assets, including unamortized bond issuance costs, unamortized loss on reacquired debt, and a regulatory asset for environmental expenses totaled \$142.6 million.

***Liabilities***

*Long-Term Debt* – Long-term debt, including the current portion and unamortized discount and premium, totaled \$1,086.4 million in FY 2013, \$30.6 million less than the previous year primarily as a result of normal debt principal payments. This represents 75.2% of total capitalization in FY 2013. Long-term debt, including the current portion and unamortized discount and premium, totaled \$1,117.0 million in FY 2012, \$100.5 million less than the previous year primarily as a result of normal debt principal payments and a defeasance of principal in the amount of \$49.7 million. Long-term debt, including the current portion and unamortized discount and premium, totaled \$1,217.5 million in FY 2011. Long-term debt represented 77.7% of total capitalization in FY 2012 and 79.7% of total capitalization in FY 2011. For additional information, see note 8, *Long-Term Debt and Other Liabilities* of the Financial Statements.

*Debt Service Coverage Ratio and Ratings* – PGW has a mandatory debt service coverage ratio of 1.50 times debt service on both the 1975 and 1998 Ordinance Bonds. In FY 2013, the debt service coverage was at 5.58 times debt service on the outstanding 1975 Ordinance Bonds and at 2.90 times debt service on the Senior 1998 Ordinance Bonds compared to debt service coverage ratios of 4.75 and 1.75 times, respectively, in FY 2011, and 6.06 and 2.15 times, respectively, in FY 2011. PGW's current bond ratings are "Baa2" from Moody's Investors

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Service (Moody's), "BBB+" from Standard & Poor's Ratings Service (S&P), and "BBB" from Fitch Ratings (Fitch).

*Short-Term Debt* – Due to the highly seasonal nature of PGW's business, short-term debt is utilized to meet working capital requirements. PGW, pursuant to the provisions of the City of Philadelphia Note Ordinance, may sell short-term notes in a principal amount, which together with interest, may not exceed \$150.0 million outstanding at any time. These notes are supported by two irrevocable letters of credit and a security interest in PGW's revenues. The letters of credit supporting PGW's commercial paper program fixed the maximum level of outstanding notes plus interest at \$60.0 million in FY 2013, \$60.0 million in FY 2012 and \$90.0 million in FY 2011.

In August 2013, PGW renewed two of the letters of credit supporting the commercial paper program at \$30.0 million each for a total of \$60.0 million.

In September 2011, PGW requested that each of the three banks reduce the stated amounts of their respective letters of credit for the commercial paper Series F-1, F-2, and F-3 from \$30.0 million to \$20.0 million. As a result of the reduction of each of the letters of credit, PGW's commercial paper program was reduced from \$90.0 million to \$60.0 million. There were no notes outstanding at August 31, 2013, 2012, and 2011. The Company has not utilized commercial paper for working capital since May 2009.

*Other Current Liabilities* – In FY 2013, other current liabilities totaled \$9.1 million, a decrease of \$1.2 million from FY 2012, mainly due to the decrease in the environmental remediation liability, which was partially offset by an increase in the injuries and damages reserve. In FY 2012, the total was \$10.3 million, a decrease of \$1.8 million from FY 2011.

*Accounts Payable* – In FY 2013, accounts payable totaled \$59.4 million, an increase of \$2.3 million or 4.0% compared with FY 2012 primarily due to an increase in natural gas payables of \$3.1 million, which was partially offset by a decrease in trade payables of \$0.8 million. In FY 2012, accounts payable totaled \$57.1 million, an increase of \$1.2 million or 2.1% compared with FY 2011 primarily due to an increase in trade payables of \$9.0 million, which was partially offset by a decrease of natural gas payables of \$7.7 million.

*Other Liabilities* – In FY 2013, other liabilities totaling \$177.4 million decreased \$29.0 million compared to FY 2012. The decrease in FY 2013 is primarily due to the favorable change in the value of the swap. In FY 2012, other liabilities totaling \$206.4 million increased \$8.5 million compared to FY 2011. The increase in FY 2012 is primarily due to the effect of recording an increase in the liability for the swap valuation in the amount of \$5.7 million, and an increase in the environmental liability in the amount of \$4.9 million.

**Other Financial Factors**

The Mayor announced that the City would explore the possibility of selling PGW. Subsequent to this announcement, the City solicited and engaged various professional advisors to assist the City through a potential sale process. As of December 23, 2013, the City is in the process of evaluating potential buyers and terms of sale, but no final decision regarding sale has been made.

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***Recent Rate Filings***

On December 18, 2009, PGW submitted a base rate filing with the PUC (1) to maintain the \$60.0 million base rate increase that the PUC granted in 2008; and (2) to fund PGW's OPEB liability in the amount of \$42.5 million. PGW also moved to consolidate the Company's Demand Side Management Program, an energy efficiency and conservation plan, into the base rate filing. On May 19, 2010, PGW, along with all active parties to the proceeding, submitted a Petition for Proposed Settlement of the proceeding (the Settlement) and the PUC approved the Settlement on July 29, 2010. Under the Settlement, PGW will be permitted to maintain virtually all of the extraordinary base rate relief, will receive an incremental rate increase of \$16.0 million annually, and will be required to fund \$18.5 million of the OPEB liability in each of the years 2011 through 2015. The Settlement also permitted the implementation of the Demand Side Management Program.

***Defeasance and Remarketing of Debt***

On August 28, 2012, the Company defeased \$20.2 million of principal for bonds issued under the 1998 General Ordinance with internally generated resources. The defeased bonds were for these respective series and amounts: Fourth Series – \$3.1 million, Fifth Series – \$2.9 million, Seventh Series – \$6.1 million, Eighth Series A – \$5.3 million and Ninth Series – \$2.8 million.

On September 1, 2011, the City defeased \$29.5 million of the Eighth Series variable rate Bonds utilizing internally generated funds. As a result of this defeasance, a portion of the related interest rate swap agreement was terminated. The termination payment was approximately \$7.0 million. Concurrently, the letters of credit for the Eighth Series B, C, and D Bonds were extended and the Series E letter of credit was replaced. The remaining Eighth Series Bonds in the amount of \$225.5 million were then remarketed, with the remaining aggregate principal being reallocated among the Eighth Series B Bonds (\$50.3 million), the Eighth Series C Bonds (\$50.0 million), the Eighth Series D Bonds (\$75.0 million), and Eighth Series E Bonds (\$50.2 million). The related swap agreement was amended to reflect these new notional amounts for each of the issuances.

***Refunding of Bonds***

On September 28, 2011, the City issued Gas Works Revenue Bonds, Twentieth Series (1975 General Ordinance) in the amount of \$16.2 million for the purpose of refunding the entire Sixteenth Series Bond (1975 General Ordinance), and paying the costs of issuing the bonds. The Twentieth Series Bonds, with fixed interest rates that range from 2.0% to 5.0%, have maturity dates through 2015.

On September 28, 2011, the City issued Gas Works Revenue Bonds, Tenth Series (1998 General Ordinance) in the amount of \$72.6 million for the purpose of refunding the entire First Series A, First Series C, Second Series, and Third Series Bonds (1998 General Ordinance), and paying the costs of issuing the bonds. The Tenth Series Bonds, with fixed interest rates that range from 3.0% to 5.0%, have maturity dates through 2026.

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**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 or on the Web at [www.pgworks.com](http://www.pgworks.com).



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Balance Sheets

August 31, 2013 and 2012

(Thousands of U.S. dollars)

<b>Assets</b>	<b>2013</b>	<b>2012</b>
Utility plant, at original cost:		
In service	\$ 1,951,546	1,894,129
Under construction	44,409	53,851
Total	1,995,955	1,947,980
Less accumulated depreciation	840,968	822,330
Utility plant, net	1,154,987	1,125,650
Restricted investment funds:		
Sinking fund, revenue bonds	105,280	105,312
Capital improvement fund	44,055	88,838
Workers' compensation escrow fund	2,597	2,597
Health insurance escrow fund	3,223	3,222
Total restricted investment funds	155,155	199,969
Current assets:		
Cash and cash equivalents	100,933	75,826
Accounts receivable (net of provision for uncollectible accounts of \$105,577 and \$97,757 for 2013 and 2012, respectively)	97,749	81,997
Gas inventories, materials, and supplies	80,234	81,086
Other current assets	16,196	26,939
Total current assets	295,112	265,848
Unamortized bond insurance costs	15,736	17,417
Other assets	33,097	30,996
Total noncurrent assets	48,833	48,413
Total assets	1,654,087	1,639,880
<b>Deferred outflows of resources</b>		
Accumulated fair value of hedging derivatives	12,059	34,712
Unamortized losses on reacquired debt	44,868	53,241
Total assets and deferred outflows of resources	\$ 1,711,014	1,727,833

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Balance Sheets

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(Thousands of U.S. dollars)

<b>Liabilities</b>	<b>2013</b>	<b>2012</b>
Long-term debt:		
Revenue bonds	\$ 1,033,976	1,086,502
Current liabilities:		
Current portion of revenue bonds	52,406	30,545
Accounts payable	59,379	57,127
Customer deposits	2,305	2,449
Other current liabilities	9,107	10,265
Accrued accounts:		
Interest, taxes, and wages	14,823	15,555
Distribution to the City	3,000	3,000
Total current liabilities	141,020	118,941
Other liabilities	177,431	206,445
Total liabilities	1,352,427	1,411,888
Net position:		
Excess of net investment in capital assets	112,660	97,442
Restricted (debt service)	111,100	111,131
Unrestricted	134,827	107,372
Total net position	358,587	315,945
Total liabilities and net position	\$ 1,711,014	1,727,833

See accompanying notes to financial statements.

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Statements of Revenues and Expenses and Changes in Net Position

Years ended August 31, 2013 and 2012

(Thousands of U.S. dollars)

	<b>2013</b>	<b>2012</b>
Operating revenues:		
Gas revenues:		
Nonheating	\$ 35,262	37,054
Gas transport service	37,078	29,324
Heating	602,814	562,009
Total gas revenues	675,154	628,387
Appliance and other revenues	8,333	8,240
Other operating revenues	9,984	8,356
Total operating revenues	693,471	644,983
Operating expenses:		
Natural gas	255,501	233,713
Gas processing	17,592	15,640
Field services	34,926	33,883
Distribution	30,259	27,750
Collection and account management	11,297	11,491
Provision for uncollectible accounts	39,971	36,702
Customer services	11,102	11,946
Marketing	6,789	6,664
Administrative and general	78,206	81,161
Pensions	23,614	23,972
Other postemployment benefits	16,492	20,119
Taxes	7,220	7,122
Total operating expenses before depreciation	532,969	510,163
Depreciation	45,912	45,045
Less depreciation expense included in operating expenses above	4,870	4,870
Total depreciation	41,042	40,175
Total operating expenses	574,011	550,338
Operating income	119,460	94,645
Interest and other income	1,147	4,659
Income before interest expense	120,607	99,304
Interest expense:		
Long-term debt	49,655	53,012
Other	10,740	16,824
Allowance for funds used during construction	(430)	(292)
Total interest expense	59,965	69,544
Excess of revenues over expenses	60,642	29,760
Net position, beginning of year	315,945	304,185
Distribution to the City of Philadelphia	(18,000)	(18,000)
Net position, end of year	\$ 358,587	315,945

See accompanying notes to financial statements.

**PHILADELPHIA GAS WORKS**  
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Statements of Cash Flows

Years ended August 31, 2013 and 2012

(Thousands of U.S. dollars)

	<b>2013</b>	<b>2012</b>
Cash flows from operating activities:		
Receipts from customers	\$ 657,900	633,500
Payments to suppliers	(406,932)	(369,955)
Payments to employees	(109,260)	(105,681)
Claims paid	(3,307)	(3,320)
Other receipts	9,700	9,000
Net cash provided by operating activities	148,101	163,544
Cash flows from noncapital financing activities:		
Interest and fees	(2,084)	(185)
Distribution to the City of Philadelphia	(18,000)	(18,000)
Net cash used in noncapital financing activities	(20,084)	(18,185)
Cash flows from capital and related financing activities:		
Redemption of long-term debt	—	(93,580)
Proceeds from long-term debt issued	—	94,616
Long-term debt issuance costs	—	(1,523)
Purchases of capital assets	(70,380)	(54,746)
Principal paid on long-term debt	(27,720)	(97,608)
Interest paid on long-term debt	(50,111)	(63,386)
Drawdowns on capital improvement fund	44,783	33,494
Interest income on capital improvement fund	132	290
Interest income on sinking fund	(44)	332
Sinking fund withdrawals or (deposits)	—	6,900
Other investment income	430	292
Net cash used in capital and related financing activities	(102,910)	(174,919)
Net increase (decrease) in cash and cash equivalents	25,107	(29,560)
Cash and cash equivalents at the beginning of the year	75,826	105,386
Cash and cash equivalents at the end of the year	\$ 100,933	75,826
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 119,460	94,645
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	41,042	42,561
Provision for uncollectible accounts	39,971	36,702
Change in assets and liabilities:		
Receivables, net	(55,723)	(19,774)
Gas inventories, materials, and supplies	852	4,907
Other current assets	10,744	8,584
Other assets	20,552	(9,708)
Accounts payable	2,253	1,234
Customer deposits	(144)	(420)
Other current liabilities	(1,159)	(1,833)
Accrued accounts	(732)	(1,921)
Other liabilities	(29,015)	8,567
Net cash provided by operating activities	\$ 148,101	163,544

See accompanying notes to financial statements.

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Notes to Financial Statements

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**(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 a component unit of the City, and consequently follows accounting principles promulgated by the Governmental Accounting Standards Board (GASB) as they apply to proprietary fund-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.

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

**(a) Regulation**

Prior to July 1, 2000, the Company was under the regulatory jurisdiction of the Philadelphia Gas Commission (PGC). The PGC had the authority to set the Company's rates and tariffs. The PGC also approved the Company's annual Operating Budget and reviewed the Company's Capital Budget prior to approval by the City Council of the City (City Council).

Effective July 1, 2000, and 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 on July 1, 2002, which among other things, provided for an unbundled tariff permitting customer choice of the commodity supplier by September 1, 2003. Under the Act, the PUC is required to follow the "same ratemaking methodology and requirements" that were previously applicable to the PGC when determining the Company's revenue requirements and approving overall rates and charges. The PGC continues to approve the Company's Operating Budget and review its Capital Budget. The Company's Capital Budget must be approved by City Council.

The Company, as of September 1, 2003, is operating under its Restructuring Compliance Tariff. The Restructuring Compliance Tariff Rates are designed to maintain revenue neutrality and the Tariff Rules and Regulations are designed to comport with the Pennsylvania Public Utility Code.

**(b) Operating Budget**

On May 24, 2013, PGW filed a proposed FY 2014 Operating Budget. The PGC conducted informal discovery (ID) sessions beginning on June 7, 2013. Additional ID meetings took place on June 18, June 26, and June 27. On July 16, 2013, a public hearing was convened. On August 15, 2013, a recommended decision was rendered which recommended PGW to file a Compliance Budget within ten (10) business days of the meeting at which the PGC takes final action on the Operating Budget. At the PGC meeting held September 17, 2013 the PGC approved, with adjustments, PGW's FY 2014 Operating Budget. PGW provided to the PGC on September 27, 2013 the FY 2014 Compliance Budget.

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On May 24, 2012, PGW filed a proposed FY 2013 Operating Budget. After appropriate discovery and hearings the PGC approved the FY 2013 Operating Budget on January 16, 2013.

On June 15, 2011, PGW filed a proposed FY 2012 Operating Budget. After appropriate discovery and hearings the PGC approved the FY 2012 Operating Budget on October 11, 2011.

**(c) Capital Budget**

On January 2, 2013 PGW filed with the PGC its proposed FY 2014 Capital Budget in the amount of \$110.5 million. The PGC's review culminated in deliberations taken at a public meeting held on April 15, 2013 whereby the PGC endorsed a proposed FY 2014 Capital Budget in an amount not to exceed \$102.5 million. The endorsed budget was approved by City Council on June 6, 2013. The ordinance was signed by the Mayor on June 17, 2013.

Subsequent to the City Council's approval, on June 11, 2013 the PGC endorsed a FY 2014 Capital Budget amendment in the amount of \$102.9 million, an increase of \$0.4 million to support the purchase of 24 CNG sedans and a CNG Refueling Station. The endorsed amended FY 2014 Capital Budget was approved by City Council on October 17, 2013. The Mayor signed the ordinance on October 30, 2013.

On January 3, 2012, PGW filed with the PGC a proposed FY 2013 Capital Budget of \$93.3 million. At a public meeting held on April 19, 2012, the PGC endorsed a proposed FY 2013 Capital Budget in the amount of \$90.9 million. City Council approved PGW's FY 2013 Capital Budget on June 21, 2012. The Mayor signed the ordinance on June 27, 2012.

On September 30, 2011, PGW submitted a request to amend the FY 2012 Capital Budget by \$1.9 million to replace PGW's Mobile Radio System. At a public meeting on February 7, 2012, the PGC endorsed a proposed amendment to the FY 2012 Capital Budget that would increase the budget by \$1.7 million to \$82.5 million. City Council passed the amendment on March 22, 2012. The ordinance was signed by the Mayor on April 10, 2012.

On January 4, 2011, PGW filed a proposed FY 2012 Capital Budget in the amount of \$80.9 million. On April 27, 2011, the PGC, after review and evaluation, approved a recommendation to City Council for a budget of \$80.8 million. City Council approved the FY 2012 Capital Budget on June 2, 2011. The Mayor signed the ordinance on June 15, 2011.

**(d) Base Rates**

On December 18, 2009, PGW submitted a base rate filing with the PUC (1) to maintain the \$60.0 million base rate increase that the PUC granted in 2008 and (2) to fund PGW's Other Postemployment Benefits (OPEB) liability in the amount of \$42.5 million. PGW also moved to consolidate the Company's Demand Side Management Program, an energy efficiency and conservation plan, into the base rate filing. On May 19, 2010, PGW, along with all active parties to the proceeding, submitted a Petition for Proposed Settlement of the proceeding (the Settlement) and the PUC approved the Settlement on July 29, 2010. Under the Settlement, PGW will be permitted to maintain virtually all of the extraordinary base rate relief, will receive an incremental rate increase of

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\$16.0 million annually, and will be required to fund \$18.5 million of the OPEB liability in each of the years 2011 through 2015. The new rates were effective September 1, 2010. The Settlement also permitted the implementation of the Demand Side Management Program.

*(e) Weather Normalization Adjustment Clause*

The Weather Normalization Adjustment Clause (WNA) was approved by PUC Order dated August 8, 2002. The purpose of the WNA 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 results in neither a rate increase nor a rate decrease, but acts as a billing adjustment. The main benefits of the WNA are the stabilization of cash flow and the reduction of the need for short-term borrowing from year to year. The WNA is applied to customer invoices rendered during the period of October 1st through May 31st of each year for each billing cycle. The adjustments for the years ended August 31, 2013 and 2012 were an increase in billings of \$8.4 million and \$45.4 million, respectively.

*(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 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.

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At the end of the fiscal year, costs recovered through the GCR and surcharges adjustment are compared to the actual cost of fuel and other specific costs. Customers are then credited or charged for the over-recovery or under-recovery of costs. The GCR and surcharges charge/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, 2013 approximately \$8.8 million was recorded in other current assets for the GCR and surcharges under-recovery. At August 31, 2012, approximately \$22.0 million was recorded in other current assets for the GCR under-recovery.

**GCR effective dates and rates**

(Amounts in U.S. dollars)

Effective date	GCR rate per Mcf*	Change
September 1, 2013	\$ 5.4259	(0.6450)
June 1, 2013	6.0709	(0.3282)
March 1, 2013	6.3991	0.6668
December 1, 2012	5.7323	0.5076
September 1, 2012	5.2247	0.5118
June 1, 2012	4.7129	(0.2654)
March 1, 2012	4.9783	(1.1487)
December 1, 2011	6.1270	0.0676
September 1, 2011	6.0594	(0.0336)

\* Mcf – thousand cubic feet

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



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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 \$2.9 million and \$2.5 million was charged to expense as incurred in FY 2013 and FY 2012, respectively, and is included in depreciation expense in the statements of revenues and expenses. 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 FY 2013 and FY 2012 was 2.2% and 2.3%, respectively. The composite rates are supported by a depreciation study of utility plant as of August 2009. The effective composite depreciation rates, as a percentage of cost, for FY 2013 were as follows:

Production plant	2.25%
Transmission, distribution, and storage	2.05
General plant	3.20

The next depreciation study is scheduled to be completed in FY 2014.

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. The AFUDC rate applied to construction work in progress was 5.16% and 5.32% in FY 2013 and FY 2012, respectively.

The following is a summary of utility plant activity for the fiscal years ended August 31, 2013 and 2012 (thousands of U.S. dollars):

	<b>August 31, 2013</b>			
	<b>Beginning balance</b>	<b>Additions and transfers</b>	<b>Retirements and transfers</b>	<b>Ending balance</b>
Land	\$ 5,595	—	—	5,595
Distribution and collection systems	1,435,353	67,419	(21,554)	1,481,218
Buildings and equipment	453,181	14,438	(2,886)	464,733
Total utility plant, at historical cost	1,894,129	81,857	(24,440)	1,951,546
Under construction	53,851	72,416	(81,858)	44,409
Less accumulated depreciation for:				
Distribution and collection systems	(691,151)	(31,018)*	20,548	(701,621)
Buildings and equipment	(131,179)	(12,019)*	3,851	(139,347)
Utility plant, net	\$ 1,125,650	111,236	(81,899)	1,154,987

\* Cost of removal of approximately \$2.9 million was charged to expense as incurred in FY 2013 and is not included in accumulated depreciation.

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August 31, 2013 and 2012

	<b>August 31, 2012</b>			
	<b>Beginning balance</b>	<b>Additions and transfers</b>	<b>Retirements and transfers</b>	<b>Ending balance</b>
Land	\$ 5,595	—	—	5,595
Distribution and collection systems	1,400,570	37,823	(3,040)	1,435,353
Buildings and equipment	450,138	6,236	(3,193)	453,181
Total utility plant, at historical cost	1,856,303	44,059	(6,233)	1,894,129
Under construction	40,555	57,355	(44,059)	53,851
Less accumulated depreciation for:				
Distribution and collection systems	(663,268)	(30,735)*	2,852	(691,151)
Buildings and equipment	(122,512)	(11,825)*	3,158	(131,179)
Utility plant, net	\$ 1,111,078	58,854	(44,282)	1,125,650

\* Cost of removal of approximately \$2.5 million was charged to expense as incurred in FY 2012 and is not included in accumulated depreciation.

**(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 nonheating customers. The Company also provides natural gas transportation service. 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 and reconnection charges. Other operating revenues primarily consist of finance charges assessed on delinquent accounts.

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 nonheating customers.

Revenue includes 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 and were \$7.3 million and \$5.9 million for the years ended August 31, 2013 and 2012, respectively.

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**(i) Operating Expenses**

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

Costs incurred that do not involve normal business operations are recognized as non-operating 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. The methodology used in performing the collectibility study has been reviewed by the PGC. For FY 2013 and FY 2012, 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 \$17.0 million and \$24.0 million for FY 2013 and FY 2012, respectively, have been reclassified to accounts payable.

**(k) Gas Inventories, Materials, and Supplies**

Gas inventories, materials, and supplies, consisting primarily of fuel stock, gases stored to meet peak demand requirements, and spare parts, are stated at average cost at August 31, 2013 and 2012, as follows (thousands of U.S. dollars):

	<b>2013</b>	<b>2012</b>
Gas inventory	\$ 70,638	73,086
Material and supplies	9,596	8,000
Total	\$ 80,234	81,086

**(l) 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) Losses on Reacquired Debt**

Losses on reacquired debt are recorded as deferred outflows of resources 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.

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**(n) Pensions and Postemployment Benefits**

The City sponsors a single employer defined benefit pension plan, the Philadelphia Gas Works Pension Plan (the Pension Plan) to provide pension benefits for all of PGW's employees. 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 deferred compensation 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. The Pension Plan covers all employees and provides for 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 30 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 the Company to the Sinking Fund Commission of the City. Management believes that the Pension Plan is in compliance with all applicable laws.

The Company sponsors a single employer defined benefit healthcare plan and provides postemployment healthcare and life insurance benefit in accordance with their retiree medical program to approximately 2,044 and 2,018 retirees, their beneficiaries, and dependents for FY 2013 and FY 2012, respectively. The Company also offers such benefits to approximately 1,636 and 1,660 active employees and their dependents for FY 2013 and FY 2012, respectively, by charging the annual insurance premiums to expense.

The difference between the annual OPEB cost (AOC) and the Company's contributions results in an increase or decrease to the net OPEB obligation, which is recorded in other liabilities and expensed.

**(o) Cash Equivalents**

For the purpose of reporting 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, Capital Improvement Fund, Workers' Compensation Escrow Fund, and Health Insurance Escrow Fund as described in note 3.

**(p) 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.

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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. Charges against the reserve are made as claims are settled.

**(q) 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.

**(r) Estimates**

In preparing the financial statements in conformity with U.S. GAAP, management uses estimates. The Company has disclosed in the financial statements all estimates where it is reasonably possible that the estimate will change in the near term and the effect of the change could be material to the financial statements.

**(s) Pollution Remediation**

Under Pennsylvania Act 2, *Land Recycling and Environmental Remediation Standards Act of 1995* (Act 2), the Notice of Intent to Remediate (NIR) process was conducted by the Company in October 2004 and a total of four Public Involvement Plan meetings were conducted at multiple City Recreation Centers throughout Philadelphia during February and March 2005. In March 2005 (after the public meetings were conducted), the Company submitted a series of five Remedial Investigation Reports (RIRs) to the Act 2 for review. In July 2005, the Act 2 program approved all five RIRs submitted in March 2005.

The Company estimates its pollution remediation obligations using the effective 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 Act 2 and Pennsylvania Act 32, *Storage Tank and Spill Prevention Act of 1989* (Act 32).

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.

The Company recorded an additional liability for pollution remediation obligations of \$0.5 million and \$2.2 million for FY 2013 and FY 2012, respectively. The pollution remediation liability is reflected in other liabilities and in other current liabilities. 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.

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(t) ***New Accounting Pronouncements***

***GASB Statement No. 65, Items Previously Reported as Assets and Liabilities***

During FY 2013, the Company implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65), that amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities. The objective is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues).

The following summarizes the impact of implementation of GASB 65 on the Company's financial statements for all periods presented (thousands of U.S. dollars):

- Certain debt issuance costs are now expensed rather than recorded as an asset and amortized over the life of the debt. This provision was applied retroactively and resulted in beginning net assets as of September 1, 2011 being reduced by \$5.6 million.
- Unamortized losses on reacquired debt of \$44.9 million and \$53.2 million at August 31, 2013 and 2012, respectively were reclassified from assets to deferred outflows of resources.

***GASB Statement No. 68, Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27 (GASB 68)***

GASB 68 is effective for financial statements for fiscal years beginning after June 15, 2014. The Company plans to implement GASB 68 for its year ended August 31, 2014 because its financial statements are used on a year lag by the City, which has a June 30 year-end.

Under current accounting standards, a pension asset or liability is reflected on the balance sheet in the event that annual contributions are less than the actuarially determined annual required contribution which includes an amortization of any underfunded balance. In contrast, GASB 68 requires the total net pension asset or net pension liability (including any underfunded balance) to be reported on the face of the balance sheet. At August 31, 2013 the net pension liability that would have been reported on the balance sheet under GASB 68 was approximately \$148 million.

(u) ***Reclassifications***

Certain prior year amounts have been reclassified to conform to current year presentation.

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

The Company is 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

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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 2013, the applicable maximum amount was calculated to be \$1.2 million. In FY 2012, the applicable maximum amount was calculated to be \$1.1 million. The agreement requires the Company to make annual payments of \$18.0 million to the City. In FY 2013 and FY 2012, 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 \$7.3 million and \$6.4 million in FY 2013 and FY 2012, respectively, relating to sales to the City. Net amounts receivable from the City were \$0.2 million at August 31, 2013 and 2012. Water and sewer services and licenses are purchased from the City. Such purchases totaled \$0.9 million and \$0.6 million in FY 2013 and FY 2012, respectively.

Certain activities of the PGC are paid for by the Company. Such payments totaled \$0.8 million and \$0.7 million in FY 2013 and FY 2012, respectively.

**(3) Cash and Cash Equivalents, and Investments**

**(a) Cash and Cash Equivalents**

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, 2013 and 2012 were \$100.8 million and \$75.8 million respectively. Book balances of such deposits and accounts at August 31, 2013 and 2012 were \$100.9 million and \$75.8 million, respectively. Federal depository insurance on these balances at August 31, 2013 was \$0.5 million and unlimited in 2012. The remaining balances are not insured. Excess cash balances are invested 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 2013 and FY 2012 was \$85.0 million and \$141.0 million, respectively. Short term investments with a carrying amount (at fair value) of \$84.2 million and \$74.6 million at August 31, 2013 and 2012, respectively, are included in the balances presented above.

**(b) Restricted Investment Funds**

The investments in the Company's Sinking Fund, Capital Improvement Fund, Workers' Compensation Escrow Fund, and Health Insurance Escrow Fund consist primarily of U.S. Treasury and government agency obligations, corporate obligations, and money market accounts. These investments are maintained by the City or in the Company's name by its agent. The balance of the Capital Improvement Fund at August 31, 2013 and 2012 was \$44.1 million and \$88.8 million respectively. The unexpended Capital Improvement Fund proceeds were restricted to the purchase of utility plant. In FY 2013 and FY 2012, the Company utilized the Capital Improvement Fund to provide liquidity for the additions to utility plant.

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Investments are recorded at fair value except for certain money market funds recorded at amortized cost. The adjustment to market value for the Capital Improvement Fund resulted in a loss of \$0.1 million in FY 2013 and a loss of \$0.3 million in FY 2012. The adjustment to market value for the Sinking Fund resulted in a loss of \$0.2 million in FY 2013 and a gain of less than \$0.2 million in FY 2012.

Pursuant to the Pennsylvania Department of Labor and Industry Bureau of Workers' Compensation Self-Insurance policy, the Company has to establish and maintain a restricted trust account. As of August 31, 2013 and 2012, the trust account balances were \$2.6 million.

Effective September 1, 2011, PGW self-insured the healthcare for active employees and retirees under the age of 65. Retirees over the age of 65 are insured on an experience rated basis. Prior to September 1, 2011, the Company had entered into several one-year contracts to provide healthcare for both active and retired employees that are experience rated, and premiums were adjusted annually. As a result of transitioning to the self-insured model, the Company was required to establish and maintain a restricted escrow account. The balance in the Health Insurance Escrow Fund was \$3.2 million as of August 31, 2013 and 2012.



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

Investment type	August 31, 2013			
	Fair value	Weighted average maturity (years)	Credit rating	Rating agency
U.S. government obligations:				
U.S. Treasury notes	\$ 1,700	—	AAA/AA+	Moody's/S&P
U.S. government agencies and instrumentalities:				
Federal National Mortgage Association medium term notes	6,313	—	AAA/AA+	Moody's/S&P
Federal Home Loan Bank bonds	8,962	—	AAA/AA+	Moody's/S&P
Federal Home Loan Mortgage Corporation medium term notes	6,629	—	AAA/AA+	Moody's/S&P
Federal Farm Credit Bank Bonds	2,311	—	AAA/AA+	Moody's/S&P
Federal Home Loan Banks discount notes	100	—		Moody's/S&P
Federal National Mortgage Association discount notes	1,980	—	AAA/AA+	Moody's/S&P
Total U.S. government agencies and instrumentalities	26,295			
Corporate obligations:				
New York Life Global Funding	924	—	AAA/AA+	Moody's/S&P
Berkshire Hathaway Financial	281	—	AA2/AA+	Moody's/S&P
Massmutual Global Funding	254	—	AA2/AA+	Moody's/S&P
Xto Energy Inc	913	—	AAA/AAA	Moody's/S&P
Walmart Stores	283	—	AA2/AA	Moody's/S&P
Microsoft	500	—	AAA/AAA	Moody's/S&P
Total corporate obligations	3,155			
Foreign issues:				
Shell International Financial	734			
Total fair value of investments	31,884			

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<b>August 31, 2013</b>				
<b>Investment type</b>	<b>Fair value</b>	<b>Weighted average maturity (years)</b>	<b>Credit rating</b>	<b>Rating agency</b>
Money market:				
First American Prime Obligations Class Z	\$ 12,010		N/A	Moody's/S&P
Morgan Stanley Prime Portfolio Institutional Class	<u>100</u>		N/A	Moody's/S&P
Total money market	12,110			
Other	<u>61</u>			
Total fair value of investments, including cash deposits	<u>\$ 44,055</u>			
Portfolio weighted modified duration		0.2752		

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<b>August 31, 2012</b>				
<b>Investment type</b>	<b>Fair value</b>	<b>Weighted average maturity (years)</b>	<b>Credit rating</b>	<b>Rating agency</b>
U.S. government obligations:				
U.S. Treasury notes	\$ 5,264	0.7419	AAA/AA+	Moody's/S&P
U.S. government agencies and instrumentalities:				
Federal National Mortgage Association medium term notes	20,645	0.2317	AAA/AA+	Moody's/S&P
Federal Home Loan Bank bonds	15,639	0.5879	AAA/AA+	Moody's/S&P
Federal Home Loan Mortgage Corporation medium term notes	12,596	0.3311	AAA/AA+	Moody's/S&P
Federal Farm Credit Bank bonds	1,950	0.9167	AAA/AA+	Moody's/S&P
Federal Home Loan Mortgage Corporation discount notes	1,498	0.8833	AAA/AA+	Moody's/S&P
Total				
U.S. government agencies and instrumentalities	<u>52,328</u>			
Corporate obligations:				
New York Life Global Funding	566	0.6917	AAA/AA+	Moody's/S&P
Berkshire Hathaway Financial	1,331	0.2183	AA2/AA+	Moody's/S&P
General Electric Capital Corporation	553	0.1361	A1/AA+	Moody's/S&P
Total corporate obligations	<u>2,450</u>			
Total fair value of investments	<u>60,042</u>			

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<b>August 31, 2012</b>				
<b>Investment type</b>	<b>Fair value</b>	<b>Weighted average maturity (years)</b>	<b>Credit rating</b>	<b>Rating agency</b>
Cash and cash equivalents:				
Bank of Nova Scotia commercial paper	\$ 749	0.3528	A-1+/P-1	Moody's/S&P
Toyota Motor Credit Company commercial paper	897	0.4472	A-1+/P-1	Moody's/S&P
UBS Finance Delaware commercial paper	<u>959</u>	0.1402	A-1/P-1	Moody's/S&P
Total cash and cash equivalents	<u>2,605</u>			
Money market:				
Fidelity Governmental Fund 57				
First American Prime Obligations Class Z	13,152		N/A	N/A
	12,825		N/A	N/A
Morgan Stanley Prime Portfolio Institutional Class	<u>100</u>		N/A	N/A
Total money market	26,077			
Other	<u>114</u>			
Total fair value of investments, including cash deposits	<u>\$ 88,838</u>			
Portfolio weighted modified duration		0.4265		

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The following is a schedule that details the Company's investments in the Sinking Fund (thousands of U.S. dollars):

<b>Investment type</b>	<b>August 31, 2013</b>			
	<b>Fair value</b>	<b>Weighted average maturity (years)</b>	<b>Credit rating</b>	<b>Rating agency</b>
U.S. government obligations:				
U.S. Treasury notes	\$ 60,705	1.0000	AAA/AA+	Moody's/S&P
U.S. government agencies and instrumentalities:				
Federal National Mortgage Association medium term notes	12,979	1.0000	AAA/AA+	Moody's/S&P
Federal Home Loan Bank bonds	9,689	1.0000	AAA/AA+	Moody's/S&P
Federal Farm Credit Bank bonds	4,005	2.0000	AAA/AA+	Moody's/S&P
Total				
U.S. government agencies and instrumentalities	<u>26,673</u>			
Total fair value of investments	<u>87,378</u>			

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<b>August 31, 2013</b>				
<b>Investment type</b>	<b>Fair value</b>	<b>Weighted average maturity (years)</b>	<b>Credit rating</b>	<b>Rating agency</b>
Corporate Obligations:			P-1/A-1+	Moody's/S&P
Walmart Stores	2,302			
Berkshire Hathaway Financial	550		AA2/AA	Moody's/S&P
General Electric Capital Corporation	<u>1,840</u>		P-1/A-1+	Moody's/S&P
Total Corporation obligations	<u>4,692</u>			
State Obligations:				
Pennsylvania ST Second Ser	\$ 797		AA2/AA	Moody's/S&P
Cash and cash equivalents:				
Bank of Tokyo Mitsubishi commercial paper	2,802		P-1/A-1	Moody's/S&P
BNP Paribus Finance Inc commercial paper	2,074		P-1/A-1	Moody's/S&P
Rabobank USA Financial Corporation commercial paper	2,818		P-1/A-1+	Moody's/S&P
UBS Finance Delaware commercial paper	2,072		P-1/A-1	Moody's/S&P
Toyota Motor Credit Corporation commercial paper	1,199		P-1/A-1+	Moody's/S&P
General Electric Capital Corporation commercial paper	1,275		P-1/A-1+	Moody's/S&P
Money Market:				
First American Government Obligations Fund CL Z	<u>173</u>		Aaa-mf/AAAm	Moody's/S&P
Total cash and cash equivalents	<u>12,413</u>			
Total fair value of investments, including cash deposits	<u>\$ 105,280</u>			
Portfolio weighted modified duration		1.0442		

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	August 31, 2012			
Investment type	Fair value	Weighted average maturity (years)	Credit rating	Rating agency
Guaranteed investment contracts	\$ 41,829	8.5028	*	*
U.S. government obligations:				
U.S. Treasury notes	41,791	1.1852	AAA/AA+	Moody's/S&P
U.S. government agencies and instrumentalities:				
Federal National Mortgage Association medium term notes	8,796	0.7892	AAA/AA+	Moody's/S&P
Federal Home Loan Bank bonds	6,448	0.9504	AAA/AA+	Moody's/S&P
Federal Home Loan Mortgage Corporation medium term notes	942	0.2167	AAA/AA+	Moody's/S&P
Total U.S. government agencies and instrumentalities	16,186			
Total fair value of investments	99,806			
Cash and cash equivalents:				
Toyota Motor Credit Company commercial paper	1,193	0.6944	P-1/A-1+	Moody's/S&P
Money market:				
Fidelity Governmental Fund 57	4,313			
Total fair value of investments, including cash deposits	\$ 105,312			
Portfolio weighted modified duration		1.0755		

\* The credit rating of this investment is unrated.

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The following is a schedule that details the Company's investments in the Workers' Compensation Escrow Fund (thousands of U.S. dollars):

<b>August 31, 2013</b>				
<b>Investment type</b>	<b>Fair value</b>	<b>Weighted average maturity (years)</b>	<b>Credit rating</b>	<b>Rating agency</b>
Money market:				
Fidelity Governmental Fund	\$ <u>2,597</u>	N/A	N/A	N/A
Total fair value of investments, including cash deposits	\$ <u><u>2,597</u></u>			
<b>August 31, 2012</b>				
<b>Investment type</b>	<b>Fair value</b>	<b>Weighted average maturity (years)</b>	<b>Credit rating</b>	<b>Rating agency</b>
Money market:				
Fidelity Governmental Fund	\$ <u>2,597</u>	N/A	N/A	N/A
Total fair value of investments, including cash deposits	\$ <u><u>2,597</u></u>			



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The following is a schedule that details the Company's investments in the Health Insurance Escrow Fund (thousands of U.S. dollars):

<b>August 31, 2013</b>				
<b>Investment type</b>	<b>Fair value</b>	<b>Weighted average maturity (years)</b>	<b>Credit rating</b>	<b>Rating agency</b>
Money market:				
Fidelity Governmental Fund	\$ <u>3,223</u>	N/A	N/A	N/A
Total fair value of investments, including cash deposits	\$ <u><u>3,223</u></u>			

<b>August 31, 2012</b>				
<b>Investment type</b>	<b>Fair value</b>	<b>Weighted average maturity (years)</b>	<b>Credit rating</b>	<b>Rating agency</b>
Money market:				
Fidelity Governmental Fund	\$ <u>3,222</u>	N/A	N/A	N/A
Total fair value of investments, including cash deposits	\$ <u><u>3,222</u></u>			

**(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: (1) bonds or notes of the U.S. government; (2) U.S. Treasury obligations, including separate trading of registered interest and principal securities (STRIPS); 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; (3) obligations of the following U.S. government-sponsored agencies; Government National

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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; (4) collateralized banker's acceptances and certificate of deposit denominated in U.S. dollars and issued by a city code authorized depository certificate of deposit must be secured by acceptable collateral with a total market value equal to 102.0% of the deposit; (5) 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 and explicit guarantee, must be rated not lower than A2 by Moody's or A by S&P; (6) 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; (7) 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; (8) 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; (9) money market mutual funds, as defined by the Securities and Exchange Commission money markets funds must have assets over \$15 billion, have the highest rating from Moody's, S&P, and Fitch, and contain only government securities; (10) 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; and (11) 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.

(e) ***Custodial Credit Risk***

The Company has selected custodian banks that are members 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.

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**(f) Concentration of Credit Risk**

The Company's investment policy provides for the following percentage limitations of authorized investments, valued at market:

	<b>Percent of portfolio allowed</b>	<b>Percent of portfolio per issuer</b>	<b>Percent of outstanding securities per issuer</b>
U.S. government	100%	100%	N/A
U.S. Treasury	100	100	N/A
U.S. Agencies	100	33	N/A
Certificates of Deposit			
Banker's Acceptances, Eurodollar Deposits, and Euro Certificates of Deposit	15	3	—
Commercial Paper	25	3	3%
Corporate Bonds	25	3	3
Collateralized Mortgage Obligation and Passthroughs	5	3	3
Money Market Mutual Funds	25	10	3
Repurchase Agreements	25	10	N/A

More than 25% of the Company's investments as of August 31, 2013 are in the following; Federal Home Loan Mortgage Corporation medium term notes (12.3%), Federal Home Loan Bank bonds (9.2%), and Federal Farm Credit bank bonds (3.8%). These investments are in accordance with the City's investment policy. In addition, the GIC was terminated in March 2013.

**(4) Recoverable Costs**

In compliance with orders issued by the PGC, the cost of projects that produce benefits over an extended period is recorded to the balance sheet as a recoverable cost in other assets. Such costs are being amortized to expense over a period matching their useful lives, which range from two to ten years. There is no return on the asset being charged to the customers. The unamortized costs included in other assets were \$0.0 million and \$0.2 million as of August 31, 2013 and 2012, respectively. The unamortized costs included in other current assets were \$0.2 million and \$0.3 million as of August 31, 2013 and 2012, respectively.

In accordance with U.S. GAAP for regulated entities, 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. In FY 2013, settlements by the Company's insurance carriers provided less than \$0.1 million associated with environmental remediation costs. Environmental remediation costs of approximately \$0.7 million in FY 2013 were offset by these insurance settlements, and the remainder was recorded to the balance sheet as a recoverable cost in other assets. The Company estimates additional expenditures to be approximately \$30.8 million.

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**(5) Deferred Compensation Plan**

The Company offers its employees a deferred compensation plan (the Plan) created in accordance with Internal Revenue Code Section 457. The Plan, available to all Company employees with six months 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 that immediately vests to the employee. The Company contributed \$0.3 million in FY 2013 and FY 2012.

**(6) Notes Payable**

Pursuant to the provisions of certain ordinances and resolutions of the City, the Company may sell short-term notes in a principal amount that, together with interest, may not exceed \$150.0 million outstanding at any time. These notes are intended to provide additional working capital. They are supported by irrevocable letters of credit and a subordinated security interest in the Company's revenues.

The commitment amount is \$60.0 million under the current credit agreements. The expiration date of the credit agreements is March 17, 2015.

There were no outstanding notes payable at August 31, 2013 and 2012.

**(7) GCR Tariff Reconciliation**

During the fiscal year ended August 31, 2013 the Company's actual gas costs were below its billed gas costs by approximately \$6.9 million. This amount was recorded in Other current assets for FY 2013. Actual gas costs were \$4.7 million higher than billed gas costs in FY 2012.

***Natural Gas Pipeline Supplier Refund***

The Company received refunds including interest of approximately \$0.1 million in FY 2013 and FY 2012, related to Federal Energy Regulatory Commission (FERC)/Pipeline Rate Cases. This amount was utilized as a reduction in the cost of gas for reconciliation purposes in the calculation of the applicable GCR.

**(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, 2013 and 2012 (thousands of U.S. dollars):

	August 31, 2013			August 31, 2012		
	Current portion	Long-term	Total	Current portion	Long-term	Total
Revenue bonds	\$ 49,800	1,015,920	1,065,720	27,720	1,065,720	1,093,440
Unamortized discount	(248)	(2,160)	(2,408)	(293)	(2,375)	(2,668)
Unamortized premium	2,854	20,216	23,070	3,118	23,157	26,275
Total revenue bonds	\$ 52,406	1,033,976	1,086,382	30,545	1,086,502	1,117,047

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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, 2013 and 2012 (thousands of U.S. dollars):

	<b>Year ended August 31, 2013</b>			
	<b>Beginning balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending balance</b>
Revenue bonds	\$ 1,093,440	—	(27,720)	1,065,720
Other liabilities:				
Unamortized balance of				
Guaranteed Investment				
Contract in Sinking Fund	\$ 5,309	—	(5,309)	—
Claims and judgments	3,438	2,048	—	5,486
Environmental clean-up	29,195	327	—	29,522
Other postemployment benefits	111,068	—	(2,008)	109,060
Interest rate swap liability	57,435	—	(24,072)	33,363
Total other liabilities	<u>\$ 206,445</u>	<u>2,375</u>	<u>(31,389)</u>	<u>177,431</u>
	<b>Year ended August 31, 2012</b>			
	<b>Beginning balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending balance</b>
Revenue bonds	\$ 1,195,773	88,855	(191,188)	1,093,440
Other liabilities				
Unamortized balance of				
Guaranteed Investment				
Contract in Sinking Fund	\$ 5,933	—	(624)	5,309
Claims and judgments	6,557	—	(3,119)	3,438
Environmental clean-up	24,269	4,926	—	29,195
Other postemployment benefits	109,448	1,620	—	111,068
Interest rate swap liability	51,671	5,764	—	57,435
Total other liabilities	<u>\$ 197,878</u>	<u>12,310</u>	<u>(3,743)</u>	<u>206,445</u>

Liability amounts due within one year are reflected in the other current liabilities line of the balance sheet, and are not included in the tables above.

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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):

	<b>Revenue bonds</b>			<b>Total</b>
	<b>Principal</b>	<b>Interest</b>	<b>Net swap amount</b>	
Fiscal year ending August 31:				
2014	\$ 49,800	49,201	7,999	107,000
2015	50,975	46,756	7,999	105,730
2016	49,155	44,091	7,999	101,245
2017	49,895	41,723	8,000	99,618
2018	49,355	39,238	7,939	96,532
2019 – 2023	260,600	160,803	31,590	452,993
2024 – 2028	268,260	101,083	13,695	383,038
2029 – 2033	142,555	51,355	—	193,910
2034 – 2038	126,715	18,761	—	145,476
2039 – 2040	18,410	1,462	—	19,872
Total	<u>\$ 1,065,720</u>	<u>554,473</u>	<u>85,221</u>	<u>1,705,414</u>

Future debt service is calculated using rates in effect at August 31, 2013 for variable rate bonds. The variable rate received under the swaps is 70% of LIBOR until maturity.

**(a) Bond Issuances – Refunding of Bonds and Defeasance of Bonds**

**1975 Ordinance Twentieth Series Bonds**

On September 28, 2011, the City issued Gas Works Revenue Bonds, Twentieth Series in the amount of \$16.2 million for the purpose of refunding the entire Sixteenth Series Bond (1975 General Ordinance), and paying the costs of issuing the bonds. The Twentieth Series Bonds, with fixed interest rates that range from 2.0% to 5.0%, have maturity dates through 2015. The cost of issuance related to this transaction was approximately \$0.2 million. The loss on refunding the Sixteenth Series Bonds and issuing the Twentieth Series Bonds of \$0.6 million will be amortized over the life of the Twentieth Series Bonds. This transaction provided debt service savings of \$1.4 million on a 3.0% net present value basis.

**1998 Ordinance Tenth Series Bonds**

On August 28, 2012, the Company defeased \$20.2 million of principal for bonds issued under the 1998 General Ordinance. The defeased bonds were for these respective series and amounts: Fourth Series – \$3.1 million, Fifth Series – \$2.9 million, Seventh Series – \$6.1 million, Eighth Series A – \$5.3 million and Ninth Series – \$2.8 million.

On September 28, 2011, the City issued Gas Works Revenue Bonds, Tenth Series in the amount of \$72.6 million for the purpose of refunding the entire First Series A, First Series C, Second Series, and Third Series Bonds (1998 General Ordinance), and paying the costs of issuing the bonds. The

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Tenth Series Bonds, with fixed interest rates that range from 3.0% to 5.0% have maturity dates through 2026. The cost of issuance related to this transaction was approximately \$1.3 million. The loss on refunding the First Series A, First Series C, Second Series, and Third Series Bonds and issuing the Tenth Series Bonds of \$3.9 million will be amortized over the life of the Tenth Series Bonds. This transaction provided debt service savings of \$6.2 million on a 3.0% net present value basis.

On September 1, 2011, the City defeased \$29.5 million of the Eighth Series Variable Rate Bonds utilizing internally generated funds. As a result of this defeasance, a portion of the related interest rate swap agreement was terminated. The termination payment was approximately \$7.0 million. Concurrently, the letters of credit for the Eighth Series B, C, and D Bonds were extended and the Series E letter of credit was replaced. The remaining Eighth Series Bonds in the amount of \$225.5 million were then remarketed, with the remaining aggregate principal being reallocated among the Eighth Series B Bonds (\$50.3 million), the Eighth Series C Bonds (\$50.0 million), the Eighth Series D Bonds (\$75.0 million), and Eighth Series E Bonds (\$50.2 million). The related swap agreement was amended to reflect these new notional amounts for each of the issuances.

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, 2013	August 31, 2012
4th Series	4.00% – 5.25%	2032	\$ 81,075	81,075
17th Series	4.00% – 5.38%	2026	110,940	121,700
5th Series	4.00% – 5.25%	2034	109,310	109,310
5th Series A-2	Variable	2035	30,000	30,000
18th Series	5.00% – 5.25%	2021	30,360	33,525
19th Series	5.00%	2024	14,450	14,450
20th Series	2.00% – 5.00%	2015	9,595	16,215
7th Series	4.00% – 5.00%	2038	183,460	183,460
7th Series Refunding	5.00%	2029	28,385	28,385
8th Series A	4.00% – 5.25%	2017	48,035	48,035
8th Series B	Variable	2028	50,260	50,260
8th Series C	Variable	2028	50,000	50,000
8th Series D	Variable	2028	75,000	75,000
8th Series E	Variable	2028	50,260	50,260
9th Series	2.00% – 5.25%	2040	141,835	141,835
10th Series	3.00% – 5.00%	2026	52,755	59,930
			\$ 1,065,720	1,093,440

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**(b) *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.

Also provided by both general ordinances is the establishment of a sinking fund into which deposits are made to meet all principal and interest requirements of the bonds 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 Sinking Fund Reserve are to be applied to the payment of debt service if, for any reason, other funds in the Sinking Fund 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.

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 \$10.8 million, and \$11.3 million in FY 2013 and FY 2012, respectively, is reported as long-term debt.

**(c) *Interest Rate Swap Agreements***

In January 2006, the City entered into a fixed rate payer, 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.

The swaps have a maturity date of August 1, 2031 and 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 2009, the City terminated approximately \$54.8 million of the notional amount of the swap, issued fixed rate refunding bonds related to that portion and kept the remaining portion of the swap to hedge the Eight Series variable rate refunding bonds backed with letters of credit. The Company paid a swap termination payment of \$3.8 million to the counterparty to partially terminate the swap.

The original swap confirmation was amended and restated on August 12, 2009 to reflect the principal amount of the Eighth Series B Bonds, with all other terms remaining the same. The remainder of the notional amount was divided among separate trade confirmations with the same terms as the original swap that was executed with the counterparty for the Eighth Series C through E.

In September 2011, the underlying variable rate bonds were remarketed with new letters of credit. During the remarketing, PGW partially redeemed portions of the bonds, and re-allocated remaining principal amongst the bond subseries. At the same time, the City terminated an aggregate notional amount of \$29.5 million of the swaps, keeping the remaining portion of the swap to hedge the remaining variable rate bonds backed with letters of credit. The partial termination was competitively bid, with the winning swap counterparty providing the lowest cost of



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termination/assignment. PGW paid a swap termination payment of \$7.0 million to partially terminate the swaps. The remaining notional amounts of each of the swaps were adjusted to match the reallocation of the underlying bonds.

In April 2013, each of the swaps was amended to include additional language specifying the exact process to be used to calculate a termination amount in the event of an optional termination at the request of the City on or before April 1, 2015.

As of August 31, 2013, the swaps had a notional amount of \$225.5 million and the associated variable rate debt had a \$225.5 million principal amount, broken down by series as follows:

- The Series B swap had a notional amount of \$50.3 million and the associated variable rate bonds had a \$50.3 million principal amount.
- The Series C swap had a notional amount of \$50.0 million and the associated variable rate bonds had a \$50.0 million principal amount.
- The Series D swap had a notional amount of \$75.0 million and the associated variable rate bonds had a \$75.0 million principal amount.
- The Series E swap had a notional amount of \$50.2 million and the associated variable rate bonds had a \$50.2 million principal amount.

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

As of August 31, 2013, the swaps had a combined negative fair value of approximately \$33.4 million. The fair values of the interest rate swaps were estimated using the zero coupon method. 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.

As of August 31, 2013, 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 ISDA 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 Company's 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).

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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 in 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 for the year ended August 31, 2013 and 2012 is as follows (thousands of U.S. dollars):

	<b>Interest rate swap liability</b>	<b>Deferred outflow of resources</b>
Balance August 31, 2012	\$ 57,435	34,712
Change in fair value through August 31, 2013	(24,072)	(22,653)
Balance August 31, 2013	\$ 33,363	12,059
	<b>Interest rate swap liability</b>	<b>Deferred outflow of resources</b>
Balance August 31, 2011	\$ 51,671	25,360
Change in fair value through August 31, 2012	5,764	9,352
Balance August 31, 2012	\$ 57,435	34,712

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

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

**(d) Guaranteed Investment Contracts in Sinking Fund**

On August 23, 2002, the City entered into GICs in connection with a portion of its 1975 and 1998 Ordinance Sinking Fund Reserves for the Company. At settlement, approximately 65.0% of the Sinking Fund Reserves, from the two ordinances, totaling \$61.4 million were invested in the GICs. In exchange for this investment, the Company received an up-front payment of \$21.8 million in lieu of receiving interest payments over the life of the GICs.

In March 2013, the City terminated the GICs in connection with 1975 and 1998 Ordinance Sinking Fund Reserves for the Company. At settlement, the Company paid \$4.8 million to terminate the portion related to the 1975 Ordinance and \$4.2 million to terminate the portion related to the 1998 Ordinance Sinking Fund Reserves for the Company. As a result of the termination of the GICs, in FY 2013 the Company expensed \$4.2 million to Interest and Other Income.

The GICs were recorded at contract value in the Sinking Fund and had a contract value of \$41.8 million at August 31, 2012.

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Under the 1998 General Ordinance, the Company is entitled to the earnings on the portion of the Sinking Fund allocated to bonds issued under the 1998 General Ordinance. Therefore, the \$11.6 million received under the 1998 ordinance was being amortized on a straight-line basis over the life of the agreement.

**(9) Defeased Debt**

Defeased debt of the Company (bonds issued by the Company payable from the proceeds of irrevocably pledged assets) at August 31, 2013 was as follows (thousands of U.S. dollars):

	<u>Latest date maturing to</u>	<u>Interest rate</u>		<u>Bonds outstanding</u>
12th Series B	5/15/20	7.00	\$	32,510

The investments held by the trustee and the defeased bonds are not recognized on the Company's balance sheets in accordance with the terms of the Indentures of Defeasance. The investments pledged for the redemption of the defeased debt have maturities and interest payments scheduled to coincide with the trustee cash requirements for debt service.

The assets pledged, primarily noncallable U.S. government securities, had a market value of \$34.1 million at August 31, 2013, bearing interest on face value from 0.00% to 7.74%.

**(10) Pension Costs**

**(a) Plan Description**

The Pension Plan sponsored by the City provides pension benefits for all eligible employees of the Company and other eligible class employees of PFMC and the PGC. The Company's annual covered payroll (which was substantially equal to total payroll) was \$106.0 million and \$106.3 million at August 31, 2013 and 2012, respectively.

At September 1, 2013, the beginning of the plan year of the last actuarial valuation, the Pension Plan membership consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving them	\$	2,373
Participants:		
Vested		1,174
Nonvested		299
Total participants		1,473
Total membership	\$	3,846

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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 10 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.

Final Average Earnings are the employee's average pay, over the highest five years of the last ten years of credited service. Employees with 15 years of credited service may retire at or after age 55 and receive a reduced retirement benefit. Employees with 30 years of service may retire without penalty for reduced age.

Covered employees are not required to contribute to the Pension Plan. The Company is required by statute to contribute the amounts necessary to fund the Pension Plan. Benefit and contribution provisions are established by City Ordinance and may be amended only as allowed by City Ordinance.

In December 2011, the Pension Plan sponsored by the City was amended by Ordinance and a new deferred compensation plan was authorized by Ordinance as well. Newly hired employees will 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 deferred compensation 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.

The City issues a publicly available financial report that includes financial statements and required supplementary information for the Pension Plan. The report may be obtained by writing to the Office of the Director of Finance of the City.

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**(b) Annual Pension Cost, Contributions Required, and Contributions Made**

The normal cost, amortization of the unfunded balance, and annual required and actual contributions for FY 2013 and the two preceding fiscal years were as follows (thousands of U.S. dollars):

	<u>Normal cost</u>	<u>Amortization of the unfunded balance</u>	<u>Annual required and actual contributions</u>
Fiscal year ended August 31:			
2013	\$ 8,782	14,832	23,614
2012	8,171	15,801	23,972
2011	8,499	14,098	22,597

Beneficiary payments of \$41.6 million were made in FY 2013. Withdrawals from the pension assets of \$14.5 million were utilized to meet these beneficiary payments. Additionally, \$3.5 million is due to the Company from the pension fund at the end of FY 2013.

The Company's annual pension cost is equal to its annual required contribution (ARC). The ARCs were determined based on an actuarial study, or updates thereto, using the projected unit credit method. Significant actuarial assumptions used for the above valuation include a rate of return on the investment of present and future assets of 7.95% per year compounded annually; projected increases of 3.0% of the salary at the beginning of FY 2013; and retirements that are assumed to occur prior to age 62, at a rate of 10.0% at ages 55 to 61 and 100.0% at age 62. The assumptions did not include postretirement benefit increases. These actuarial assumptions are consistent with the prior fiscal year.

The actuarial asset value is equal to the value of the fund assets as reported by the City with no adjustments. The unfunded actuarial accrued liability is being amortized over 20 years.

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The Pension Plan funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay benefits when due. Level percentages of payroll employer contribution rates are determined using the Projected Unit Credit actuarial funding method. The actuarial value of assets, actuarial accrued liability, unfunded actuarial accrued liability, funded ratio, covered payroll and the unfunded actuarial accrued liability of covered payroll for FY 2013, and the two preceding fiscal years were as follows (thousands of U.S. dollars):

Actuarial valuation date	(a) Actuarial value of assets	(b) Actuarial accrued liability (AAL)	(b)-(a) Unfunded AAL (UAAL)	(a/b) Funded ratio	Covered payroll	UAAL as a percent of covered payroll
September 1, 2012	\$ 437,780	585,632	147,852	74.8%	\$ 106,000	139.5%
September 1, 2011	421,949	572,190	150,241	73.7	106,308	141.3
September 1, 2010	381,975	533,630	151,655	71.6	106,125	142.9

The ARCs, contributions made, and net pension obligation for FY 2013 and the two preceding fiscal years were as follows (thousands of U.S. dollars):

	2013	2012	2011
Annual required contribution	\$ 23,614	23,972	22,597
Contributions made	(23,614)	(23,972)	(22,597)
Net pension obligation	\$ —	—	—

**(11) Other Postemployment Benefits**

**(a) Plan Description**

The Company sponsors a single employer defined benefit healthcare plan and provided postemployment healthcare and life insurance benefits to approximately 2,044 and 2,018 participating retirees and their beneficiaries and dependents in FY 2013 and FY 2012, respectively, in accordance with their retiree medical program. The annual covered payroll (which was substantially equal to total payroll) was \$110.1 million and \$106.3 million at August 31, 2013 and 2012, respectively.

The Company 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 a choice of three plans at the Company's expense and can elect to pay toward a more expensive plan. Retirees may also contribute toward enhanced dental plan and life insurance coverage. PGW pays 100% of the cost for the prescription drug plan after drug co-pays. Union employees hired on or after May 21, 2011 and Non-Union employees hired on or after December 21, 2011 are entitled to receive post-retirement medical, prescription, and dental benefits for five years only. Currently, the Company provides for the cost of healthcare and life insurance benefits for retirees and their beneficiaries on a pay-as-you-go basis.

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Total expense incurred for healthcare and life insurance related to retirees amounted to \$23.7 million and \$26.0 million, in FY 2013 and FY 2012, respectively. In addition, the Company expensed \$18.5 million of funding for the OPEB Trust and retirees contributed \$0.4 million towards their healthcare in both FY 2013 and FY 2012. These contributions represent the additional cost of healthcare plans chosen by retirees above the basic plan offered by the Company. Total premiums for group life insurance were \$2.2 million, and \$2.1 million in FY 2013 and FY 2012, respectively which included \$1.7 million and \$1.6 million for retirees. Retirees contributed \$0.1 million towards their life insurance in both FY 2013 and FY 2012.

**(b) Annual Postemployment Benefit Cost, Contributions Required, and Contributions Made**

The amount paid by the Company for retiree benefits in FY 2013 was \$42.2 million, consisting of \$22.2 million of healthcare expenses, \$1.5 million of life insurance expenses, and \$18.5 million contributed to the OPEB trust. In FY 2012, the Company paid \$44.5 million, consisting of \$24.5 million of healthcare expenses, \$1.5 million of life insurance expenses, and \$18.5 million contributed to the OPEB trust. The difference between the AOC and the Company's contributions resulted in a decrease in the OPEB obligation of \$2.0 million and \$1.6 million in FY 2013 and FY 2012, respectively, which was recorded to other liabilities and expensed.

**Funded Status**

The actuarial accrued liability for benefits at August 31, 2013 and 2012 was \$436.5 million and \$444.0 million, respectively. The ratio of the unfunded actuarial accrued liability to the covered payroll was 340.3% as of August 31, 2013 and 381.1% as of August 31, 2012.

Historical trend information reflecting funding progress and contributions made by the Company is presented in the Schedule of Other Postemployment Benefits Funding Progress (Required Supplementary Information).

**Assumptions**

The valuation was prepared utilizing certain assumptions, including the following:

- Economic assumptions – the discount rate and healthcare cost trend rates
- Discount rate – The report utilized a 8.0% discount rate for purposes of developing the liabilities and ARC on the Plan for FY 2013. This rate is based on the expected return of the investments of the OPEB Trust.

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- Healthcare cost trend rates:

Year	Healthcare cost trend rates			
	Medical (pre-65)	Medical (post-65)	Prescription	Dental
1	10.0%	8.0%	8.0%	4.5%
2	9.0	7.0	7.0	4.5
3	8.0	6.0	6.0	4.5
4	7.0	5.0	5.0	4.5
5	6.5	4.5	4.5	4.5
6	6.0	4.5	4.5	4.5
7	5.5	4.5	4.5	4.5
8	5.0	4.5	4.5	4.5
9	4.5	4.5	4.5	4.5
10 and beyond	4.5	4.5	4.5	4.5

- Benefit assumptions – the initial per capita cost rates for medical coverage, and the face amount of Company-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 following table shows the components of the Company’s annual OPEB cost for FY 2013 and FY 2012, the amount actually contributed to the plan, and the Company’s net OPEB obligation (thousands of U.S. dollars):

	2013	2012
Annual required contribution	\$ 41,216	47,071
Interest on net OPEB obligation	8,885	8,756
Adjustment to the annual required contribution	(9,866)	(9,722)
Annual OPEB cost	40,235	46,105
Contributions made	(42,242)	(44,486)
Net OPEB obligation as of prior year	111,067	109,448
Net OPEB obligation as of August 31	\$ 109,060	111,067

The difference between the AOC and benefit payments made is recorded as other postemployment benefits expense on the statement of revenues and expenses. Contributions made are allocated to operating expense line items along with salaries and other employee benefit costs.



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The Company's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for FY 2013 and the two preceding fiscal years were as follows (thousands of U.S. dollars):

	<u>Annual OPEB cost</u>	<u>Percentage of annual OPEB cost contributed</u>	<u>Net OPEB obligation</u>
Fiscal year ended August 31:			
2013	\$ 40,235	105.00%	\$ 109,060
2012	46,105	96.50	111,067
2011	45,691	91.30	109,448

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. 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.

(c) ***Other Coverage Information***

Effective September 1, 2011, PGW self-insured the healthcare for active employees and retirees under the age of 65. Retirees over the age of 65 are insured on an experience rated basis. Prior to September 1, 2011, the Company had entered into several one-year contracts to provide healthcare for both active and retired employees that are experience rated, and premiums are adjusted annually. In addition, at August 31, 2013, the Company has in place \$189.8 million of group life insurance coverage for both active and retired employees, which is retrospectively rated on a monthly basis.

**(12) Pollution Remediation**

The pollution remediation obligations at August 31, 2013 and 2012 were \$30.8 million and \$30.3 million respectively, which reflect the impact of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

**(13) 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 \$0.5 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 sub limits 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.

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The Company maintained \$210.0 million in liability (including terrorism) coverage, insuring against the risk of damage to property or injury to the public with a per occurrence self-insured retention of \$1.0 million.

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 has evaluated all open claims as of August 31, 2013 and has appropriately accrued for these claims on the balance sheet.

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):

	<u>Beginning of year reserve</u>	<u>Current year claims and adjustments</u>	<u>Claims settled</u>	<u>End of year reserve</u>	<u>Current liability amount</u>
Fiscal year ended August 31:					
2013	\$ 11,102	2,616	(3,307)	10,411	4,925
2012	10,697	3,725	(3,320)	11,102	7,664
2011	9,866	4,299	(3,468)	10,697	4,141

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**(14) Commitments and Contingencies**

Commitments for major construction and maintenance contracts were approximately \$21.6 million and \$10.7 million, as of August 31, 2013 and August 31, 2012, respectively.

The Company is committed under various noncancelable operating lease agreements to pay minimum annual rentals as follows (thousands of U.S. dollars):

Fiscal year ending August 31:		
2014	\$	489
2015		68
2016		49

Rent expense for the fiscal years ended August 31, 2013 and 2012 amounted to \$1.4 million and \$1.3 million, respectively.

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 \$5.5 million, per month.

The Company has entered into seasonal contracts with suppliers providing the Company the ability to fix the price of the purchase of natural gas during the period from November 1, 2013 through March 31, 2014.

The Company's amended FY 2014 Capital Budget was approved by City Council in the amount of \$102.9 million. Within this approval, funding was provided to continue the implementation of an 18 mile Cast Iron Main Replacement Program. Main replacement cost for this program in FY 2014 is expected to be \$21.7 million. The total six-year cost of the Cast Iron Main Program is forecasted to be \$137.4 million. In addition to this program, the FY 2014 Capital Budget includes funding for an incremental Cast Iron Main Replacement Program for which PGW will request recovery through a Distribution System Improvement Charge (DSIC). This incremental program in FY 2014 is expected to cost \$18.2 million. The total six-year cost of this incremental program is forecasted to be \$128.2 million. The FY 2014 Capital Budget also includes \$2.1 million for the purchase of replacement Automatic Meter Reading (AMR) units. The total six-year cost of this program to replace AMR units is approximately \$13.3 million.

**(15) Subsequent Events**

The Company has evaluated events and transactions that occurred between August 31, 2013 and December 23, 2013, which is the date the financial statements were originally available to be issued, and between December 23, 2013 and February 25, 2014, the date the financial statements were reissued, for possible disclosure and recognition in the financial statements and noted the following:

In October 2013, 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 November 21, 2013 and was signed by the Mayor on December 4, 2013. The expiration date of this Ordinance is December 4, 2018.

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August 31, 2013 and 2012

In October 2013, an Ordinance was introduced in City Council which authorizes the City to sell Gas Works Revenue Capital Project Commercial Paper Notes in an aggregate principal amount of up to \$120.0 million at any one time outstanding to pay the costs related to any or all of the purposes set forth in the Ordinance. This includes providing funds for any or all of the following purposes: (a) the capital projects included in the capital program of PGW, which may include, without limitation, (i) the acquisition of land or rights therein; (ii) the acquisition, construction or improvement of buildings, structures and facilities together with their related furnishings, equipment, machinery and apparatus; (iii) the acquisition, construction or replacement of pipes and pipe lines; and (iv) the acquisition or replacement of property of a capital nature for use in the operation, maintenance and administration of the Gas Works system of the City; (b) the provision of interest on the Notes during construction of the capital projects; (c) paying the costs of issuing the Notes; and (d) paying any other Project Costs (as defined in the First Class Revenue Bond Act of October 18, 1972, Act No. 234). The Ordinance was passed by City Council on November 21, 2013 and was signed by the Mayor on December 4, 2013. This Ordinance does not expire.

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Required Supplementary Information (Unaudited)  
Schedule of Pension Funding Progress  
(Thousands of U.S. dollars)

Actuarial valuation date	(a) Actuarial value of assets	(b) Actuarial accrued liability (AAL)	(b)-(a) Unfunded AAL (UAAL)	(a/b) Funded ratio	Covered payroll	UAAL as a percent of covered payroll
September 1, 2012*	437,780	585,632	147,852	74.8%	106,000	139.5%
September 1, 2011**	421,949	572,190	150,241	73.7	106,308	141.3
September 1, 2010***	381,975	533,630	151,655	71.6	106,125	142.9
September 1, 2009+	355,499	519,773	164,274	68.4	106,003	155.0
September 1, 2008++	430,390	495,155	64,765	86.9	107,918	60.0
September 1, 2007+++	416,183	482,380	66,197	86.3	105,596	62.7

\* The required supplementary information is based on an actuarial valuation of the pension fund for the plan year September 1, 2011 through August 31, 2012, updated for contributions and additional accrued benefits in the subsequent fiscal year.

\*\* The required supplementary information is based on an actuarial valuation of the pension fund for the plan year September 1, 2011 through August 31, 2012.

\*\*\* The required supplementary information is based on an actuarial valuation of the pension fund for the plan year September 1, 2009 through August 31, 2010, updated for contributions and additional accrued benefits in the subsequent fiscal year.

+ The required supplementary information is based on an actuarial valuation of the pension fund for the plan year September 1, 2009 through August 31, 2010.

++ The required supplementary information is based on an actuarial valuation of the pension fund for the plan year September 1, 2007 through August 31, 2008, updated for contributions and additional accrued benefits in the subsequent fiscal year.

+++ The required supplementary information is based on an actuarial valuation of the pension fund for the plan year September 1, 2007 through August 31, 2008.

See accompanying independent auditors' report.

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Required Supplementary Information (Unaudited)  
Schedule of Other Postemployment Benefits Funding Progress  
(Thousands of U.S. dollars)

<b>Actuarial valuation date</b>	<b>(a) Actuarial value of assets</b>	<b>(b) Actuarial accrued liability (AAL)</b>	<b>(b)-(a) Unfunded AAL (UAAL)</b>	<b>(a/b) Funded ratio</b>	<b>Covered payroll</b>	<b>UAAL as a percent of covered payroll</b>
August 31, 2013*	61,796	436,527	374,731	14.2%	110,120	340.3%
August 31, 2012**	38,860	443,982	405,122	8.8	106,308	381.1
August 31, 2011***	17,886	485,722	467,836	3.7	106,125	440.8

\* The required supplementary information is based on an actuarial valuation of the OPEB fund for the plan year September 1, 2012 through August 31, 2013.

\*\* The required supplementary information is based on an actuarial valuation of the OPEB fund for the plan year September 1, 2011 through August 31, 2012.

\*\*\* The required supplementary information is based on an actuarial valuation of the OPEB fund for the plan year September 1, 2010 through August 31, 2011.

See accompanying independent auditors' report.



## Statistical Section

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

Statistical Section

Description of Schedules

August 31, 2013

This section of the Company's comprehensive annual financial report presents comparative information in order to better understand the financial statements, note disclosures, and required supplementary information and to more fully comprehend the Company's overall financial health.

**Financial Trends**

These schedules contain trend information to help the reader understand how the Company's financial performance and well being have changed over time.

**Revenue Capacity**

These schedules contain information to help the reader assess the Company's revenue.

**Debt Capacity**

These schedules present information to help the reader assess the affordability of the Company's current levels of outstanding debt and its ability to issue additional debt in the future.

**Demographic and Economic Information**

These schedules offer demographic and economic indicators to help the reader understand the environment within which the Company's financial activities take place.

**Operating Information**

These schedules contain service and infrastructure data to help the reader understand how the information in the Township's financial report relates to the services the Company provides and the activities it performs.

**Sources**

Unless otherwise noted, the information in these schedules is derived from the audited financial statements for the relevant year.

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Balance Sheets  
Fiscal Years 2004 through 2013  
(Thousands of US dollars)

<b>Assets</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Utility plant, at original cost:			
In service	1,951,546	1,894,129	1,856,303
Under construction	44,409	53,851	40,555
Total	<u>1,995,955</u>	<u>1,947,980</u>	<u>1,896,858</u>
Less accumulated depreciation	840,968	822,330	785,780
Utility plant, net	<u>1,154,987</u>	<u>1,125,650</u>	<u>1,111,078</u>
Restricted investment funds:			
Sinking fund, revenue bonds	105,280	105,312	112,038
Capital improvement fund	44,055	88,838	122,332
City of Philadelphia	-	-	-
Workers' compensation escrow fund	2,597	2,597	2,596
Health insurance escrow fund	3,223	3,222	-
Total restricted investment funds	<u>155,155</u>	<u>199,969</u>	<u>236,966</u>
Current assets:			
Cash and cash equivalents	100,933	75,826	105,386
Accounts receivable (net of provision for uncollectible accounts)	97,749	81,997	98,925
Gas inventories, materials, and supplies	80,234	81,086	85,993
Other current assets and deferred debits	16,196	26,939	35,523
Total current assets	<u>295,112</u>	<u>265,848</u>	<u>325,827</u>
Unamortized bond issuance costs * (1)	15,736	17,417	24,585
Unamortized losses on reacquired debt	-	-	62,039
Other assets and deferred debits	33,097	30,996	30,640
Total assets	<u>1,654,087</u>	<u>1,639,880</u>	<u>1,791,135</u>
<b>Deferred outflows of resources</b>			
Accumulated fair value of hedging derivatives	12,059	34,712	25,360
Unamortized losses on reacquired debt (1)	44,868	53,241	-
Total assets and deferred outflows of resources	<u>1,711,014</u>	<u>1,727,833</u>	<u>1,816,495</u>

\* For fiscal years 2013 and 2012 this category includes only bond insurance costs.

(1) During FY 2013, the Company implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, that amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities. The objective is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). This change was retroactive to FY 2012.

Source - PGW's Audited Financial Statements

<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
1,794,277	1,754,297	1,685,593	1,633,300	1,555,669	1,515,463	1,473,519
46,339	30,953	46,969	48,013	65,122	57,883	43,527
1,840,616	1,785,250	1,732,562	1,681,313	1,620,791	1,573,346	1,517,046
746,607	708,783	670,467	640,940	613,143	591,624	566,310
1,094,009	1,076,467	1,062,095	1,040,373	1,007,648	981,722	950,736
111,409	110,227	106,198	102,438	94,352	104,530	95,929
170,809	62,714	111,207	172,134	39,636	102,701	40,494
-	-	-	643	-	-	-
2,595	2,593	2,383	1,924	1,637	1,579	-
-	-	-	-	-	-	-
284,813	175,534	219,788	277,139	135,625	208,810	136,423
79,052	13,750	49,338	51,698	6,697	15,221	3,666
92,173	105,496	99,304	88,618	74,360	87,634	93,124
103,133	125,023	187,539	147,770	149,438	129,984	98,467
27,212	4,895	5,626	5,615	25,259	2,632	14,017
301,570	249,164	341,807	293,701	255,754	235,471	209,274
27,066	27,516	38,738	42,086	42,089	39,094	32,718
70,873	79,945	47,902	53,359	55,859	38,494	39,439
22,925	23,465	33,125	8,282	9,035	16,231	9,591
1,801,256	1,632,091	1,743,455	1,714,940	1,506,010	1,519,822	1,378,181
25,906	-	-	-	-	-	-
-	-	-	-	-	-	-
1,827,162	1,632,091	1,743,455	1,714,940	1,506,010	1,519,822	1,378,181

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Balance Sheets  
Fiscal Years 2004 through 2013  
(Thousands of US dollars)

<b>Fund Equity and Liabilities</b>	<u><b>2013</b></u>	<u><b>2012</b></u>	<u><b>2011</b></u>
Fund equity:			
Excess (deficiency) of capital assets, net of related debt			
Restricted			
Unrestricted			
Total fund equity			
Long-term debt:			
Revenue bonds	1,033,976	1,086,502	1,166,992
Note payable – City Loan	-	-	-
Total long-term debt	<u>1,033,976</u>	<u>1,086,502</u>	<u>1,166,992</u>
Current liabilities:			
Notes payable	-	-	-
Current portion of revenue bonds	52,406	30,545	50,549
Subordinate lease obligations	-	-	-
Note payable – City Loan	-	-	-
Accounts payable	59,379	57,127	55,893
Customer deposits	2,305	2,449	2,869
Other current liabilities and deferred credits	9,107	10,265	12,098
Accrued accounts:			
Interest, taxes, and wages	14,823	15,555	17,476
Distribution to the City	3,000	3,000	3,000
Total current liabilities	<u>141,020</u>	<u>118,941</u>	<u>141,885</u>
Other liabilities and deferred credits	177,431	206,445	197,878
Total liabilities	<u>1,352,427</u>	<u>1,411,888</u>	<u>1,506,755</u>
Total fund equity and liabilities			
<b>Net position</b>			
Excess (deficiency) of net investment in capital assets	112,660	97,442	15,869
Restricted (debt service)	111,100	111,131	114,634
Unrestricted (1)	134,827	107,372	179,237
Total net position	<u>358,587</u>	<u>315,945</u>	<u>309,740</u>
Total liabilities and net position	<u><u>1,711,014</u></u>	<u><u>1,727,833</u></u>	<u><u>1,816,495</u></u>

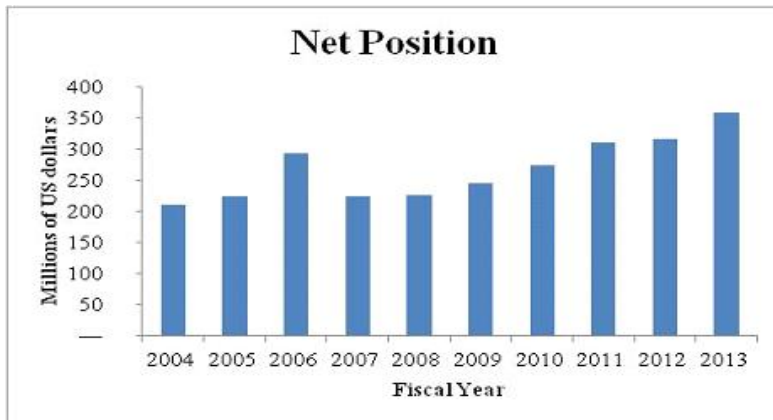
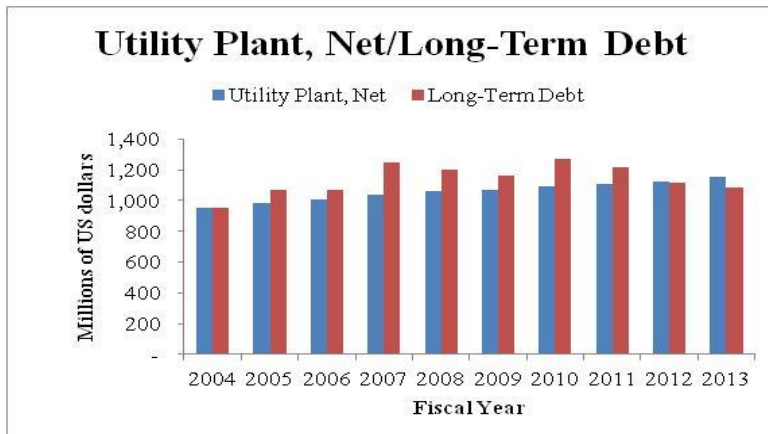
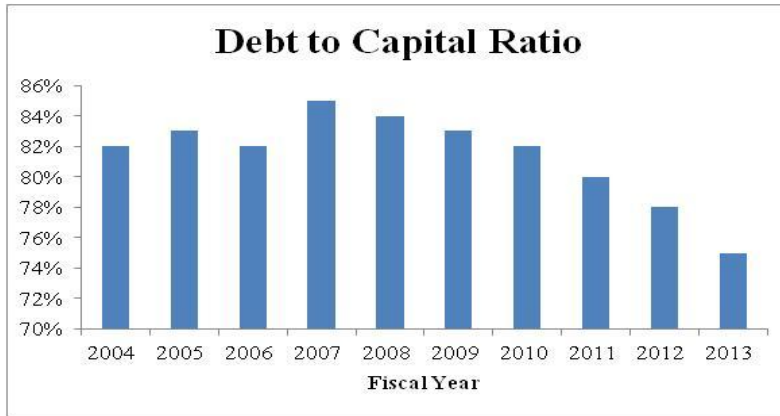
(1) During FY 2013, the Company implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, that amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities. The objective is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). This change was retroactive to FY 2012.

Source - PGW's Audited Financial Statements

<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
	1,019	(4,466)	(5,690)	(7,754)	24,739	35,903
	112,820	108,581	105,005	95,989	106,109	95,929
	129,780	122,293	123,986	151,170	91,798	79,542
	<u>243,619</u>	<u>226,408</u>	<u>223,301</u>	<u>239,405</u>	<u>222,646</u>	<u>211,374</u>
1,224,987	1,114,488	1,127,163	1,201,792	1,031,131	1,030,830	913,514
-	-	-	-	45,000	45,000	-
<u>1,224,987</u>	<u>1,114,488</u>	<u>1,127,163</u>	<u>1,201,792</u>	<u>1,076,131</u>	<u>1,075,830</u>	<u>913,514</u>
-	-	90,000	51,600	55,000	49,900	95,750
42,537	48,175	76,030	43,995	39,591	42,271	39,866
-	-	-	-	-	-	1,947
-	-	-	43,000	-	-	-
59,303	46,205	67,508	60,615	40,316	63,918	73,027
3,998	4,224	7,325	9,049	8,628	6,280	1,694
12,185	16,203	32,581	15,524	8,137	18,342	6,729
16,743	15,948	15,821	15,088	13,773	13,452	9,693
3,000	3,000	3,000	3,000	3,000	3,000	3,000
<u>137,766</u>	<u>133,755</u>	<u>292,265</u>	<u>241,871</u>	<u>168,445</u>	<u>197,163</u>	<u>231,706</u>
<u>189,974</u>	<u>140,229</u>	<u>97,619</u>	<u>47,976</u>	<u>22,029</u>	<u>24,183</u>	<u>21,587</u>
<u>1,552,727</u>	<u>1,388,472</u>	<u>1,517,047</u>	<u>1,491,639</u>	<u>1,266,605</u>	<u>1,297,176</u>	<u>1,166,807</u>
	<u>1,632,091</u>	<u>1,743,455</u>	<u>1,714,940</u>	<u>1,506,010</u>	<u>1,519,822</u>	<u>1,378,181</u>
(2,706)						
114,004						
<u>163,137</u>						
<u>274,435</u>						
<u>1,827,162</u>						

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**PHILADELPHIA GAS WORKS**  
 (A Component Unit of the City of Philadelphia)  
 Debt to Capital Ratio, Utility Plant, Net vs. Long-Term Debt, and Net Position  
 Fiscal Years 2004 through 2013



**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Statements of Revenues and Expenses  
Fiscal Years 2004 through 2013  
(Thousands of US dollars)

	<b>2013</b>	<b>2012</b>	<b>2011</b>
Operating revenues:			
Gas revenues:			
Nonheating	35,262	37,054	51,437
Gas transport service	37,078	29,324	28,700
Heating	602,814	562,009	669,131
Total gas revenues	675,154	628,387	749,268
Appliance and other revenues	8,333	8,240	8,400
Other operating revenues	9,984	8,356	8,611
Total operating revenues	693,471	644,983	766,279
Operating expenses:			
Natural gas	255,501	233,713	330,932
Gas processing	17,592	15,640	16,097
Field services	34,926	33,883	33,950
Distribution	30,259	27,750	27,990
Collection and account management	11,297	11,491	11,765
Provision for uncollectible accounts	39,971	36,702	36,027
Customer services	11,102	11,946	12,532
Marketing	6,789	6,664	4,378
Administrative and general	78,206	81,161	76,850
Pensions	23,614	23,972	22,597
Other postemployment benefits	16,492	20,119	22,472
Taxes	7,220	7,122	7,135
Total operating expenses before depreciation	532,969	510,163	602,725
Depreciation	45,912	45,045	43,629
Less depreciation expense included in operating expenses above	4,870	4,870	4,714
Total depreciation	41,042	40,175	38,915
Total operating expenses	574,011	550,338	641,640
Operating income	119,460	94,645	124,639
Interest and other income	1,147	4,659	4,348
Income before interest expense	120,607	99,304	128,987
Interest expense:			
Long-term debt	49,655	53,012	57,225
Other	10,740	16,824	18,884
Allowance for funds used during construction	(430)	(292)	(427)
Total interest expense	59,965	69,544	75,682
Excess (deficiency) of revenues over (under) expenses	60,642	29,760	53,305
Net position, beginning of the year (1)	315,945	304,185	274,435
Distribution to the City of Philadelphia	(18,000)	(18,000)	(18,000)
Grant back of distribution from the City of Philadelphia	-	-	-
Net position, end of the year	358,587	315,945	309,740

- (1) During FY 2013, the Company implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, that amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities. The objective is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). This change was retroactive to FY 2012.

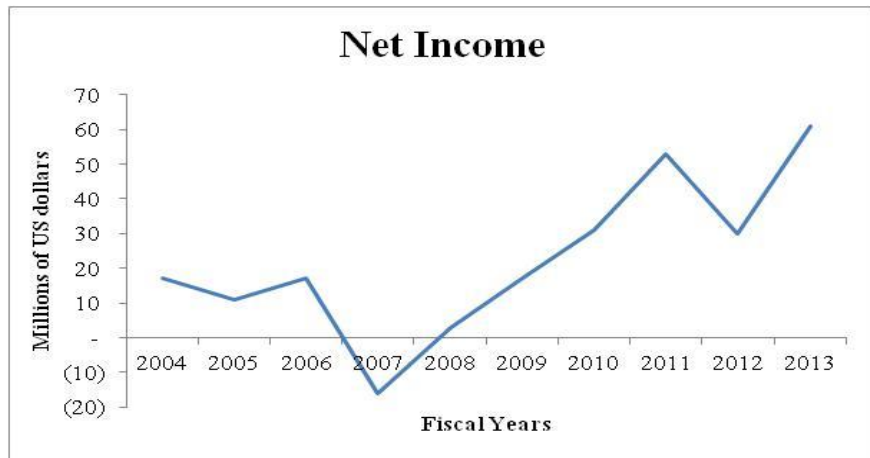
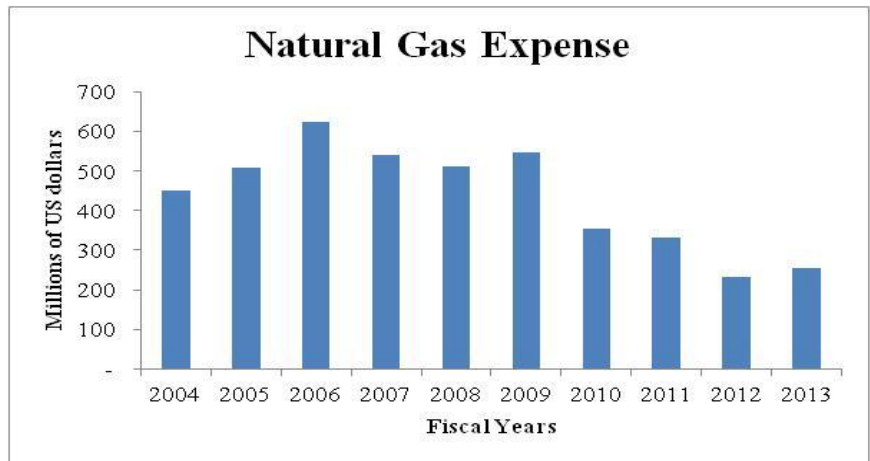
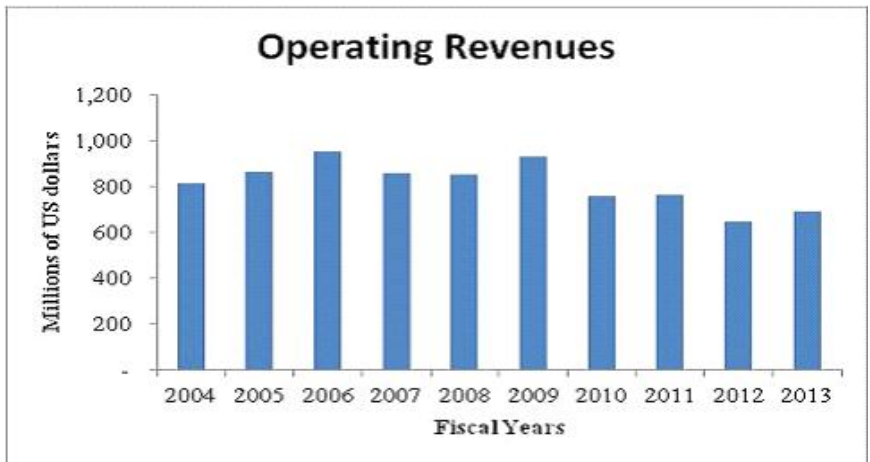
Source - PGW's Audited Financial Statements



<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
51,343	67,295	78,687	90,798	113,356	114,880	99,074
26,860	24,913	19,215	12,949	6,459	4,679	2,945
<u>664,139</u>	<u>818,249</u>	<u>733,526</u>	<u>736,358</u>	<u>810,146</u>	<u>710,991</u>	<u>681,337</u>
742,342	910,457	831,428	840,105	929,961	830,550	783,356
8,959	9,311	8,607	9,398	10,482	10,895	10,065
<u>7,931</u>	<u>9,673</u>	<u>9,592</u>	<u>9,848</u>	<u>13,525</u>	<u>21,912</u>	<u>18,889</u>
<u>759,232</u>	<u>929,441</u>	<u>849,627</u>	<u>859,351</u>	<u>953,968</u>	<u>863,357</u>	<u>812,310</u>
354,004	545,846	511,976	539,300	625,093	509,704	450,868
14,952	16,779	14,436	16,240	15,234	18,584	17,284
34,026	37,727	37,126	36,100	35,667	28,455	29,557
23,426	21,059	17,319	17,119	15,179	15,115	15,778
15,266	16,248	15,447	15,221	17,289	18,666	18,226
35,000	42,000	37,000	40,000	40,132	70,424	71,000
13,030	12,897	12,305	11,783	11,083	12,512	13,514
3,900	3,436	2,628	2,418	2,467	2,592	2,677
71,620	63,820	60,716	56,819	59,484	60,995	64,670
24,633	15,425	14,258	26,421	17,563	14,702	14,973
27,269	25,952	25,834	15,217	-	-	-
6,990	6,588	5,677	6,730	6,124	6,218	6,638
<u>624,116</u>	<u>807,777</u>	<u>754,722</u>	<u>783,368</u>	<u>845,315</u>	<u>757,967</u>	<u>705,185</u>
43,168	42,200	42,868	39,708	37,955	39,547	38,868
<u>4,690</u>	<u>4,419</u>	<u>3,344</u>	<u>3,328</u>	<u>3,230</u>	<u>4,502</u>	<u>4,902</u>
<u>38,478</u>	<u>37,781</u>	<u>39,524</u>	<u>36,380</u>	<u>34,725</u>	<u>35,045</u>	<u>33,966</u>
<u>662,594</u>	<u>845,558</u>	<u>794,246</u>	<u>819,748</u>	<u>880,040</u>	<u>793,012</u>	<u>739,151</u>
96,638	83,883	55,381	39,603	73,928	70,345	73,159
<u>5,301</u>	<u>12,240</u>	<u>15,732</u>	<u>13,073</u>	<u>8,518</u>	<u>4,778</u>	<u>3,580</u>
<u>101,939</u>	<u>96,123</u>	<u>71,113</u>	<u>52,676</u>	<u>82,446</u>	<u>75,123</u>	<u>76,739</u>
52,527	63,602	56,075	52,146	51,799	53,856	50,837
18,986	15,558	12,269	17,042	14,869	10,902	9,650
<u>(390)</u>	<u>(248)</u>	<u>(338)</u>	<u>(408)</u>	<u>(981)</u>	<u>(907)</u>	<u>(907)</u>
<u>71,123</u>	<u>78,912</u>	<u>68,006</u>	<u>68,780</u>	<u>65,687</u>	<u>63,851</u>	<u>59,580</u>
<u>30,816</u>	<u>17,211</u>	<u>3,107</u>	<u>(16,104)</u>	<u>16,759</u>	<u>11,272</u>	<u>17,159</u>
243,619	226,408	223,301	239,405	222,646	211,374	194,215
<u>(18,000)</u>	<u>(18,000)</u>	<u>(18,000)</u>	<u>(18,000)</u>	<u>(18,000)</u>	<u>(18,000)</u>	<u>-</u>
<u>18,000</u>	<u>18,000</u>	<u>18,000</u>	<u>18,000</u>	<u>18,000</u>	<u>18,000</u>	<u>-</u>
<u>274,435</u>	<u>243,619</u>	<u>226,408</u>	<u>223,301</u>	<u>239,405</u>	<u>222,646</u>	<u>211,374</u>

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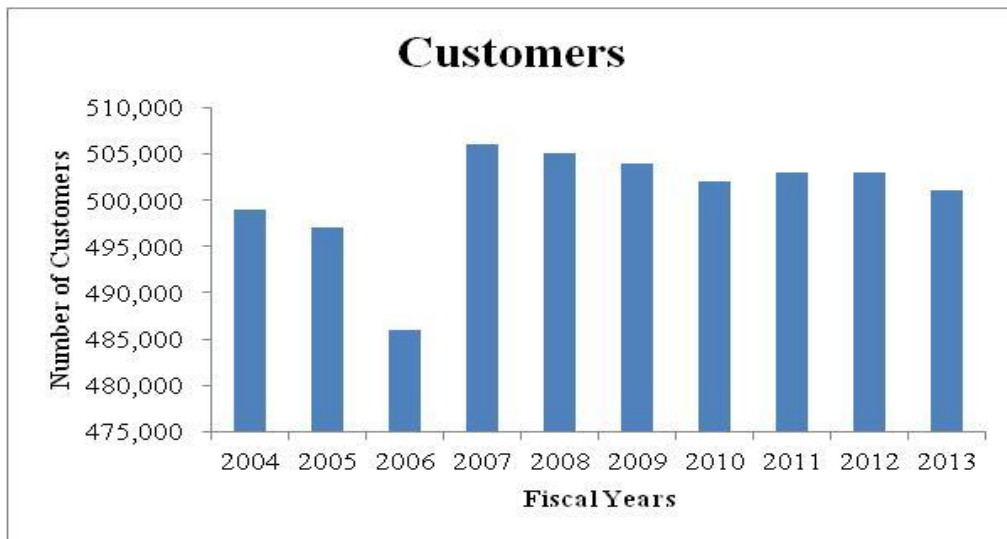
**PHILADELPHIA GAS WORKS**  
 (A Component Unit of the City of Philadelphia)  
 Operating Revenues, Natural Gas Expense, and Net Income  
 Fiscal Years 2004 through 2013



**PHILADELPHIA GAS WORKS**  
 (A Component Unit of the City of Philadelphia)  
 Average Number of Customers Billed by System  
 Fiscal Years 2004 through 2013

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Residential	475,300	477,300	477,300	476,200	478,200
Commercial	25,000	25,000	25,000	25,000	25,000
Industrial	700	700	700	800	800
<b>Total</b>	<u><u>501,000</u></u>	<u><u>503,000</u></u>	<u><u>503,000</u></u>	<u><u>502,000</u></u>	<u><u>504,000</u></u>

Source - PGW Records



<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
<u>479,200</u>	<u>480,100</u>	<u>460,000</u>	<u>471,000</u>	<u>472,000</u>
25,000	25,000	25,000	25,000	26,000
800	900	1,000	1,000	1,000
<u>505,000</u>	<u>506,000</u>	<u>486,000</u>	<u>497,000</u>	<u>499,000</u>

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Operating Revenues  
Fiscal Years 2004 through 2013  
(Thousands of US dollars)

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Firm non-heat	31,401	33,282	36,779	37,932
Interruptible gas sales	4,703	3,338	14,431	12,503
Billed non-heating	36,104	36,620	51,210	50,435
GCR non-heating adjustment	(841)	434	228	908
Total non-heating	35,263	37,054	51,438	51,343
Billed heating	605,761	519,950	659,681	630,970
GCR heating adjustment	(12,407)	4,244	5,360	16,742
Total billed heating	593,354	524,194	665,041	647,712
Weather normalization adjustment (WNA)	8,060	44,016	1,696	12,970
Total heating	601,414	568,210	666,737	660,682
Total gas sold	636,677	605,264	718,175	712,025
Firm transportation (FT) non-heat (1)	5,194	3,861	4,582	3,306
FT heating (1)	19,665	14,037	14,541	13,254
WNA - FT (1)	331	1,412	128	455
Total heating FT (1)	19,996	15,449	14,669	13,709
Total FT (1)	25,190	19,310	19,251	17,015
Unbilled adjustment	1,398	(6,201)	2,393	3,457
GTS: transportation	1,050	1,086	1,147	1,928
GTS - customer/customer choice	9,372	7,955	8,333	7,421
GTS - supplier/customer choice	478	170	(790)	(105)
GTS - firm supplier	989	803	759	601
Total gas revenues	<u>675,154</u>	<u>628,387</u>	<u>749,268</u>	<u>742,342</u>

(1) Firm transportation (FT) program began in FY 2007

Source - PGW Records

<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
50,172	52,528	61,729	76,865	71,415	66,998
16,493	26,679	31,439	33,509	44,678	32,404
<u>66,665</u>	<u>79,207</u>	<u>93,168</u>	<u>110,374</u>	<u>116,093</u>	<u>99,402</u>
631	(521)	(2,037)	2,210	(1,212)	(329)
<u>67,296</u>	<u>78,686</u>	<u>91,131</u>	<u>112,584</u>	<u>114,881</u>	<u>99,073</u>
810,704	731,942	756,032	768,935	727,322	681,951
8,991	(8,407)	(23,948)	24,792	(14,164)	(4,182)
<u>819,695</u>	<u>723,535</u>	<u>732,084</u>	<u>793,727</u>	<u>713,158</u>	<u>677,769</u>
445	11,923	6,438	13,406	(1,365)	2,109
<u>820,140</u>	<u>735,458</u>	<u>738,522</u>	<u>807,133</u>	<u>711,793</u>	<u>679,878</u>
<u>887,436</u>	<u>814,144</u>	<u>829,653</u>	<u>919,717</u>	<u>826,674</u>	<u>778,951</u>
2,857	2,120	928			
12,265	8,205	3,111			
60	315	60			
<u>12,325</u>	<u>8,520</u>	<u>3,171</u>			
<u>15,182</u>	<u>10,640</u>	<u>4,099</u>			
(1,893)	(1,931)	(2,497)	3,785	(803)	1,460
1,948	2,228	2,480	2,335	2,249	2,301
6,813	6,177	6,017	4,115	2,407	636
842	85	220	9	23	8
129	85	133	-	-	-
<u>910,457</u>	<u>831,428</u>	<u>840,105</u>	<u>929,961</u>	<u>830,550</u>	<u>783,356</u>

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Sales Volumes  
Fiscal Years 2004 through 2013  
(Sales in Mcf)\*

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Firm non-heat	2,003,583	2,148,736	2,218,768	2,186,030
Interruptible gas sales	890,383	192,058	1,004,185	1,049,318
Billed non-heating	<u>2,893,966</u>	<u>2,340,794</u>	<u>3,222,953</u>	<u>3,235,348</u>
GCR non-heating adjustment	-	-	-	-
Total non-heating	2,893,966	2,340,794	3,222,953	3,235,348
Billed heating	42,741,706	36,196,469	45,795,915	42,604,640
GCR heating adjustment	-	-	-	-
Total billed heating	<u>42,741,706</u>	<u>36,196,469</u>	<u>45,795,915</u>	<u>42,604,640</u>
Weather normalization adjustment (WNA)	-	-	-	-
Total heating	<u>42,741,706</u>	<u>36,196,469</u>	<u>45,795,915</u>	<u>42,604,640</u>
Total gas sold	45,635,672	38,537,263	49,018,868	45,839,988
Firm transportation (FT) non-heat (1)	701,712	542,271	629,683	456,675
FT heating (1)	2,725,563	1,941,019	2,038,726	1,848,085
WNA - FT (1)	-	-	-	-
Total heating FT (1)	<u>2,725,563</u>	<u>1,941,019</u>	<u>2,038,726</u>	<u>1,848,085</u>
Total FT (1)	<u>3,427,275</u>	<u>2,483,290</u>	<u>2,668,409</u>	<u>2,304,760</u>
Unbilled adjustment	62,646	(633,531)	204,694	276,161
GTS: transportation	10,708,926	11,429,993	12,024,712	12,390,748
GTS - customer/customer choice	12,346,548	10,459,723	10,581,753	8,440,368
GTS - supplier/customer choice	-	-	-	-
GTS - firm supplier	-	-	-	-
Utility Use	410,193	394,574	465,505	632,040
Unaccounted for gas	<u>1,492,946</u>	<u>2,067,268</u>	<u>2,563,662</u>	<u>2,097,817</u>
Total sendout	<u><u>74,084,206</u></u>	<u><u>64,738,580</u></u>	<u><u>77,527,603</u></u>	<u><u>71,981,882</u></u>
Unaccounted for gas as a % of total sendout	2.0%	3.2%	3.3%	2.9%

(1) Firm transportation (FT) program began in FY 2007

\* Mcf = Thousand cubic feet

Source - PGW Records



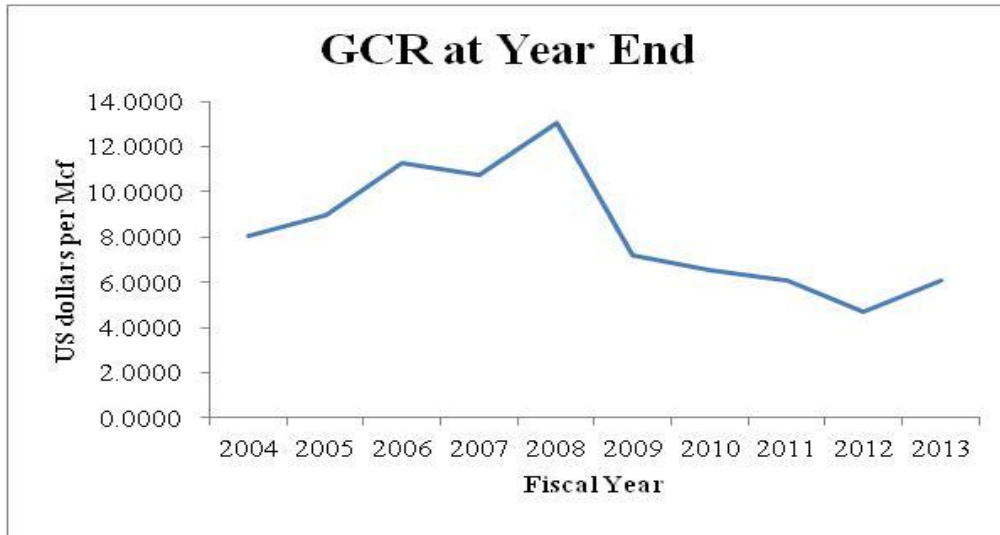
<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
2,440,758	2,585,001	3,104,220	3,745,664	4,314,816	4,406,671
1,170,128	1,790,721	2,704,526	2,425,862	4,510,515	4,103,424
3,610,886	4,375,722	5,808,746	6,171,526	8,825,331	8,510,095
-	-	-	-	-	-
3,610,886	4,375,722	5,808,746	6,171,526	8,825,331	8,510,095
45,584,417	42,940,365	44,812,203	42,497,852	49,492,929	51,761,937
-	-	-	-	-	-
45,584,417	42,940,365	44,812,203	42,497,852	49,492,929	51,761,937
-	-	-	-	-	-
45,584,417	42,940,365	44,812,203	42,497,852	49,492,929	51,761,937
49,195,303	47,316,087	50,620,949	48,669,378	58,318,260	60,272,032
392,965	333,800	134,583			
1,700,319	1,272,881	434,865			
-	-	-			
1,700,319	1,272,881	434,865			
2,093,284	1,606,681	569,448			
(12,364)	61,729	(130,643)	116,676	628,810	(52,902)
12,651,292	9,928,058	7,144,953	7,279,955	9,014,203	8,243,357
7,879,560	7,497,327	5,424,466	3,447,532	2,610,192	703,090
-	-	-	-	-	-
-	-	-	-	-	-
737,720	716,683	859,493	680,633	94,731	98,718
2,357,825	1,476,092	2,552,999	1,940,046	2,037,791	2,672,534
74,902,620	68,602,657	67,041,665	62,134,220	72,703,987	71,936,829
3.1%	2.2%	3.8%	3.1%	2.8%	3.7%

**PHILADELPHIA GAS WORKS**  
 (A Component Unit of the City of Philadelphia)  
 Gas Cost Rate  
 Fiscal Years 2004 through 2013  
 (US dollars)

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
June 1	6.0709	4.7129	6.0930	6.5139	7.1815
March 1	6.3991	4.9783	6.5400	7.3455	8.4192
January 1					10.7007
December 1	5.7323	6.1270	6.2753	7.2497	
October 7					
September 1	5.2247	6.0594	6.9050	7.0900	12.6527

Shown in dollars per thousand cubic feet

Source - PGW Records



<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
13.0236	10.7251	11.2558	8.9980	8.0699
10.7226	10.4338	12.5632	8.1120	7.9254
10.5779	10.9119	12.5632	9.8857	7.6313
10.1108	11.2558	9.7056	8.3085	7.8670

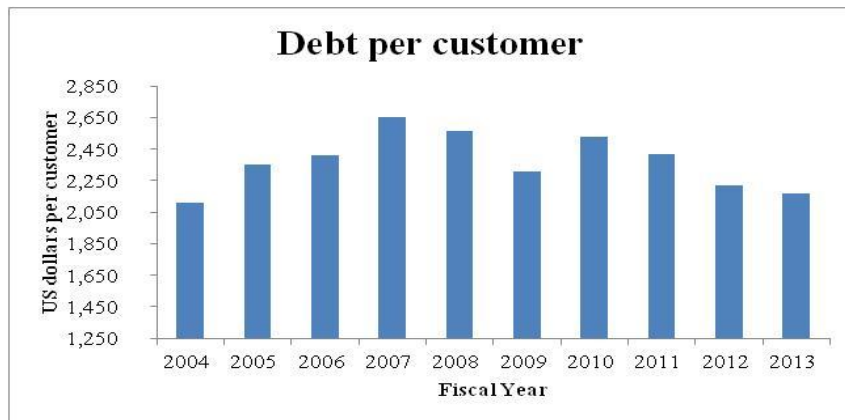
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**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Ratios of Outstanding Debt by Type  
Fiscal Years 2004 through 2013  
(Thousands of US dollars)

	Revenue Bonds	Subordinate lease obligations	Commercial Paper	City Loan	Grand Total	Ratio to Operating Revenue	Operating Revenue	Number of Customers	Debt per Customer (1)
2013	1,086,382	-	-	-	1,086,382	157%	693,471	501,000	2,168
2012	1,117,047	-	-	-	1,117,047	173%	644,983	503,000	2,221
2011	1,217,541	-	-	-	1,217,541	159%	766,279	503,000	2,421
2010	1,267,524	-	-	-	1,267,524	167%	759,232	502,000	2,525
2009	1,162,663	-	-	-	1,162,663	125%	929,441	504,000	2,307
2008	1,203,193	-	90,000	-	1,293,193	152%	849,627	505,000	2,561
2007	1,245,787	-	51,600	43,000	1,340,387	156%	859,351	506,000	2,649
2006	1,070,722	-	55,000	45,000	1,170,722	123%	953,968	486,000	2,409
2005	1,073,101	-	49,900	45,000	1,168,001	135%	863,357	497,000	2,350
2004	953,380	1,947	95,750	-	1,051,077	129%	812,310	499,000	2,106

(1) Per customer data in whole dollars

Source - PGW's Audited Financial Statements and PGW Records



**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Debt Service  
Through Fiscal Year 2040  
(Thousands of US dollars)

Year	17th Series	18th Series	19th Series	20th Series	Total 1975 Ordinance	4th Series	5th Series	5th Series Variable
2014	15,673	4,873	723	7,323	28,592	7,344	8,420	531
2015	14,127	9,220	723	2,834	26,904	7,349	8,416	531
2016	18,176	3,755	723	-	22,654	3,744	8,419	531
2017	16,621	3,781	723	-	21,125	3,744	8,419	531
2018	15,068	3,807	723	-	19,598	3,744	8,416	531
2019	13,507	3,840	723	-	18,070	3,744	8,418	531
2020	11,947	3,862	723	-	16,532	3,744	8,420	531
2021	10,390	3,894	723	-	15,007	8,399	8,416	531
2022	8,833	-	4,685	-	13,518	8,400	8,416	531
2023	7,276	-	5,457	-	12,733	8,397	8,415	531
2024	5,719	-	5,452	-	11,171	8,400	8,417	531
2025	4,159	-	-	-	4,159	8,399	8,417	531
2026	3,770	-	-	-	3,770	8,400	8,418	531
2027	-	-	-	-	-	8,396	8,416	531
2028	-	-	-	-	-	8,398	8,419	531
2029	-	-	-	-	-	8,399	8,417	531
2030	-	-	-	-	-	8,398	8,419	530
2031	-	-	-	-	-	8,396	8,419	530
2032	-	-	-	-	-	8,395	8,417	530
2033	-	-	-	-	-	-	8,416	530
2034	-	-	-	-	-	-	8,415	530
2035	-	-	-	-	-	-	-	30,265
2036	-	-	-	-	-	-	-	-
2037	-	-	-	-	-	-	-	-
2038	-	-	-	-	-	-	-	-
2039	-	-	-	-	-	-	-	-
2040	-	-	-	-	-	-	-	-
<b>Total</b>	<b>145,266</b>	<b>37,032</b>	<b>21,378</b>	<b>10,157</b>	<b>213,833</b>	<b>134,190</b>	<b>176,765</b>	<b>41,411</b>

Source - PGW Records

7th Series New Money	7th Series Refunding	8th Series A	8th Series B-E	9th Series	10th Series	Total 1998 Ordinance	Grand Total
12,854	1,444	12,561	8,287	9,934	9,035	70,410	99,002
12,855	1,442	15,695	8,287	9,937	6,316	70,828	97,732
12,856	5,049	13,531	8,287	9,934	8,243	70,594	93,248
12,857	5,043	12,462	9,997	9,937	7,503	70,493	91,618
12,857	5,042	-	21,709	9,938	6,757	68,994	88,592
12,856	5,042	-	22,483	9,938	6,018	69,030	87,100
12,857	5,045	-	23,256	9,934	5,275	69,062	85,594
12,855	391	-	24,046	9,936	4,529	69,103	84,110
12,855	391	-	24,840	9,938	3,785	69,156	82,674
12,856	391	-	25,616	9,938	3,050	69,194	81,927
12,853	1,390	-	25,693	9,935	2,300	69,519	80,690
12,853	1,441	-	26,554	9,935	1,561	69,691	73,850
12,853	1,481	-	26,856	9,934	1,376	69,849	73,619
12,855	1,468	-	28,875	9,938	-	70,479	70,479
12,854	1,550	-	29,018	9,935	-	70,705	70,705
12,854	1,630	-	-	9,935	-	41,766	41,766
12,854	-	-	-	9,935	-	40,136	40,136
12,853	-	-	-	9,937	-	40,135	40,135
12,855	-	-	-	9,938	-	40,135	40,135
12,853	-	-	-	9,936	-	31,735	31,735
12,858	-	-	-	9,937	-	31,740	31,740
12,856	-	-	-	2,243	-	45,364	45,364
12,857	-	-	-	9,938	-	22,795	22,795
12,855	-	-	-	9,934	-	22,789	22,789
12,853	-	-	-	9,934	-	22,787	22,787
-	-	-	-	9,936	-	9,936	9,936
-	-	-	-	9,935	-	9,935	9,935
<u>321,374</u>	<u>38,240</u>	<u>54,249</u>	<u>313,804</u>	<u>260,579</u>	<u>65,748</u>	<u>1,406,360</u>	<u>1,620,193</u>

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Debt Service Coverage  
Fiscal Years 2004 through 2013  
(Thousands of US dollars)

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>Funds Provided</b>				
Total gas revenues	675,154	628,387	749,268	742,342
Other operating revenues	18,317	16,596	17,011	16,890
Total operating revenues	693,471	644,983	766,279	759,232
Other income increase restricted funds	196	8,311	13,175	3,660
City grant	-	-	-	18,000
AFUDC (Interest)	430	292	427	390
Total funds provided	694,097	653,586	779,881	781,282
<b>Funds Applied</b>				
Fuel costs	255,501	233,713	330,932	354,004
Other operating costs	318,510	316,625	310,708	308,590
Total operating expenses	574,011	550,338	641,640	662,594
Capital lease cost	-	-	-	-
Less: non-cash expenses	48,103	47,619	47,854	70,404
Total funds applied	525,908	502,719	593,786	592,190
Funds available to cover debt service	168,189	150,867	186,095	189,092
Add-back lease costs	-	-	-	-
Funds available excluding lease costs	168,189	150,867	186,095	189,092
1975 ordinance bonds debt service	30,163	31,754	30,691	30,101
Debt service coverage 1975 bonds	5.58	4.75	6.06	6.28
Net available after prior debt service	138,026	119,113	155,404	158,991
PMA & other capital leases	-	-	-	-
Net available after prior capital leases	138,026	119,113	155,404	158,991
1998 ordinance bonds debt service	47,668	67,874	72,274	65,095
Debt service coverage 1998 bonds	2.90	1.75	2.15	2.44
Net available after 1998 debt service	90,358	51,239	83,130	93,896
1998 ordinance subordinate bond debt service	-	-	1,988	1,986
Debt service coverage subordinate bonds	-	-	41.82	47.28

Source - PGW's Audited Financial Statements and PGW Records



<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
910,457	831,428	840,105	929,961	830,550	783,356
18,984	18,199	19,246	24,007	32,807	28,954
929,441	849,627	859,351	953,968	863,357	812,310
12,434	3,881	6,423	11,969	1,513	3,814
18,000	18,000	18,000	18,000	18,000	-
247	338	408	981	907	907
960,122	871,846	884,182	984,918	883,777	817,031
545,846	511,976	539,300	625,093	509,704	450,868
299,712	282,270	280,448	254,947	283,308	288,283
845,558	794,246	819,748	880,040	793,012	739,151
-	-	-	-	-	3,997
67,897	68,898	66,246	38,197	39,338	38,401
777,661	725,348	753,502	841,843	753,674	704,747
182,462	146,498	130,680	143,075	130,103	112,284
-	-	-	-	-	3,997
182,462	146,498	130,680	143,075	130,103	116,281
32,313	34,225	35,359	41,949	38,806	48,630
5.65	4.28	3.70	3.41	3.35	2.39
150,149	112,273	95,321	101,126	91,297	67,651
-	-	-	-	1,998	3,997
150,149	112,273	95,321	101,126	89,299	63,654
70,569	59,695	47,611	32,838	45,999	39,655
2.13	1.88	2.00	3.08	1.94	1.61
79,580	52,578	47,710	68,288	43,300	23,999
1,990	1,986	1,987	1,986	1,987	1,988
39.99	26.47	24.01	34.38	21.79	12.07

**PHILADELPHIA GAS WORKS**  
 (A Component Unit of the City of Philadelphia)  
 Demographic and Economic Statistics  
 Principal Employers  
 Current Calendar Year and Nine Years Ago

2013	2004
Albert Einstein Medical	Albert Einstein Medical
Children's Hospital of Philadelphia	City of Philadelphia
City of Philadelphia	Hospital of the University of Pennsylvania
Comcast Corporation	School District of Philadelphia
Hospital of the University of Pennsylvania	SEPTA
School District of Philadelphia	Temple University
SEPTA	Tenet Health System
Temple University	Thomas Jefferson University Hospitals
Thomas Jefferson University Hospitals	United States Postal Service
University Of Pennsylvania	University Of Pennsylvania

*Listed Alphabetically*  
*Source - City of Philadelphia*

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Demographic and Economic Statistics  
Calendar Years 2003 through 2012

<u>Calendar Year</u>	<u>Population (1)</u>	<u>Personal Income (Thousands of US Dollars) (2)</u>	<u>Per Capita Personal Income (US Dollars)</u>	<u>Unemployment Rate (3)</u>
2012	1,547,607	63,161,352 (4)	40,812	10.5%
2011	1,536,471	59,985,889 (4)	39,074	10.8%
2010	1,526,006	56,970,074	37,333	10.8%
2009	1,547,297	54,061,223	34,939	9.6%
2008	1,540,351	54,262,716	35,228	7.1%
2007	1,530,031	50,672,227	33,118	6.0%
2006	1,520,251	47,566,075	31,288	6.2%
2005	1,517,628	44,944,207	29,615	6.7%
2004	1,514,658	43,463,015	28,695	7.3%
2003	1,510,068	42,198,628	27,945	7.5%

*Sources:*

*(1) US Census Bureau*

*(2) US Department of Commerce, Bureau of Economic Analysis*

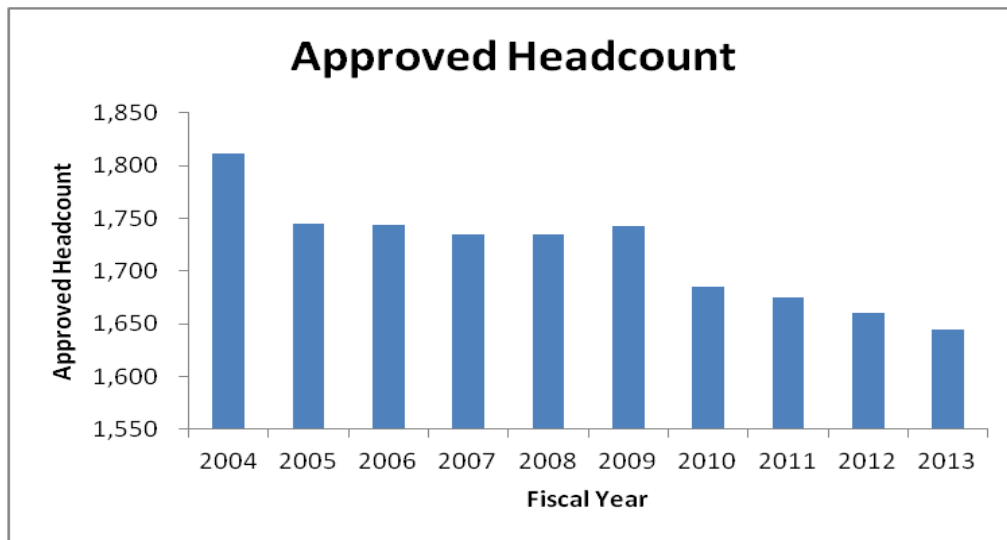
*(3) US Department of Labor, Bureau of Labor Statistics*

*(4) Estimated using the rate of growth for the previous year*

**PHILADELPHIA GAS WORKS**  
 (A Component Unit of the City of Philadelphia)  
 Budgeted Full-Time Personnel by Department  
 Fiscal Years 2004 through 2013

<b>Departments</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
President & Chief Executive Officer	3	3	2	2	2
Chief Operating Officer	2	2	3	2	2
Chief Financial Officer	2	2	-	-	-
Gas processing	125	119	119	119	123
Field services	366	371	371	341	342
Distribution	468	467	467	467	467
Collection	31	35	36	91	104
Customer service	190	198	207	207	208
Marketing	46	41	34	34	30
Administrative and general	445	454	463	459	460
<b>PGW Total</b>	<b>1,678</b>	<b>1,692</b>	<b>1,702</b>	<b>1,722</b>	<b>1,738</b>
Personnel savings	(38)	(37)	(32)	(42)	-
Philadelphia Gas Commission	5	5	5	5	5
<b>Grand Total</b>	<b>1,645</b>	<b>1,660</b>	<b>1,675</b>	<b>1,685</b>	<b>1,743</b>

*Source - PGW's Annual Operating Budget*



<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
2	2	3	4	2
2	7	5	6	6
-	-	-	-	-
133	133	141	141	147
342	342	359	359	375
470	470	476	476	476
110	92	132	128	126
194	214	199	193	194
30	30	32	30	36
465	463	457	451	516
<u>1,748</u>	<u>1,753</u>	<u>1,804</u>	<u>1,788</u>	<u>1,878</u>
(18)	(23)	(65)	(48)	(73)
<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>7</u>
<u><u>1,735</u></u>	<u><u>1,735</u></u>	<u><u>1,744</u></u>	<u><u>1,745</u></u>	<u><u>1,812</u></u>

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Operating Indicators  
Fiscal Years 2004 through 2013

	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>Financial</b>			
Debt service ratio (1975 Ordinance)	5.58	4.75	6.06
Debt service ratio (1998 Ordinance)	2.90	1.75	2.15
Debt to total capital ratio	75.2%	78.0%	79.7%
Bad debt as a % of revenue	5.8%	5.7%	4.7%
Bad debt reserve as a % of accounts receivable	51.9%	54.4%	50.3%
Collection factor (receipts/billings)	91.9%	96.6%	95.1%
Cash balance (Thousands of US dollars)	100,933	75,826	105,386
Natural Gas (NG) storage (Thousands of US dollars)	70,638	73,086	78,579
<b>Payroll</b>			
Total payroll (Thousands of US dollars)	110,120	106,308	106,125
Overtime (Thousands of US dollars)	9,495	7,948	9,700
Overtime as a % of Total Payroll	8.6%	7.5%	9.1%
<b>Liquefied Natural Gas (LNG)</b>			
LNG to storage (Mcf)*	1,677,268	1,422,440	1,286,742
LNG from storage (Mcf)	1,537,601	974,238	1,428,896
Net to (from) storage (Mcf)	139,667	448,202	(142,154)
Off-system sales contributed to GCR (Thousands of US dollars)	743	748	867
<b>Natural Gas Cost</b>			
Gas utilized (Mcf)	50,178,147	43,017,936	55,023,503
Gas utilized (Thousands of US dollars)	255,496	233,709	330,926
Cost per Mcf (\$)	5.09	5.43	6.01
<b>Natural Gas Sales Information</b>			
Firm gas sold (Mcf)	44,745,289	38,345,205	48,014,683
Interruptible gas sold (Mcf)	890,383	192,058	1,004,185
Total gas sold (Mcf)	45,635,672	38,537,263	49,018,868
Transportation gas - GTS (Mcf)	26,482,749	24,373,006	25,274,874
Other (Mcf)	1,965,785	1,828,311	3,233,861
Total gas sendout (Mcf)	74,084,206	64,738,580	77,527,603
Unaccounted for gas as a % of total gas sendout	2.0%	3.2%	3.3%
Transportation gas - GTS as a % of total gas sendout	35.7%	37.6%	32.6%
Firm gas sold as a % of total gas sold	98.0%	99.5%	98.0%
<b>Degree Days</b>			
Fiscal Year	3,889	3,037	4,005

\* Mcf = Thousand cubic feet

Source - PGW Records

2010	2009	2008	2007	2006	2005	2004
6.28	5.65	4.28	3.70	3.41	3.35	2.39
2.44	2.13	1.88	2.00	3.08	1.94	1.61
82.2%	82.7%	84.2%	84.8%	81.7%	82.8%	81.9%
4.6%	4.5%	4.4%	4.7%	4.2%	8.2%	8.7%
52.9%	53.8%	58.6%	62.9%	69.4%	70.3%	71.2%
98.7%	93.8%	95.5%	95.8%	96.6%	96.0%	91.4%
79,052	13,750	49,338	51,698	6,697	15,221	3,666
96,097	117,889	179,750	138,388	139,870	121,266	88,821
106,003	107,918	105,596	106,018	102,544	102,500	101,200
8,494	10,171	10,115	10,684	10,342	10,239	9,720
8.0%	9.4%	9.6%	10.1%	10.1%	10.0%	9.6%
1,354,605	562,629	2,034,715	1,831,202	1,471,653	1,988,627	2,394,449
1,117,628	1,545,034	1,280,180	1,948,310	1,083,873	2,199,046	2,609,230
236,977	(982,405)	754,535	(117,108)	387,780	(210,419)	(214,781)
274	27	887	148	298	-	-
51,820,468	55,471,710	53,516,593	58,089,383	55,106,496	64,967,340	64,070,459
353,998	545,859	511,938	539,296	625,076	509,701	450,868
6.83	9.84	9.57	9.28	11.34	7.85	7.04
44,790,670	48,025,175	45,525,366	47,916,423	46,243,516	53,807,745	56,168,608
1,049,318	1,170,128	1,790,721	2,704,526	2,425,862	4,510,515	4,103,424
45,839,988	49,195,303	47,316,087	50,620,949	48,669,378	58,318,260	60,272,032
23,135,876	22,624,136	19,032,066	13,138,867	10,727,487	11,624,395	8,946,447
3,006,018	3,083,181	2,254,504	3,281,849	2,737,355	2,761,332	2,718,350
71,981,882	74,902,620	68,602,657	67,041,665	62,134,220	72,703,987	71,936,829
2.9%	3.1%	2.2%	3.8%	3.1%	2.8%	3.7%
32.1%	30.2%	27.7%	19.6%	17.3%	16.0%	12.4%
97.7%	97.6%	96.2%	94.7%	95.0%	92.3%	93.2%
3,730	4,190	3,746	3,773	3,819	4,333	4,300

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Capital Asset Information  
Calendar Years 2004 through 2013

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Gas main (Miles)	3,025	3,026	3,027	3,029
Services (Miles)	2,779	2,736	2,772	2,815
Number of meters				
Residential/Small commercial	498,765	501,250	497,151	502,145
Large diaphragm	2,579	2,401	2,298	2,245
Rotary	9,778	9,690	9,551	9,513
Turbine	288	289	287	297
Total	<u>511,410</u>	<u>513,630</u>	<u>509,287</u>	<u>514,200</u>

*Source - Gas Annual Report of PGW to the Pennsylvania Public Utility Commission*



<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
3,029	3,022	3,023	3,019	3,016	3,013
2,984	2,829	2,794	2,699	2,775	3,029
503,201	497,472	503,737	505,716	503,879	501,031
2,185	2,113	2,047	2,040	2,753	3,276
9,479	9,322	9,336	9,256	8,541	8,053
291	291	290	286	291	296
<u>515,156</u>	<u>509,198</u>	<u>515,410</u>	<u>517,298</u>	<u>515,464</u>	<u>512,656</u>

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Ten Largest Customers  
Current Fiscal Year and Nine Years Ago  
(Thousands of US dollars)

	2013		2004
Customer 1 (A)	6,863	Customer 1 (C)	9,905
Customer 2 (B)	4,251	Customer 2 (A)	6,547
Customer 3 (C)	3,364	Customer 3 (B)	5,531
Customer 4 (D)	3,069	Customer 4 (E)	4,036
Customer 5	1,979	Customer 5 (G)	1,736
Customer 6 (E)	1,735	Customer 6 (D)	1,618
Customer 7 (F)	1,093	Customer 7 (F)	1,463
Customer 8 (G)	782	Customer 8 (H)	936
Customer 9	756	Customer 9	914
Customer 10 (H)	698	Customer 10	846
Total	24,590	Total	33,532

*Note - A letter designation indicates a repeat customer from the fiscal year 2004 list identified on the fiscal year 2013 list.*

*Source - PGW Records*