PHILADELPHIA GAS WORKS

(A Component Unit of the City of Philadelphia)

Basic Financial Statements and Supplementary Information

August 31, 2020 and 2019

(With Independent Auditors' Reports Thereon)

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

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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 as of and for the year ended August 31, 2020 and 2019, 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Philadelphia Gas Works as of August 31, 2020 and 2019, and the respective changes in financial position and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

KPMG

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 3-17 and the required supplementary information related to net pension and OPEB obligations as listed in the table of contents on pages 87-90 to 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.

KPMG LLP

Philadelphia, Pennsylvania
December 21, 2020

The narrative overview and analysis of the financial statements of Philadelphia Gas Works (the Company or PGW) for the years ended August 31, 2020 and 2019 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 basic financial statements and notes to basic financial statements.

Financial Highlights

- The Fiscal Year (FY) 2020 weather reflected a 15.6% warmer than normal winter. The FY 2020 period was 16.1% warmer than the prior year and firm gas sales decreased by 4.2 billion Cubic Feet (Bcf). The Weather Normalization Adjustment (WNA) Clause, which was in effect from October 2019 through May 2020, resulted in heating customers receiving charges totaling $10.8 million. The FY 2019 reflected a 1.0% colder than normal winter. The FY 2019 period was 0.2% colder than the prior year, but firm gas sales decreased by 1.3 Bcf from the prior year. The WNA Clause, which was in effect from October 2018 through May 2019, resulted in heating customers receiving charges totaling $1.6 million.
- PGW achieved 24-month collection rates of 96.6% in FY 2020, 96.3% in FY 2019, and 95.4% in FY 2018. For FY 2020, the collection rate is calculated by dividing the total gas receipts collected from September 1, 2018 through August 31, 2020 by the total gas billings that were applied to PGW customers' accounts from September 1, 2018 through August 31, 2020. The same methodology was utilized in FY 2019 and FY 2018.
- 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 2020, FY 2019, and FY 2018, had no Gas Works Revenue Capital Project Commercial Paper Notes (Capital Project Notes) or Gas Works Revenue Notes outstanding. The cash balances at the end of FY 2020, FY 2019, and FY 2018 were $172.3 million, $124.1 million, and $131.1 million respectively.
- At December 15, 2020 and December 05, 2019, $120.0 million was available from the commercial paper program. The cash balance on December 15, 2020 and on December 05, 2019 was $107.1 million and $80.3 million, respectively.
- The Company's FY 2021 Capital Budget was approved by the City Council of the City of Philadelphia in an amount not to exceed $213.4 million and funding was provided to continue the implementation of an 18-mile Cast Iron Main Replacement (CIMR) Program. The CIMR Program cost for FY 2021 is expected to be $28.8 million. The total six-year cost of the CIMR Program is forecasted to be $183.2 million.
- On October 21, 2020, the City issued Gas Works Revenue Bonds, Sixteenth Series A (1998 General Ordinance) and Sixteenth Series B (1998 General Ordinance) in the par amount of $203.2 million and $50.8 million, respectively. The Sixteenth Series A Bonds, with fixed interest rates that range from 4.0% to 5.0%, have maturity dates through 2050. The proceeds from the sale of the Sixteenth Series A Bonds were issued to finance a portion of PGW's ongoing Capital Improvement Program, pay the costs of issuing the bonds, and provide a deposit to the Sinking Fund Reserve.

  The Sixteenth Series B Bonds, with fixed interest rates that range from 4.0% to 5.0%, have maturity dates through 2040. The proceeds from the sale of the Sixteenth Series B Bonds were issued to refund the Ninth Series Bonds currently outstanding and pay the costs of issuing the bonds.

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- On February 28, 2020, PGW filed for an increase in its distribution base rates with the Pennsylvania Public Utility Commission (PUC). The filing sought a general rate increase calculated to produce $70.0 million, or 10.5%, in additional annual operating revenues based upon a twenty-year normal weather assumption. The filing also requested to increase the fixed monthly customer charge component, as well as the volumetric delivery charge component of base rates.

  On August 26, 2020, PGW filed a Joint Petition for Partial Settlement (Settlement Agreement) in which all rate case parties joined, or did not oppose, except the Environmental Stakeholders group that is opposing, PGW's rate increase request. The Settlement Agreement provided PGW with a general rate increase of $35.0 million in annual operating revenues in three increments: $10.0 million for service rendered on or after January 1, 2021; $10.0 million on for service rendered on or after July 1, 2021 and $15.0 million for service rendered on or after on January 1, 2022. Settlement agreements with reduced revenue requirements are typical in PUC base rate proceedings and are the product of compromise between the parties' diverse interests. The PUC has indicated that settlement results are often preferable to those achieved at the conclusion of a fully litigated proceeding.

  On November 19, 2020, the PUC entered its Order and Opinion in the case, which granted the exceptions filed by the Commission's Bureau of Investigation and Enforcement (I&E), the Office of Consumer Advocate (OCA), the Office of Small Business Advocate (OSBA), the Philadelphia Industrial and Commercial Gas Users Group (PICGUG), and PGW; modified the ALJ's recommended decision regarding the settled and litigated issues; and approved the Joint Petition for Partial Settlement, in its entirety, without modification. The new rates approved by the Settlement Agreement will become effective on January 1, 2021.

- In FY 2020, the Company adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance Certain Authoritative Guidance (GASB 95)*, as it provides temporary relief to governments and other stakeholders, in light of the COVID-19 pandemic, by postponing the effective dates. For further information, see Note 1(u), New Accounting Pronouncements, of the Financial Statements.

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 comprise the following:

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

The notes to basic 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 three statements presented are as follows:

The balance sheets include all of PGW's assets, liabilities, and deferred inflows and outflows of resources, with the difference between the assets and deferred outflows of resources and liabilities and deferred inflows of resources reported as net position. Over time, increases or decreases in net position are indicators of whether PGW's financial position is improving or deteriorating.

The statements of revenues and expenses and changes in net position present revenues and expenses and their effects on the change in net position during the fiscal year. These changes in net position are recorded as soon as the underlying event giving rise to the change occurs, regardless of when cash is received or paid.

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

Condensed Statements of Revenues and Expenses and Changes in Net Position

(Thousands of U.S. dollars)

		As of August 31		
		2020	**2019**	**2018**
Total gas revenues	$	571,793	664,084	628,254
Other revenues		13,144	20,644	19,245
Total operating revenues		584,937	684,728	647,499
Fuel expense		146,754	206,825	186,265
All other operating expenses		302,082	335,233	343,845
Total operating expenses		448,836	542,058	530,110
Operating income		136,101	142,670	117,389
Interest and other income		5,594	10,788	4,634
Total interest expense		(35,730)	(39,596)	(41,940)
Distribution to the City of Philadelphia		(18,000)	(18,000)	(18,000)
Excess of revenues over expenses		87,965	95,862	62,083
Net position, beginning of year		207,562	111,700	49,617
Net position, end of year	$	295,527	207,562	111,700

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Operating Revenues

Operating revenues in FY 2020 were $584.9 million, a decrease of $99.8 million, or 14.6%, from FY 2019. The decrease resulted from lower natural gas sendout, which was approximately 8.1% lower in FY 2020 when compared to FY 2019, and from a lower Gas Cost Rate (GCR) driven by decreased commodity prices. Operating revenues in FY 2019 were $684.7 million, an increase of $37.2 million, or 5.7%, from FY 2018. The increase resulted from higher natural gas sendout, which was approximately 1.1% higher in FY 2019 when compared to FY 2018, and a base rate increase approved by the PUC in the Settlement Agreement, which became effective December 1, 2017.

Total sales volumes, including gas transportation deliveries, in FY 2020 decreased by 6.1 Bcf, or 8.0%, to 70.3 Bcf from the FY 2019 sales volumes of 76.4 Bcf. In FY 2020, firm gas sales of 39.0 Bcf were 4.2 Bcf, or 9.8%, lower than FY 2019 and interruptible gas sales approximated the FY 2019 level. The volume of natural gas transported for gas transportation customers decreased by 2.2 Bcf to 30.8 Bcf from the 33.0 Bcf level experienced in FY 2019. Total sales volumes, including gas transportation deliveries, in FY 2019 increased by 0.5 Bcf, or 0.7%, to 76.4 Bcf from the FY 2018 sales volumes of 75.9 Bcf. In FY 2019, firm gas sales of 43.2 Bcf were 1.3 Bcf, or 2.9%, lower than FY 2018 and interruptible gas sales approximated the FY 2018 level. The volume of natural gas transported for gas transportation customers increased by 2.3 Bcf to 33.0 Bcf from the 30.7 Bcf level experienced in FY 2018.

Provision for Uncollectible Accounts – The provision for uncollectible accounts in FY 2020 totaled $44.1 million, an increase of $14.1 million, or 47.0%, from FY 2019. The provision for uncollectible accounts in FY 2019 totaled $30.0 million, a decrease of $0.8 million, or 2.6%, from FY 2018. The increase in the provision for uncollectible accounts is partly due to the impact from the COVID-19 pandemic. Since March 2020, PGW has followed the PUC moratorium on shutting off gas services to customers who otherwise would be eligible for shutoff. 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.

In FY 2020, the number of customers served by PGW increased from the previous year and was approximately 524,000 customers. The increase in the number of customers in FY 2020 is primarily due to the impact from the COVID-19 pandemic. Since March 2020, PGW has followed the PUC moratorium on shutting off gas services to customers who otherwise would be eligible for shutoff. The number of customers served by PGW at the end of FY 2019 and FY 2018 was approximately 510,000 and 508,000, respectively. There were approximately 25,000 Commercial accounts, reflecting no change from the previous two fiscal years. Industrial accounts were unchanged from the previous two fiscal years at approximately 700 customers. The number of residential accounts in FY 2020 increased to approximately 497,800 customers, an increase of 13,300 customers from the FY 2019 level, and 15,500 customers from the FY 2018 level.

Operating Expenses

Total operating expenses, including fuel costs, in FY 2020 were $448.8 million, a decrease of $93.3 million, or 17.2%, from FY 2019. The decrease for FY 2020 was mainly caused by decreased natural gas utilization and the amortization of the unfunded actuarially determined pension and other postemployment benefit (OPEB) expenses. Total operating expenses, including fuel costs, in FY 2019 were $542.1 million, an increase of

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$12.0 million, or 2.3%, from FY 2018. The increase for FY 2019 was mainly caused by increased natural gas utilization and increased depreciation expense. These increases were partially offset by decreases in field operation expense, administrative and general, and amortization of the unfunded actuarially determined pension expense.

Cost of Fuel – The cost of natural gas utilized decreased by $60.0 million, or 29.0%, to $146.8 million in FY 2020 compared with $206.8 million in FY 2019. The average commodity price per Thousand Cubic Feet (Mcf) decreased by $1.03, or $43.1 million, while the volume of gas utilized decreased by 4.2 Bcf, 9.2% or $13.2 million. The pipeline supplier refunds in FY 2020 were $14.9 million, as compared to less than $0.1 million in FY 2019, which were offset by an $11.1 million increase in pipeline demand charges.

The cost of natural gas utilized increased by $20.5 million, or 11.0%, to $206.8 million in FY 2019 compared with $186.3 million in FY 2018. The average commodity price per Mcf increased by $0.39, or $17.8 million, while the volume of natural gas utilized decreased by 1.1 Bcf, 2.3%, or $3.0 million. The pipeline supplier refunds in FY 2019 and FY 2018 were less than $0.1 million but demand charges increased by $5.7 million compared to FY 2018. The cost of fuel includes all commodity charges and demand charges net of pipeline refunds.

Variations in the cost of purchased gas are passed through to customers under the GCR provision of PGW's rate schedules. Over recoveries or under recoveries of purchased gas costs are subtracted from or added to gas revenues and are included in other current assets or other current liabilities on the balance sheets, thereby eliminating the effect that recovery of gas costs would otherwise have on net income.

The average natural gas commodity prices for utilized natural gas for FY 2020, FY 2019, and FY 2018 were $2.09, $3.12, and $2.73 per Mcf, respectively.

Other Operating Expenses – Expenditures for street operations, infrastructure improvements, and plant operations in FY 2020 were $101.1 million, a $1.2 million, or 1.2%, increase from the FY 2019 total of $99.9 million. The increase in FY 2020 was caused primarily by higher contract maintenance and material costs for gas processing. The FY 2019 total of $99.9 million was $8.8 million lower than the FY 2018 total of $108.7 million as a result of lower contract maintenance and material costs for distribution and field services.

Additionally, expenses of $97.5 million related to collection and account management, customer services, marketing, and the administrative area decreased by $2.4 million, or 2.4%, in FY 2020 primarily due to lower administrative expenses. This category increased by $5.9 million in FY 2019 compared to FY 2018 primarily due to higher administrative expenses.

Pension expense decreased by $10.8 million, or 35.6%, to $19.5 million in FY 2020 as compared to FY 2019 due primarily to a change in economic and demographic assumptions and a change to the most recently released mortality table as required by GASB. Pension expense decreased by $12.9 million, or 29.9%, to $30.3 million in FY 2019 as compared to FY 2018 due to higher than anticipated earnings.

OPEB expense decreased by $17.5 million, or 61.6%, in FY 2020 as compared to FY 2019 primarily due to updated per capita claim costs and a change to the most recently released mortality table as required by GASB. OPEB expense decreased by $4.5 million, or 13.7%, in FY 2019 as compared to FY 2018 primarily due to higher than anticipated earnings.

Net Depreciation Expense – Net depreciation expense decreased by $4.0 million in FY 2020 compared with FY 2019. Net depreciation expense increased by $11.7 million in FY 2019 compared with FY 2018. The effective composite depreciation rates were 2.1% for FY 2020, FY 2019 and FY 2018. Cost of removal is charged to expense as incurred.

Interest and Other Income – Interest and other income in FY 2020 was $5.2 million lower than FY 2019, as a result of decreased earnings on restricted and unrestricted fund balances. Interest and other income in FY 2019 was $6.2 million higher than FY 2018, as a result of increased earnings on restricted and unrestricted fund balances.

Interest Expense – Total interest expense was $35.7 million in FY 2020, a decrease of $3.9 million, or 9.8%, when compared with FY 2019. Interest on long-term debt was $2.5 million, or 5.4%, lower in FY 2020 when compared to FY 2019. Interest expense was lower in FY 2020 due to the normal amortization of long-term debt. Total interest expense was $39.6 million in FY 2019, a decrease of $2.3 million, or 5.5%, when compared with FY 2018. Interest on long-term debt was $2.3 million, or 4.8%, higher in FY 2019 when compared to FY 2018.

Excess of Revenues over Expenses – In FY 2020, the Company's excess of revenues over expenses was $88.0 million, a decrease of $7.9 million from FY 2019. This decrease is primarily due to lower contribution margins of gas offset by lower pension and OPEB expenses. In FY 2019, the Company's excess of revenues over expenses was $95.9 million, an increase of $33.8 million from FY 2018. This increase is primarily due to greater contribution margins of gas and lower pension and OPEB expenses.

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Condensed Balance Sheets

(Thousands of U.S. dollars)

	As of August 31		
Assets and Deferred Outflows of Resources	**2020**	**2019**	**2018**
Current assets:			
Accounts receivable (net of accumulated provision for uncollectible accounts of $80,422, $66,751, and $66,327 for 2020, 2019, and 2018, respectively)	$ 83,681	85,989	82,611
Restricted investment funds	2,736	71,345	63,646
Cash and cash equivalents, cash designated for capital expenditures, gas inventories, materials, and supplies and other current assets	237,458	193,979	201,417
Total current assets	323,875	351,313	347,674
Noncurrent assets:			
Utility plant, net	1,491,420	1,451,470	1,403,956
Unamortized bond insurance costs	233	258	290
Capital improvement fund	—	—	50,815
Sinking fund, revenue bonds	102,824	106,509	103,255
Other assets	41,000	43,156	40,650
Total noncurrent assets	1,635,477	1,601,393	1,598,966
Total assets	1,959,352	1,952,706	1,946,640
Deferred outflows of resources:			
Accumulated fair value of hedging derivatives	13,888	10,332	594
Unamortized losses on bond refunding	31,947	36,776	42,054
Deferred outflows related to pension	24,408	14,421	24,943
Deferred outflows related to OPEB	61,198	91,175	81,048
Total deferred outflows	131,441	152,704	148,639
Total assets and deferred outflows of resources	$ 2,090,793	2,105,410	2,095,279

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Condensed Balance Sheets

(Thousands of U.S. dollars)

Net Position, Liabilities, and Deferred Inflows of Resources		As of August 31 2020	2019	2018
Net position:				
Net investment in capital assets	$	523,543	494,460	432,354
Restricted		105,560	109,220	105,901
Unrestricted		(333,576)	(396,118)	(426,555)
Total net position		295,527	207,562	111,700
Noncurrent liabilities:				
Long-term revenue bonds		936,721	999,474	1,062,763
Other noncurrent liabilities		63,395	65,482	55,889
Net pension liability		237,562	247,246	261,261
Net OPEB liability		248,209	336,079	378,888
Total noncurrent liabilities		1,485,887	1,648,281	1,758,801
Current liabilities:				
Current portion of revenue bonds		63,103	62,946	62,709
Other current liabilities		126,605	98,517	112,669
Total current liabilities		189,708	161,463	175,378
Deferred inflows of resources:				
Deferred inflows related to pension		28,147	18,230	13,266
Deferred inflows related to OPEB		91,524	69,874	36,134
Total deferred inflows		119,671	88,104	49,400
Total net position, liabilities, and deferred inflows of resources	$	2,090,793	2,105,410	2,095,279

Assets

Accounts Receivable – In FY 2020, accounts receivable (net) of $83.7 million decreased by $2.3 million, or 2.7%, from FY 2019 due to an increase in the accumulated provision for uncollectible accounts during FY 2020. Since March 2020, PGW has followed the PUC moratorium on shutting off gas services to customers who otherwise would be eligible for shutoff In FY 2019, accounts receivable (net) of $86.0 million increased by $3.4 million, or 4.1%, from FY 2018 due to higher gas revenue during FY 2019, which resulted from increased sales and GCR driven by increased commodity prices for natural gas. The accumulated provision for uncollectible accounts at August 31, 2020 reflects a balance of $80.4 million, an increase of $13.6 million compared to the $66.8 million balance in FY 2019. The increase in the accumulated provision for uncollectible accounts is due to the impact from the COVID-19 pandemic. The balance was $66.3 million in FY 2018. Net write-offs for FY 2020 were $30.4 million as compared to $29.6 million in FY 2019 and FY 2018.

Cash and Cash Equivalents, Gas Inventories, Materials, and Supplies, and Other Current Assets – In FY 2020, cash and cash equivalents totaled $172.3 million, an increase of $48.2 million from the FY 2019 total of $124.1 million. The increased cash balance at the end of FY 2020 was primarily the result of lower than expected capital expenditures and two natural pipeline refunds received prior to the end of the fiscal year. Cash and cash equivalents totaled $131.1 million in FY 2018. In FY 2020, gas inventories, materials, and supplies totaled $46.7 million, a decrease of $5.0 million from the FY 2019 total of $51.7 million. In FY 2020, gas storage totaled $35.9 million, a decrease of $5.4 million, or 13.1%, when compared to FY 2019. The decrease in gas inventory reflects a decrease in the price per Mcf of gas stored in inventory. Actual volumes in storage as of August 31, 2020 were 15.0 Bcf. In FY 2019, gas inventories, materials, and supplies totaled $51.7 million, a decrease of $0.7 million from the FY 2018 total of $52.4 million. In FY 2019, gas storage totaled $41.3 million, a decrease of $0.4 million, or 0.9%, when compared to FY 2018. The decrease in gas inventory reflects a decrease in the price per Mcf of gas stored in inventory. Actual volumes in storage as of August 31, 2019 and 2018 were 14.5 Bcf. Other current assets totaled $18.5 million in FY 2020, an increase of $0.4 million from FY 2019. The increase in other current assets in FY 2020 is primarily a result of an increase in prepaid excess liability insurance, prepaid software prepayments, and advanced engineering services, which was offset partially by a decrease in the deferred GCR. Other current assets totaled $18.1 million FY 2019, an increase of $0.1 million from FY 2018.

Restricted Investment Funds – Restricted Investment Funds include the current portion of the Capital Improvement Fund and the Workers' Compensation Escrow Fund. Restricted Investment Funds decreased by $68.6 million in FY 2020 due to the drawdown of all proceeds and interest earnings of the Capital Improvement Fund. The balances of the current portion of the Capital Improvement Fund at August 31, 2020, 2019, and 2018 were $0.0 million, $68.6 million, and $61.0 million, respectively. PGW withdrew $69.4 million, $45.0 million, and $55.0 million to finance various capital initiatives in FY 2020, FY 2019, and FY 2018, respectively. Pursuant to the Pennsylvania Department of Labor and Industry Bureau of Workers' Compensation Self-Insurance policy, the Company has established and maintains a restricted trust account. As of August 31, 2020, 2019, and 2018, the trust account balances were $2.7 million, $2.7 million and $2.6 million, respectively.

Utility Plant and Other Noncurrent Assets – In FY 2020, noncurrent assets including utility plant, net, the long-term portion of the Capital Improvement Fund, the revenue bonds' Sinking Fund, and unamortized bond insurance costs, totaled $1,635.5 million, an increase of $34.1 million from FY 2019. In FY 2019, noncurrent assets including utility plant, net, the long-term portion of the Capital Improvement Fund, the revenue bonds' Sinking Fund, and unamortized bond insurance costs totaled $1,601.4 million, an increase of $2.4 million from FY 2018. Utility plant, net, totaled $1,491.4 million in FY 2020, an increase of $39.9 million, or 2.7%, compared with the FY 2019 balance. Utility plant, net, totaled $1,451.5 million in FY 2019, an increase of $47.5 million, or 3.4%, compared with the FY 2018 balance. Capital expenditures for construction of distribution facilities, purchase of equipment, information technology enhancements, and other general improvements were

$99.3 million in FY 2020 compared to $110.5 million in FY 2019 and $123.4 million in FY 2018. A portion of the proceeds from the sale of the Fifteenth Series Bonds was utilized to finance a portion of PGW's ongoing Capital Improvement Fund. 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 additional information on the Company's capital assets, see note 1(g) *Utility Plant* of the basic financial statements.

In early 2012, Act 11 was enacted by the Pennsylvania Legislature. Act 11 permitted public utilities to file a request with the PUC for the implementation of a Distribution System Improvement Charge (DSIC). A DSIC permits natural gas distribution companies to recover the costs related to main and service replacement not already recovered in base rates. This legislation provides utility companies with a supplemental recovery mechanism for costs related to incremental/accelerated distribution system repair, improvement, and replacement. Act 11 permits gas utilities to recover 5.0% of their nongas revenues via the recovery mechanism and permits greater percentage increases if approved by the PUC. The Company started billing customers a DSIC surcharge as of July 1, 2013. On September 1, 2015, PGW proposed an increase in the DSIC from 5.0% to 7.5% of distribution revenues and to levelize and annualize the DSIC. The PUC issued an Order and Opinion granting PGW's request to increase its DSIC to 7.5% on January 28, 2016 which went into effect on February 1, 2016. In FY 2020 and FY 2019, the Company billed customers $31.8 million and $35.6 million, respectively, for the DSIC surcharge. The DSIC surcharge is fully reconcilable on a calendar-year basis. For additional information, see note 1(h) *Revenue Recognition* of the basic financial statements.

Deferred Outflows of Resources Related to Hedging Derivatives and Bond Refunding – Deferred outflows of resources represent amounts that will result in a reduction of net position in a subsequent period. Deferred outflows of resources include the accumulated fair value of hedging derivatives that will be recognized in the statement of revenues and expenses and changes in net position upon termination of the hedging relationship, and unamortized losses on bond refunding. Deferred outflows of resources related to hedging derivatives and bond refunding decreased $1.3 million in FY 2020 from the FY 2019 total of $47.1 million. Deferred outflows increased $4.4 million in FY 2019 from the FY 2018 total of $42.7 million.

Deferred Outflows of Resources Related to Pension – Deferred outflows of resources represent amounts that will result in a reduction of net position in a subsequent period. Deferred outflows of resources include increases in the pension liability that will be amortized into pension expense in future periods. Deferred outflows of resources relating to pension increased $10.0 million, or 69.4%, in FY 2020 from the FY 2019 total of $14.4 million. Deferred outflows of resources decreased $10.5 million, or 42.2%, in FY 2019 from the FY 2018 total of $24.9 million.

Deferred Outflows of Resources Related to OPEB – Deferred outflows of resources represent amounts that will result in a reduction of net position in a subsequent period. Deferred outflows of resources include increases in the OPEB liability that will be amortized into OPEB expense in future periods. Deferred outflows of resources relating to OPEB decreased $30.0 million, or 32.9%, in FY 2020 from the FY 2019 total of $91.2 million. Deferred outflows increased $10.2 million in FY 2019 from the FY 2018 restated total of $81.0 million.

Liabilities

Long-Term Revenue Bonds – Long-term revenue bonds, including the current portion and unamortized discount and premium, totaled $999.8 million as of August 31, 2020. This was $62.6 million less than the previous year primarily as a result of scheduled principal payments. This represents 77.2% of total capitalization as of August 31, 2020. Long-term revenue bonds, including the current portion and unamortized discount and premium, totaled $1,062.4 million as of August 31, 2019. This was $63.1 million less than the previous year primarily as a result of scheduled principal payments. This represents 83.7% of total capitalization as of August 31, 2019. Long-term revenue bonds, including the current portion and unamortized discount and premium, totaled $1,125.5 million in FY 2018. This was $49.9 million less than the previous year as a result of scheduled principal payments. Long-term debt represented 91.0% of total capitalization in as of August 31, 2018. For additional information, see note 8, *Long-Term Debt and Other Liabilities* of the basic 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. At August 31, 2020, only Senior 1998 Ordinance Bonds were outstanding. At August 31, 2020, debt service coverage on Senior 1998 Ordinance Bonds was 2.20 times, compared to 2.33 and 2.35 times at August 31, 2019 and 2018, respectively. PGW's current bond ratings are "A3" from Moody's Investors Service (Moody's), "A" from Standard & Poor's Rating Service (S&P), and "BBB+" from Fitch Ratings.

Current Portion of Revenue Bonds and Notes Payable – Pursuant to the provisions of the City of Philadelphia Note Ordinances, PGW may sell short-term notes to either support working capital requirements or pay the costs of certain capital projects and other project costs. PGW may issue short-term notes in a principal amount, which, together with interest, may not exceed $150.0 million outstanding to support working capital requirements. PGW may also sell additional short-term notes in an aggregate principal amount, which may not exceed $120.0 million outstanding at any time to pay the costs of certain capital projects and other project costs. As of December 1, 2017, all notes are supported by a Note Purchase and Credit Agreement and a security interest in PGW's revenues. Prior to that, all notes were supported by two irrevocable letters of credit and a security interest in PGW's revenues. The note purchase agreement supporting PGW's combined commercial paper programs set the maximum level of outstanding notes plus interest at $120.0 million in FY 2020. The letters of credit supporting PGW's combined commercial paper programs set the maximum level of outstanding notes plus interest at $120.0 million in FY 2019 and FY 2018. There were no Capital Project Notes or Gas Works Revenue Notes outstanding at August 31, 2020, 2019, or 2018.

Other Current Liabilities – As of August 31, 2020, other current liabilities totaled $31.1 million, an increase of $24.9 million from FY 2019, due to the over-recovery of GCR and surcharges and increased natural gas deferred refunds. As of August 31, 2019 and 2018, the total was $6.2 million and $15.2 million, respectfully. As of August 31, 2020, accounts payable totaled $69.7 million, an increase of $2.2 million, or 3.3%, compared with FY 2019 primarily due to an increase in unbilled liabilities, which was partially offset by a decrease in general accounts payable and natural gas payable. As of August 31, 2019, accounts payable totaled $67.5 million, a decrease of $5.1 million, or 7.0%, compared with August 31, 2018 primarily due to a decrease in unbilled natural gas costs.

Other Noncurrent Liabilities – As of August 31, 2020, other noncurrent liabilities totaled $63.4 million, a decrease of $2.1 million compared to August 31, 2019. The decrease in FY 2020 is primarily due to the change in the value of the pollution remediation liabilities offset by the changes in the interest rate swaps. As of August 31, 2019, other noncurrent liabilities totaled $65.5 million, an increase of $9.6 million compared to August 31, 2018. The increase in FY 2019 is primarily due to the change in the value of the interest rate swaps and pollution remediation liabilities.

Net OPEB Liability – The net OPEB obligation was $248.2 million as of August 31, 2020, an $87.9 million decrease from the $336.1 million obligation as of August 31, 2019. The net OPEB obligation was $336.1 million as of August 31, 2019, a $42.8 million decrease from the $378.9 million obligation as of August 31, 2018. The decreases in FY 2020 and FY 2019 were caused by changes in benefit, demographic, and mortality assumptions.

Net Pension Liability – There was a decrease in the net pension liability of $9.6 million, or 3.9%, in FY 2020 as compared to FY 2019. The decrease was caused by changes in demographic and mortality assumptions. The decrease in the net pension liability of $14.1 million, or 5.4%, in FY 2019 as compared to FY 2018 was primarily driven by higher than anticipated earnings in FY 2019.

Deferred Inflows of Resources Related to Pension – Deferred inflows of resources represent amounts that will result in an increase of net position in a subsequent period. Deferred inflows of resources represent the difference between actual and expected earnings on pension plan investments. The increase in deferred inflows of resources related to pension of $9.9 million as of August 31, 2020 as compared to August 31, 2019 is primarily related to changes in demographic and mortality assumptions in FY 2020. The increase in deferred inflows of resources related to pension of $4.9 million in as of August 31, 2019 as compared to August 31, 2018 is primarily related to changes in investment performance in FY 2019. There were $13.3 million in deferred inflows of resources related to pension at August 31, 2018.

Deferred Inflows of Resources Related to OPEB – Deferred inflows of resources represent amounts that will result in an increase of net position in a subsequent period. Deferred inflows of resources were recognized as a result of the implementation of GASB 75 and represent the difference between actual and expected earnings on OPEB plan investments. Deferred inflows of resources related to OPEB as of August 31, 2020 were $91.5 million as compared to $69.9 million as of August 31, 2019. The increase in deferred inflows of resources related to OPEB of $21.6 million, or 30.9%, between FY 2020 and FY 2019 is primarily driven by benefit, demographic, and mortality assumptions. There were $36.1 million in deferred inflows of resources related to OPEB at August 31, 2018.

Net Position – At August 31, 2020, total net position totaled $295.5 million, an increase of $87.9 million compared to August 31, 2019. The increase in FY 2020 is due to an excess of revenues over expenses generated by PGW operations during FY 2020. As of August 31, 2020, unrestricted net position totaled negative $333.6 million, an increase of $62.5 million compared to August 31, 2019. As of August 31, 2019, total net position totaled $207.6 million, an increase of $95.9 million as compared to August 31, 2018. As of August 31, 2019, unrestricted net position totaled negative $396.1 million, an increase of $30.5 million compared to August 31, 2018. Due to the long-term nature of the Company's net pension and OPEB liability, the Company's negative unrestricted net position is not indicative of its near-term liquidity.

Other Financial Factors

Recent Rate Filings

On May 9, 2013, the PUC entered an order approving PGW's DSIC. The DSIC permitted PGW to recover reasonable and prudent costs incurred to repair, improve, or replace certain eligible distribution property that is part of the utility's distribution system, in an amount up to 5.0% of distribution revenues. On September 1, 2015, PGW proposed an increase in the DSIC from 5.0% to 7.5% of distribution revenues and to levelize and annualize the DSIC. The PUC issued an Order and Opinion granting PGW's request to increase its DSIC to 7.5% on January 28, 2016 (January 28 Order). The increase, from $22.0 million to $33.0 million per year, will generate approximately $11.0 million in additional revenue to fund PGW's accelerated pipeline replacement program. The January 28 Order also permits PGW to levelize and annualize DSIC recovery, which will provide PGW with more predictable cash flow and may help mitigate overcollections and undercollections. PGW's increased DSIC charge of 7.5% became effective on February 1, 2016.

On July 6, 2016, the PUC issued an Order and Opinion that permitted PGW to recover an additional $11.4 million in DSIC undercollections for the year ended December 31, 2015, over the course of two years. This results in a temporary increase in the DSIC of an additional $5.7 million a year for two years, for a total DSIC rate of 8.84%. PGW implemented the temporary increase on October 1, 2016. This temporary increase terminated on September 30, 2018. PGW will consider the effectiveness of the accelerated CIMR Program funded by the DSIC surcharge, evaluate the effect of the DSIC on customers, and assess PGW's ability to effectively implement the level of accelerated pipeline replacement associated with the 7.5% DSIC (or higher levels) prior to requesting an increase in the DSIC.

On February 27, 2017, PGW filed for an increase in its distribution base rates with the PUC. The filing sought a general rate increase calculated to produce $70.0 million, or 11.6%, in additional annual operating revenues based upon a ten-year normal weather assumption. The filing also requested to increase the fixed customer charge component, as well as the volumetric delivery charge component of base rates.

On July 21, 2017, PGW filed a Joint Petition for Partial Settlement (Settlement Agreement) of the matter for settlement of all but two issues in the case (neither of which directly concerned PGW's revenue request). The Settlement Agreement provided PGW with a general rate increase of $42.0 million in annual operating revenues calculated using a twenty-year normal weather assumption. PGW has determined the estimated pro forma revenue impact from the change from ten-year normal weather (less Heating Degree Days (HDDs)) to twenty-year normal weather (more HDDs) is approximately an additional $17.0 million per year over the forecast period. Settlement agreements with reduced revenue requirements are typical in PUC base rate proceedings and are the product of compromise between the parties' diverse interests. The PUC has indicated that settlement results are often preferable to those achieved at the conclusion of a fully litigated proceeding.

On November 8, 2017, the PUC entered its Order and Opinion in the case, which approved the Settlement Agreement without modification (and found in favor of PGW on the two nonsettled issues). Thereafter, PGW made its Compliance Tariff filing on November 14, 2017. The new rates approved by the PUC in the Settlement Agreement became effective on December 1, 2017.

(Continued)

On February 28, 2020, PGW filed for an increase in its distribution base rates with the PUC. The filing sought a general rate increase calculated to produce $70.0 million, or 10.5%, in additional annual operating revenues based upon a twenty-year normal weather assumption. The filing also requested to increase the fixed monthly customer charge component, as well as the volumetric delivery charge component of base rates.

On August 26, 2020, PGW filed a Joint Petition for Partial Settlement (Settlement Agreement) in which all rate case parties joined or did not oppose except the Environmental Stakeholders group that is opposing PGW's rate increase request. The Settlement Agreement provided PGW with a general rate increase of $35.0 million in annual operating revenues in three increments: $10.0 million for service rendered on or after January 1, 2021; $10.0 million on for service rendered on or after July 1, 2021 and $15.0 million for service rendered on or after on January 1, 2022. Settlement agreements with reduced revenue requirements are typical in PUC base rate proceedings and are the product of compromise between the parties' diverse interests. The PUC has indicated that settlement results are often preferable to those achieved at the conclusion of a fully litigated proceeding. The PUC must issue a final opinion and order in this matter by December 3, 2020.

Upcoming Accounting Standards

Effective for the Year Ending August 31, 2021

GASB Statement No. 84, *Fiduciary Activities* (GASB 84), establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. As originally scheduled, certain accounting and financial reporting provisions of GASB 84 would have taken effect for periods beginning after December 15, 2018 (the Company's fiscal year ending August 31, 2020). GASB 95 postpones the effective date of GASB 84 by twelve months and the requirements of GASB 84 will now take effect for periods beginning after December 15, 2019 (the Company's fiscal year ending August 31, 2021). The Company is currently evaluating the impact of GASB 84 on its financial statements, and anticipates that certain pension and other postemployment benefit arrangements will be reported under the standard as fiduciary funds.

GASB Statement No. 90, *Majority Equity Interest* - an amendment of GASB Statements No. 14 and No. 61 (GASB 90), provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. GASB 90 defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. As originally scheduled, certain accounting and financial reporting provisions of GASB 90 would have taken effect for periods beginning after December 15, 2018 (the Company's fiscal year ending August 31, 2020). GASB 95 postpones the effective date of GASB 90 by twelve months and the requirements of GASB 90 will now take effect for periods beginning after December 15, 2019 (the Company's fiscal year ending August 31, 2021). The Company is currently evaluating the impact of GASB 90 on its financial statements, and anticipates that the adoption of this statement will not have a material impact on the financial statements.

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.

PHILADELPHIA GAS WORKS

(A Component Unit of the City of Philadelphia)

Balance Sheets

August 31, 2020 and 2019

(Thousands of U.S. dollars)

Assets		**2020**	**2019**
Current assets:			
Cash, cash equivalents, and short-term investments	$	172,267	124,145
Accounts receivable (net of provision for uncollectible accounts of $80,422 and $66,751 for 2020 and 2019, respectively)		83,681	85,989
Gas inventories, materials, and supplies		46,706	51,691
Current portion of capital improvement fund		—	68,634
Workers' compensation escrow fund		2,736	2,711
Other current assets		18,485	18,143
Total current assets		323,875	351,313
Noncurrent assets:			
Utility plant, at original cost:			
In service		2,585,092	2,486,973
Under construction		86,349	87,826
Total		2,671,441	2,574,799
Less accumulated depreciation		1,180,021	1,123,329
Utility plant, net		1,491,420	1,451,470
Sinking fund, revenue bonds		102,824	106,509
Unamortized bond insurance costs		233	258
Regulatory asset – environmental		33,758	37,102
Other noncurrent assets		7,242	6,054
Total noncurrent assets		1,635,477	1,601,393
Total assets		1,959,352	1,952,706
Deferred Outflows of Resources			
Accumulated fair value of hedging derivatives		13,888	10,332
Unamortized losses on bond refunding		31,947	36,776
Deferred outflows related to pension		24,408	14,421
Deferred outflows related to OPEB		61,198	91,175
Total deferred outflows of resources		131,441	152,704
Total assets and deferred outflows of resources	$	2,090,793	2,105,410

See accompanying notes to basic financial statements.

PHILADELPHIA GAS WORKS

(A Component Unit of the City of Philadelphia)

Balance Sheets

August 31, 2020 and 2019

(Thousands of U.S. dollars)

Liabilities		**2020**	**2019**
Current liabilities:			
Current portion of revenue bonds	$	63,103	62,946
Accounts payable		69,657	67,530
Current portion of long-term liabilities		6,463	6,313
Customer deposits		2,282	3,090
Other current liabilities		31,088	6,178
Accrued accounts:			
Interest, taxes, and wages		14,115	12,406
Distribution to the City		3,000	3,000
Total current liabilities		189,708	161,463
Noncurrent liabilities:			
Long-term revenue bonds		936,721	999,474
Other noncurrent liabilities		63,395	65,482
Net pension liability		237,562	247,246
Net OPEB liability		248,209	336,079
Total noncurrent liabilities		1,485,887	1,648,281
Total liabilities		1,675,595	1,809,744
Deferred Inflows of Resources			
Deferred inflows related to pension		28,147	18,230
Deferred inflows related to OPEB		91,524	69,874
Total deferred inflows of resources		119,671	88,104
Total liabilities and deferred inflows of resources		1,795,266	1,897,848
Net Position			
Net investment in capital assets		523,543	494,460
Restricted (debt service)		102,824	106,509
Restricted (workers' compensation)		2,736	2,711
Unrestricted		(333,576)	(396,118)
Total net position		295,527	207,562
Total liabilities, deferred inflows of resources, and net position	$	2,090,793	2,105,410

See accompanying notes to basic financial statements.

PHILADELPHIA GAS WORKS

(A Component Unit of the City of Philadelphia)

Statements of Revenues and Expenses and Changes in Net Position

Years ended August 31, 2020 and 2019

(Thousands of U.S. dollars)

		2020	2019
Operating revenues:			
Gas revenues:			
Nonheating	$	21,599	25,065
Gas transport service		62,846	63,565
Heating		531,436	605,437
Provision for uncollectible accounts		(44,088)	(29,983)
Total gas revenues		571,793	664,084
Appliance and other revenues		6,190	7,908
Other operating revenues		6,954	12,736
Total operating revenues		584,937	684,728
Operating expenses:			
Natural gas		146,754	206,825
Gas processing		24,316	22,028
Field operations		78,699	79,341
Collection and account management		12,408	12,490
Customer services		13,686	13,983
Marketing		3,999	4,232
Administrative and general		65,521	67,649
Pensions		19,473	30,268
Other postemployment benefits		10,862	28,351
Taxes		8,957	8,705
Total operating expenses before depreciation		384,675	473,872
Depreciation		64,161	68,186
Net depreciation		64,161	68,186
Total operating expenses		448,836	542,058
Operating income		136,101	142,670
Interest and other income		5,594	10,788
Income before interest expense		141,695	153,458
Interest expense:			
Long-term debt		43,552	46,136
Other		(5,962)	(5,245)
Allowance for funds used during construction		(1,860)	(1,295)
Total interest expense		35,730	39,596
Distribution to the City of Philadelphia		(18,000)	(18,000)
Excess of revenues over expenses		87,965	95,862
Net position, beginning of year		207,562	111,700
Net position, end of year	$	295,527	207,562

See accompanying notes to basic financial statements.

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

Statements of Cash Flows

Years ended August 31, 2020 and 2019

(Thousands of U.S. dollars)

		2020	2019
Cash flows from operating activities:			
Receipts from customers	$	633,700	686,300
Payments to suppliers		(352,832)	(397,440)
Payments to employees		(130,485)	(127,621)
Claims paid		(2,091)	(2,922)
Other receipts		37,500	15,100
Net cash provided by operating activities		185,792	173,417
Cash flows from non-capital activities:			
Income (loss) from nonutility operations		(706)	6,150
Interest and fees		849	(216)
Distribution to the City of Philadelphia		(18,000)	(18,000)
Net cash used in non-capital activities		(17,857)	(12,066)
Cash flows from investment activities			
Sinking fund reserve deposits		(2,815)	(3,254)
Sinking fund reserve withdrawals		6,500	—
Capital improvement fund deposits		(725)	(1,819)
Capital improvement fund withdrawals		69,359	45,000
Interest income / capital gain from short-term investments		2,190	1,964
Interest income / capital gain on capital improvement fund		914	1,094
Interest income / capital gain on sinking fund		3,197	1,579
Net cash provided by investment activities		78,620	44,564
Cash flows from capital and related financing activities:			
Purchases of capital assets		(104,111)	(115,699)
Principal paid on long-term debt		(52,870)	(51,820)
Interest paid on long-term debt		(43,312)	(46,597)
Other		1,860	1,295
Net cash (used in) capital and related financing activities		(198,433)	(212,821)
Net (decrease) in cash and cash equivalents		48,122	(6,906)
Cash and cash equivalents at beginning of year		124,145	131,051
Cash and cash equivalents at end of year	$	172,267	124,145
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	136,101	142,670
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization expense		64,161	68,186
Provision for uncollectible accounts		44,088	29,983
Change in assets and liabilities:			
Receivables, net		(41,805)	(33,425)
Gas inventories, materials, and supplies		4,985	673
Other current assets		(342)	(141)
Other assets and deferred outflows of resources		18,590	(11,850)
Accounts payable		2,127	(5,090)
Customer deposits		(808)	446
Other current liabilities		25,060	(9,945)
Accrued accounts		1,709	437
Other liabilities, deferred inflows of resources, net OPEB and pension liabilities		(68,074)	(8,527)
Net cash provided by operating activities	$	185,792	173,417

See accompanying notes to basic financial statements.

(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 accounted for as a component unit of the City, and consequently follows accounting principles promulgated by the Governmental Accounting Standards Board (GASB) as they apply to business 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

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, which among other things, provided for an unbundled tariff permitting customer choice of the commodity supplier. Under the Act, the PUC is required to follow the same ratemaking methodology and requirements that were previously applicable to the Philadelphia Gas Commission (PGC) when determining the Company's revenue requirements and approving overall rates and tariffs. Tariff Rates are designed to maintain revenue neutrality and the Tariff Rules and Regulations are designed to comport with the Pennsylvania Public Utility Code. For additional information related to PGW's tariff and base rates, see note 1(d) Base Rates.

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.

(b) Operating Budget

On April 22, 2020, PGW filed a proposed Fiscal Year (FY) 2021 Operating Budget with the PGC. The PGC Hearing Examiners conducted Informal Discovery (ID) sessions on May 18, 2020 and on June 8, 2020. On June 24, 2020 a public hearing was convened via Zoom, due to the COVID-19 pandemic and related government shutdown orders. On July 22, 2020, a recommended decision was rendered by the Hearing Examiners, which proposed adjustments to the Operating Budget as filed. On August 11, 2020, the PGC approved, with adjustments, PGW's FY 2021 Operating Budget. PGW filed a Compliance Budget with the PGC on August 20, 2020.

On February 15, 2019, PGW filed a proposed FY 2020 Operating Budget with the PGC. The PGC Hearing Examiners conducted ID sessions on May 9, 2019 and on May 15, 2019 and a public hearing was convened by the Hearing Examiners to address PGW's Operating Budget on June 13, 2019. On July 11, 2019, a recommended decision was rendered by the Hearing Examiners, which proposed adjustments to the Operating Budget as filed. On August 13, 2019, the PGC approved, with adjustments, PGW's FY 2020 Operating Budget. PGW filed a Compliance Budget with the PGC on August 26, 2019.

On June 29, 2018, PGW filed a proposed FY 2019 Operating Budget with the PGC. The PGC Hearing Examiners conducted ID sessions on July 12, 2018, July 24, 2018, and August 1, 2018. On August 28, 2018, a public hearing was convened by the Hearing Examiners to address PGW's Operating Budget. On September 28, 2018, a recommended decision was rendered by the Hearing Examiners, which proposed adjustments to the Operating Budget as filed. On November 14, 2018, the PGC approved, with adjustments, PGW's FY 2019 Operating Budget. PGW filed a Compliance Budget with the PGC on October 26, 2018.

(c) Capital Budget

On January 2, 2020, PGW filed with the PGC its proposed FY 2021 Capital Budget in the amount of $283.6 million. After a due diligence review and related ID process on January 16, 2020, a public hearing was held on February 19, 2020. The PGC's review culminated in the endorsement at a public hearing on April 21, 2020 of an FY 2021 Capital Budget in an amount not to exceed $213.4 million. The endorsed budget was approved by City Council on June 18, 2020 and signed by the Mayor on June 26, 2020. Subsequent to its approval, PGW filed a request to the PGC to amend the FY 2020 Capital Budget to reauthorize seven projects in the FY 2019 Capital Budget to extend the two-year lifespan to complete the projects. Action on this request is pending.

On January 2, 2019, PGW filed with the PGC its proposed FY 2020 Capital Budget in the amount of $149.7 million. After a due diligence review and related ID process on January 16 and 23, 2019, a public hearing was held on February 20, 2019. The PGC's review culminated in the endorsement at a public meeting on April 9, 2019, whereby the PGC endorsed an FY 2020 Capital Budget in an amount not to exceed $127.7 million. The endorsed budget was approved by City Council on June 20, 2019 and signed by the Mayor on June 24, 2019. On May 8, 2019 and August 6, 2019, PGW submitted proposed reauthorization requests related to the Gas Processing Department to the PGC. The requests, upon approval, will increase the FY 2020 Capital Budget by $1.3 million or an amount not to exceed $129.0 million.

On January 2, 2018, PGW filed with the PGC its proposed FY 2019 Capital Budget in the amount of $155.9 million. After a due diligence review and related ID process on January 25, 2018 and February 6 and 13, 2018, a public hearing was held on February 27, 2018. The PGC's review culminated in the endorsement at a public meeting on April 24, 2018, whereby the PGC endorsed an FY 2019 Capital Budget in an amount not to exceed $134.5 million. The endorsed budget was approved by City Council on June 14, 2018 and signed by the Mayor on June 21, 2018. On November 1, 2018, PGW submitted proposed amendments that would increase the FY 2018 and FY 2019 Capital Budgets by $4.7 million and $4.7 million, respectively. A public meeting was held on December 18, 2018, whereby the PGC endorsed an FY 2018 Capital Budget in an amount not to exceed $119.1 million and an FY 2019 Capital Budget in an amount not to exceed $139.2 million. The endorsed budgets were approved by City Council on June 20, 2019 and signed by the Mayor on July 24, 2019.

(d) Base Rates

On February 28, 2020, PGW filed for an increase in its distribution base rates with the PUC. The filing sought a general rate increase calculated to produce $70.0 million, or 10.5%, in additional annual operating revenues based upon a twenty-year normal weather assumption. The filing also requested to increase the fixed monthly customer charge component, as well as the volumetric delivery charge component of base rates.

On August 26, 2020, PGW filed a Joint Petition for Partial Settlement (Settlement Agreement) in which all rate case parties joined or did not oppose, except the Environmental Stakeholders group that is opposing PGW's rate increase request. The Settlement Agreement provided PGW with a general rate increase of $35.0 million in annual operating revenues in three increments: $10.0 million for service rendered on or after January 1, 2021; $10.0 million for service rendered on or after July 1, 2021 and $15.0 million for service rendered on or after on January 1, 2022. Settlement agreements with reduced revenue requirements are typical in PUC base rate proceedings and are the product of compromise between the parties' diverse interests. The PUC has indicated that settlement results are often preferable to those achieved at the conclusion of a fully litigated proceeding. On November 19, 2020, the PUC entered its Order and Opinion in the case, which granted the exceptions filed by the Commission's Bureau of Investigation and Enforcement (I&E), the Office of Consumer Advocate (OCA), the Office of Small Business Advocate (OSBA), the Philadelphia Industrial and Commercial Gas Users Group (PICGUG), and PGW; modified the Administrative Law Judge's (ALJ) recommended decision regarding the settled and litigated issues; and approved the Joint Petition for Partial Settlement, in its entirety, without modification. The new rates approved by the Settlement Agreement will become effective on January 1, 2021.

On February 27, 2017, PGW filed for an increase in its distribution base rates with the PUC. The filing sought a general rate increase calculated to produce $70.0 million, or 11.6%, in additional annual operating revenues based upon a ten-year normal weather assumption. The filing also requested to increase the fixed monthly customer charge component, as well as the volumetric delivery charge component of base rates.

On July 21, 2017, PGW filed a Joint Petition for Partial Settlement (Settlement Agreement) of the matter for settlement of all but two issues in the case (neither of which directly concerned PGW's revenue request). The Settlement Agreement provided PGW with a general rate increase of $42.0 million in annual operating revenues calculated using a twenty-year normal weather assumption. On November 8, 2017, the PUC entered its Order and Opinion in the case, which approved the Settlement Agreement without modification and found in favor of PGW on the two nonsettled issues. Thereafter, PGW made its Compliance Tariff filing on November 14, 2017. The new rates approved by the Settlement Agreement became effective on December 1, 2017.

(e) Weather Normalization Adjustment Clause

The Weather Normalization Adjustment (WNA) Clause was approved by the PUC. The purpose of the WNA Clause 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 Clause results in neither a rate increase nor a rate decrease, but acts as a billing adjustment. The main benefits of the WNA Clause are the stabilization of cash flow and the reduction of the need for short-term borrowing from year to year. The WNA Clause adjustment is applied to customer invoices rendered during the period of October 1 through May 31 of each year for each billing cycle. The WNA Clause adjustment for the year ended August 31, 2020 and 2019 was an increase in billings of $10.8 million and $1.6 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 GCR. The GCR reflects the increases or decreases in natural gas costs and other applicable GCR 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.

At the end of the fiscal year, costs recovered through the GCR and surcharges are compared to the actual cost of fuel and other applicable costs. Customers are then credited or charged for the over recovery or under recovery of costs. The GCR and surcharges charge or 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, 2020, approximately $20.2 million was recorded in other current liabilities for the over recovery of the GCR and surcharges. At August 31, 2019, approximately $2.3 million was recorded in other current assets for the under recovery of the GCR and surcharges. The GCR comprises the purchased gas costs plus the gas adjustment charge minus the interruptible revenue credit.

GCR Effective Dates and Rates

(Amounts in U.S. dollars)

Effective date		GCR rate per Mcf*	Change
December 1, 2020	$	3.8484	0.4377
September 1, 2020		3.4107	(0.2017)
June 1, 2020		3.6124	(0.2885)
March 1, 2020		3.9009	(0.8166)
December 1, 2019		4.7175	0.1145
September 1, 2019		4.6030	0.3306
June 1, 2019		4.2724	(0.6055)
March 1, 2019		4.8779	0.4056
December 1, 2018		4.4723	0.6090
September 1, 2018		3.8633	0.2423

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

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 $5.1 million and $5.7 million was charged to expense as incurred in FY 2020 and FY 2019, respectively, and is included in depreciation in the statements of revenues and expenses and changes in net position. 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 both FY 2020 and FY 2019 was 2.1%. The composite rates are supported by a depreciation study of utility plant as of August 2014. The effective composite depreciation rates, as a percentage of cost, for FY 2020 were as follows:

Production plant	1.57 %
Transmission, distribution, and storage	1.98
General plant	3.29

The most recent depreciation study was completed in FY 2020 for the plant activity subsequent to the last depreciation study and through FY 2019. It is anticipated that PGW will complete the next depreciation study in FY 2025 for the plant activity subsequent to the last depreciation study and through FY 2024.

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 4.95% and 4.80% in FY 2020 and FY 2019, respectively.

The following is a summary of utility plant activity for the fiscal years ended August 31, 2020 and 2019 (thousands of U.S. dollars):

	August 31, 2020			
	Beginning balance	**Additions and transfers**	**Retirements and transfers**	**Ending balance**
Capital assets not being depreciated:				
Land	$ 5,595	—	—	5,595
Under construction	87,826	99,336	(100,813)	86,349
Total capital assets not being depreciated	93,421	99,336	(100,813)	91,944
Other capital assets:				
Distribution and collection systems	1,925,218	93,686	(2,693)	2,016,211
Buildings and equipment	556,160	7,126	—	563,286
Total other capital assets	2,481,378	100,812	(2,693)	2,579,497
Less accumulated depreciation for:				
Distribution and collection systems	(905,390)	(39,771)	(2,089)	(947,250)
Buildings and equipment	(217,939)	(14,329)	(503)	(232,771)
Total accumulated depreciation	(1,123,329)	(54,100)	(2,592)	(1,180,021)
Utility plant, net	$ 1,451,470	146,048	(106,098)	1,491,420

* Cost of removal of approximately $5.1 million was charged to depreciation as incurred in FY 2020 and is not included in accumulated depreciation.

(Continued)

	August 31, 2019			
	Beginning balance	Additions and transfers	Retirements and transfers	Ending balance
Capital assets not being depreciated:				
Land	$ 5,595	—	—	5,595
Under construction	75,953	110,543	(98,670)	87,826
Total capital assets not being depreciated	81,548	110,543	(98,670)	93,421
Other capital assets:				
Distribution and collection systems	1,846,188	84,660	(5,630)	1,925,218
Buildings and equipment	542,519	14,012	(371)	556,160
Total other capital assets	2,388,707	98,672	(6,001)	2,481,378
Less accumulated depreciation for:				
Distribution and collection systems	(863,262)	(38,438)	(3,690)	(905,390)
Buildings and equipment	(203,037)	(14,034)	(868)	(217,939)
Total accumulated depreciation	(1,066,299)	(52,472)	(4,558)	(1,123,329)
Utility plant, net	$ 1,403,956	156,743	(109,229)	1,451,470

* Cost of removal of approximately $5.7 million was charged to depreciation as incurred in FY 2019 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, reconnection charges, and bulk liquefied natural gas sales contracts. Other operating revenues primarily consist of finance charges assessed on delinquent accounts.

In 2012, Act 11 was enacted by the Pennsylvania Legislature, which permitted public utilities to file a request with the PUC for the implementation of a Distribution System Improvement Charge (DSIC). A DSIC permits natural gas distribution companies to recover the costs related to main and service replacement not already recovered in base rates. This legislation provides utility companies with a supplemental recovery mechanism for costs related to incremental/accelerated distribution system repair, improvement, and replacement. Act 11 permits gas utilities to recover 5.0% of their nongas revenues via the recovery mechanism and permits greater percentage increases if the PUC approves. The Company started billing customers a DSIC surcharge as of July 1, 2013. On September 1, 2015, PGW proposed an increase in the DSIC from 5.0% to 7.5% of distribution revenues and to levelize and annualize the DSIC. The PUC issued an Order and Opinion granting PGW's request to increase its DSIC to 7.5% on January 28, 2016 which went into effect on February 1, 2016. In FY 2020 and FY 2019, the Company billed customers $31.8 million and $35.6 million for the DSIC surcharge, respectively. The DSIC surcharge is fully reconcilable on a calendar year basis and at the fiscal year end; the over billed or under billed amount is recorded as an adjustment to revenue.

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.

Revenues include 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 on the statements of revenues and expenses and changes in net position and were $7.8 million and $4.9 million for the years ended August 31, 2020 and 2019, respectively.

(i) Operating Expenses

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

Costs incurred that do not involve normal business operations are recognized as nonoperating 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. For FY 2020 and FY 2019, 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 $17.2 million and $15.9 million as of August 31, 2020 and 2019, respectively, have been reclassified to accounts payable.

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. For FY 2020 and FY 2019, management has provided an accumulated provision for uncollectible accounts in excess of the collectibility study results based on its analysis of historical aging data. Since March 2020, PGW has followed the PUC moratorium on shutting off gas services to customers who otherwise would be eligible for shutoff. PGW's management considers that it is likely that the impact of COVID-19 on PGW,

(Continued)

its operations and financial position will continue to change as circumstances and events evolve. The duration, severity, and degree of the impact of COVID-19 is difficult to forecast due to the dynamic nature of the pandemic, including uncertainty about any potential “spikes” or “second wave” in the disease and the potential public health impacts of the interplay of COVID-19 with annual influenza strains. To date the impact of COVID-19 to PGW has been minimal and PGW believes that it may be some time before it is able to determine the full long-term impact of COVID-19 on PGW's business operations.

(k) Gas Inventories, Materials, and Supplies

Gas inventories, materials, and supplies, consisting primarily of fuel stock, gas stored to meet peak demand requirements, and spare parts, are stated at average cost at August 31, 2020 and 2019, as follows (thousands of U.S. dollars):

		2020	2019
Gas inventory	$	35,898	41,263
Material and supplies		10,808	10,428
Total	$	46,706	51,691

(l) Unamortized 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) Unamortized Losses on Bond Refunding

Gains and losses on bond refunding are recorded as deferred inflows of resources and deferred outflows of resources, respectively, 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.

(n) Pensions and Postemployment Benefits

As described in note 10, the City sponsors a single employer defined benefit pension plan, the Philadelphia Gas Works Pension Plan (the Pension Plan) to provide pension benefits for certain current and former PGW employees. As described in note 11, PGW sponsors a single employer defined benefit healthcare plan, the Philadelphia Gas Works OPEB Plan (the OPEB Plan), to provide postemployment healthcare and life insurance benefits to substantially all current and former PGW employees.

For purposes of measuring the net pension and OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to the Pension and OPEB Plans, and the Pension and OPEB Plans expense, information about the fiduciary net position of the Pension Plan and OPEB Plan, and additions to or deductions from the Pension and OPEB Plans’ fiduciary net position are determined on the same basis as they are reported by the Pension and OPEB Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value. With the exception of deferred outflows of resources related to employer contributions made after the measurement date, deferred inflows and outflows of resources related to the Pension and OPEB Plans are amortized over a closed five-year period or the average remaining service life of employees in the pension plan. Deferred outflows of resources related to employer contributions made after the measurement date will be recognized as a reduction of the net liability in the next fiscal year.

(o) Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the financial statement measurement date. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels as follows:

- Level 1 – quoted prices for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 – quoted prices other than those included within Level 1 and other inputs that are observable for an asset or liability, either directly or indirectly.
- Level 3 – pricing inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity or involvement.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3. When the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level that is significant to the entire measurement.

The categorization of a financial instrument within the hierarchy is based upon pricing transparency and is not necessarily an indication of the Company’s perceived risk of that instrument.

The following is a description of the valuation methodologies used for investments measured at fair value:

- U.S. government obligations – The fair value of government obligations are based on institutional bond quotes and evaluations based on various market and industry inputs and are primarily considered Level 1 inputs.
- U.S. government agencies and instrumentalities – The fair value of government agencies and instrumentalities are based on institutional bond quotes and evaluations based on various market and industry inputs and are primarily considered Level 2 inputs.
- Corporate obligations – The fair value of corporate bonds are based on institutional bond quotes and evaluations based on various market and industry inputs and are primarily considered Level 2 inputs.

- Foreign issues – The fair value of foreign bonds are based on institutional bond quotes and evaluations based on various market and industry inputs and are primarily considered Level 2 inputs.

(p) Cash, Cash Equivalents, and Short-Term Investments

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

(q) 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.

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. Reductions to the reserve are made as claims are settled.

(r) 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.

(s) Pollution Remediation

The Company estimates its pollution remediation obligation using the expected 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 Pennsylvania Act 2, Land Recycling and Environmental Remediation Standards Act of 1995 and Pennsylvania Act 32, Storage Tank and Spill Prevention Act of 1989.

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.

(t) Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates in the Company's financial statements include the accumulated provision for uncollectible accounts, the fair value of interest rate swap agreements, the self-insurance liability, and the valuation of net pension and OPEB liabilities.

(u) Pronouncements Effective in the Current Year

GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance Certain Authoritative Guidance* (GASB 95), provides temporary relief to governments and other stakeholders, in light of the COVID-19 pandemic, by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018 (the Company's fiscal year ending August 31, 2020).

The effective dates of certain provisions contained in the following pronouncements are postponed by one year:

- GASB Statement No. 83, *Certain Asset Retirement Obligations*
  (The Company adopted GASB 83 in the fiscal year ending August 31, 2019. The adoption of this GASB statement did not have a material impact on the financial statements)
- GASB Statement No. 84, *Fiduciary Activities*
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- GASB Statement No. 90, *Majority Equity Interests*
- GASB Statement No. 91, Conduit Debt Obligations
- GASB Statement No. 92, *Omnibus 2020*
- GASB Statement No. 93, *Replacement of Interbank Offered Rates*
  Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*
- Implementation Guide No. 2018-1*, Implementation Guidance Update—2018*
- Implementation Guide No. 2019-1, *Implementation Guidance Update—2019*
- Implementation Guide No. 2019-2, *Fiduciary Activities*.

The effective dates of the following pronouncements are postponed by 18 months:

- GASB Statement No. 87, *Leases*
- Implementation Guide No. 2019-3, *Lease*s.

(v) Pronouncements Effective in Future Years

(i) Effective for the Year Ending August 31, 2021

GASB Statement No. 84, *Fiduciary Activities* (GASB 84), establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. As originally scheduled, certain accounting and financial reporting provisions of GASB 84 would have taken effect for periods beginning after December 15, 2018 (the Company's fiscal year ending August 31, 2020). GASB 95 postpones the effective date of GASB 84 by twelve months and the requirements of GASB 84 will now take effect for periods beginning after December 15, 2019 (the Company's fiscal year ending August 31, 2021). The Company is currently evaluating the impact of GASB 84 on its financial statements, and anticipates that certain pension and other postemployment benefit arrangements will be reported under the standard as fiduciary funds.

GASB Statement No. 90, *Majority Equity Interest - an amendment of GASB Statements No. 14 and No. 61* (GASB 90), provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. GASB 90 defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. As originally scheduled, certain accounting and financial reporting provisions of GASB 90 would have taken effect for periods beginning after December 15, 2018 (the Company's fiscal year ending August 31, 2020). GASB 95 has postponed the effective date of GASB 90 by twelve months and the requirements of GASB 90 will now take effect for periods beginning after December 15, 2019 (the Company's fiscal year ending August 31, 2021). The Company is currently evaluating the impact of GASB 90 on its financial statements, and anticipates that the adoption of this statement will not have a material impact on the financial statements.

(ii) Effective for the Year Ending August 31, 2022

GASB Statement No. 87, *Leases* (GASB 87), requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. As originally scheduled, certain accounting and financial reporting provisions of GASB 87 would have taken effect for periods beginning after

December 15, 2019 (the Company's fiscal year ending August 31, 2021). GASB 95 postpones the effective date of GASB 87 by eighteen months and the requirements of GASB 87 will now take effect for periods beginning after June 15, 2021 (the Company's fiscal year ending August 31, 2022). The Company is currently evaluating the impact of GASB 87 on its financial statements.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (GASB 89), establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. As originally scheduled, certain accounting and financial reporting provisions of GASB 89 would have taken effect for periods beginning after December 15, 2019 (the Company's fiscal year ending August 31, 2021). GASB 95 postpones the effective date of GASB 89 by twelve months and the requirements of GASB 89 will now take effect for periods beginning after December 15, 2020 (the Company's fiscal year ending August 31, 2022). The Company is currently evaluating the impact of GASB 89 on its financial statements.

GASB Statement No. 92, *Omnibus 2020* (GASB 92), establishes accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activities of public entity risk pools, fair value measurements, and derivative instruments. As originally scheduled, certain accounting and financial reporting provisions of GASB 92 would have taken effect for periods beginning after June 15, 2020 (the Company's fiscal year ending August 31, 2021). GASB 95 postpones the effective date of GASB 92 by twelve months and the requirements of GASB 92 will now take effect for periods beginning after June 15, 2021 (the Company's fiscal year ending August 31, 2022). The Company is currently evaluating the impact of GASB 92 on its financial statements.

GASB Statement No. 93, *Replacement of Interbank Offered Rates* (GASB 93), establishes accounting and financial reporting requirements related to the replacement of interbank offered rates (IBORs) in hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments. Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate IBOR—most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates by either (a) changing the reference rate or (b) adding or changing fallback provisions related to the reference rate. As originally scheduled, certain accounting and financial reporting provisions of GASB 93 would have taken effect for periods beginning after June 15, 2020 (the Company's fiscal year ending August 31, 2021). GASB 95 postpones the effective date of GASB 93 by twelve months and the requirements of GASB 93 will now take effect for periods beginning after June 15, 2021 (the Company's fiscal year ending August 31, 2022). The Company is currently evaluating the impact of GASB 93 on its financial statements.

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GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* (GASB 97), (1) increases consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigates costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhances the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The requirements of this Statement are effective for periods beginning after June 15, 2021 (the Company's fiscal year ending August 31, 2022). The Company is currently evaluating the impact of GASB 97 on its financial statements.

(iii) Effective for the Year Ending August 31, 2023

GASB Statement No. 91, *Conduit Debt Obligation* (GASB 91), provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with commitments extended by issuers, arrangements associated with conduit debt obligations, and related note disclosures. Under this statement, a conduit obligation is defined as a debt instrument where (1) three parties involved, (2) the issuer and the third party obligor are not within the same financial reporting entity, (3) the debt obligation is a not parity bond of the issuer, nor is it cross-collateralized with other debt, (the third party obligor or its agent, not the issuer, receives the proceeds from the debt issuance, (5) the third party obligor, not the issuer, is primary obligated for the payment of all amounts associated with the debt obligation. GASB 91 requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. As originally scheduled, certain accounting and financial reporting provisions of GASB 91 would have taken effect for periods beginning after December 15, 2020 (the Company's fiscal year ending August 31, 2022). GASB 95 postpones the effective date of GASB 91 by twelve months and the requirements of GASB 91 will now take effect for periods beginning after December 15, 2021 (the Company's fiscal year ending August 31, 2023).The Company is currently evaluating the impact of GASB 91 on its financial statements.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* (GASB 94), improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial

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asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for periods beginning after June 15, 2022 (the Company's fiscal year ending August 31, 2023). The Company is currently evaluating the impact of GASB 94 on its financial statements.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96), provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The requirements of this Statement are effective for periods beginning after June 15, 2022 (the Company's fiscal year ending August 31, 2023). The Company is currently evaluating the impact of GASB 96 on its financial statements.

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

The Company is accounted for as 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 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 2020 and FY 2019, the applicable maximum amount was calculated to be $1.3 million for both fiscal years. The agreement requires the Company to make annual payments of $18.0 million to the City. In FY 2020 and FY 2019, 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 $7.7 million and $7.4 million in FY 2020 and FY 2019, respectively, relating to sales to the City. Net amounts receivable from the City were $0.5 million and $0.6 million at August 31, 2020 and 2019, respectively. Water and sewer services and licenses are purchased from the City. Such purchases totaled $1.5 million and $1.7 million in FY 2020 and FY 2019, respectively.

Certain activities of the PGC are paid for by the Company. Such payments totaled $0.9 million and $0.8 million in FY 2020 and FY 2019, respectively.

(3) Cash, Cash Equivalents, and Short-Term Investments

(a) Cash, Cash Equivalents, and Short-Term Investments

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, 2020 and August 31, 2019 were $172.1 million and $123.8 million, respectively. Book balances of such deposits and accounts at August 31, 2020 and August 31, 2019 were $172.3 million and $124.1 million, respectively. Short-term investments with a carrying amount (at fair value) of $141.2 million and $107.3 million at August 31, 2020 and August 31, 2019, respectively, are included in the balances presented above. Federal depository insurance on these balances at August 31, 2020 and August 31, 2019 was $0.6 million and $0.5 million, respectively. The remaining balances are not insured. Investments are primarily 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 2020 and FY 2019 was $226.1 million and $194.2 million, respectively.

The following is a schedule that details the Company's short-term investments (thousands of U.S. dollars):

	August 31, 2020			
Investment type	Fair value	Weighted average maturity (years)	Credit rating	Rating agency
U.S. government obligations:				
U.S. Treasury bills	$ 41,988	—	*	*
Total U.S. government obligations	41,988			
U.S. government agencies and instrumentalities:				
Federal Home Loan Mortgage Corporation medium discount notes	14,996	—	*	*
Federal National Mortage Assocation	7,997	—	*	*
Federal Home Loan Bank bonds	28,993	—	*	*
Total U.S. government agencies and instrumentalities	51,986			
Total fair value of U.S. government securities	93,974			

	August 31, 2020			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Cash and cash equivalents:	$			
Agricultural Bank CP	4,999	—	*	*
Banco Del Esta De Chle CP	3,999	—	*	*
Banco Santander Sa CP	4,998	—	*	*
China Construction Bk CP	4,999	—	*	*
First Abu Dhabi Bank CP	5,496	—	*	*
Industrial Com Bnk Chn CP	5,499	—	*	*
Lloyds Bank Corporate CP	4,998	—	*	*
Malayan Banking Berhad CP	1,999	—	*	*
Sumitomo Mitsui Trst CP	5,000	—	*	*
Total cash and cash equivalents	41,987			
Other:				
Federal Fund 30 – Mutual Fund	5,256	—	*	*
Total fair value of investments, including cash deposits	$ 141,217			
Portfolio weighted modified duration				

* The credit of this investment is unrated.

	August 31, 2019			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
U.S. government obligations:				
U.S. Treasury bills	$ 30,983	0.0377	*	*
U.S. Treasury notes	11,007	0.1857	*	*
Total U.S. government obligations	41,990			
U.S. government agencies and instrumentalities:				
Federal Home Loan Mortgage Corporation medium term notes	14,958	0.1842	*	*
Federal Home Loan Bank bonds	19,970	0.0825	Aaa/AA+	Moody's/S&P
Total U.S. government agencies and instrumentalities	34,928			
Total fair value of U.S. government securities	76,918			
Cash and cash equivalents:				
Agricultural Bank CP	2,999	—	*	*
Agricultural Bank CP	2,676	—	*	*
China Construction CP	4,992	—	*	*
First Adu Dhabi Bank CP	4,999	—	*	*
Korea Development Bank CP	4,492	—	*	*
Industrial Com Bank CP	4,993	—	*	*
Total cash and cash equivalents	25,151			
Other:				
Federal Fund 30 – Mutual Fund	5,256	—	*	*
Total fair value of investments, including cash deposits	$ 107,325			
Portfolio weighted modified duration				

* The credit of this investment is unrated.

The following table is a schedule that details the fair value hierarchy of the Company's short-term investments (thousands of U.S. dollars):

Investment type	August 31, 2020 Total fair value	Level 1	Level 2	Level 3
U.S. government obligations:				
U.S. Treasury bills	$ 41,988	41,988	—	—
Total U.S. government obligations	41,988	41,988	—	—
U.S. government agencies and instrumentalities:				
Federal Home Loan Mortgage Corporation medium discount notes	14,996	—	14,996	—
Federal National Mortage Association	7,997	—	7,997	—
Federal Home Loan Bank Bonds	28,993	—	28,993	—
Total U.S. government agencies and instrumentalities	51,986	—	51,986	—
Total fair value of U.S. government securities	93,974	41,988	51,986	—
Cash and cash equivalents:				
Agricultural Bank CP	4,999	4,999	—	—
Banco Del Esta De Chle C P	3,999	3,999	—	—
Banco Santander Sa C P	4,998	4,998	—	—
China Construction Bk C P	4,999	4,999	—	—
First Abu Dhabi Bank C P	5,496	5,496	—	—
Industrial Com Bnk Chn C P	5,499	5,499	—	—
Lloyds Bank Corporate C P	4,998	4,998	—	—
Malayan Banking Berhad C P	1,999	1,999	—	—
Sumitomo Mitsui Trst C P	5,000	5,000	—	—
Total cash and cash equivalents	41,987	41,987	—	—
Other:				
Federal Fund 30 Mutual Fund	5,256	5,256	—	—
Total fair value of investments, including cash deposits	$ 141,217	89,231	51,986	—

Investment type		August 31, 2019 Total fair value	Level 1	Level 2	Level 3
U.S. government obligations:					
U.S. Treasury bills	$	30,983	30,983	—	—
U.S. Treasury notes		11,007	11,007	—	—
Total U.S. government obligations		41,990	41,990	—	—
U.S. government agencies and instrumentalities:					
Federal Home Loan Mortgage Corporation medium term notes		14,958	—	14,958	—
Federal Home Loan Bank Bonds		19,970	—	19,970	—
Total U.S. government agencies and instrumentalities		34,928	—	34,928	—
Total fair value of U.S. government securities		76,918	41,990	34,928	—
Cash and cash equivalents:					
Agricultural Bank CP		2,999	2,999	—	—
Agricultural Bank CP		2,676	2,676	—	—
China Construction CP		4,992	4,992	—	—
First Adu Dhabi Bank CP		4,999	4,999	—	—
Korea Development Bank CP		4,492	4,492	—	—
Industrial Com Bank CP		4,993	4,993	—	—
Total cash and cash equivalents		25,151	25,151	—	—
Other:					
Federal Fund 30 Mutual Fund		5,256	5,256	—	—
Total fair value of investments, including cash deposits	$	107,325	72,397	34,928	—

(b) Sinking Fund Reserve, Workers' Compensation Escrow Fund, and Capital Improvement Fund

The investments in the Company's Sinking Fund Reserve, Capital Improvement Fund and Workers' Compensation 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 in the Capital Improvement Fund at August 31, 2020 and 2019 was \$0.0 million and \$68.6 million, respectively.

The Sinking Fund Reserve is required by bond ordinance to hold an amount equal to the greatest amount of debt service required by bonds secured by the Sinking Fund Reserve in any fiscal year. The balance of the Company's Sinking Fund Reserve at August 31, 2020 and 2019 was \$102.8 million and

$106.5 million, respectively. Interest income on these funds, to the extent not drawn, is reflected as an increase in the Fund Reserve and approximated $3.2 million in FY 2020 and $2.0 million in FY 2019.

Investments are recorded at fair value except for certain money market funds recorded at amortized cost. The adjustment to the market value for the Sinking Fund Reserve and Capital Improvement Fund resulted in a loss of $0.4 million and a gain of $1.2 million in FY 2020 and FY 2019, respectively.

Pursuant to the Pennsylvania Department of Labor and Industry Bureau of Workers' Compensation Self-Insurance policy, the Company has established and maintained a restricted trust account. As of August 31, 2020, and 2019, the trust account balances were $2.7 million.

The following tables are schedules that detail the Company's investments in the Sinking Fund Reserve (thousands of U.S. dollars):

	August 31, 2020			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
U.S. government obligations:				
U.S. Treasury notes	$ 22,663	0.8526	Aaa/N/A	Moody's/S&P
U.S. Treasury bonds	1,998	0.7083	N/A/N/A	Moody's/S&P
U.S. government agencies and instrumentalities:				
Federal Home Loan Mortgage Corporation medium term notes	14,704	1.6546	Aaa/AA+	Moody's/S&P
Federal Home Loan Bank bonds	12,941	0.9160	Aaa/AA+	Moody's/S&P
Federal Farm Credit banks	22,557	1.5536	Aaa/AA+	Moody's/S&P
Total U.S. government agencies and instrumentalities	50,202			
Total fair value of U.S. government securities	74,863			
Corporate obligations:				
Apple Incorporated	2,025	0.2607	Aa1/AA+	Moody's/S&P
Exxon Mobil Corporation	1,121	0.0782	Aa1/AA+	Moody's/S&P
Chevron Corporation	2,035	0.2007	Aa2/AA	Moody's/S&P
Berkshire Hathaway Inc	1,019	0.0766	Aa2/AA	Moody's/S&P
Microsoft Corp	1,008	0.0245	Aaa/AAA	Moody's/S&P
Total corporate obligations	7,209			

	August 31, 2020			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Foreign issues:				
Bank of Montreal MTN	$ 1,287	0.1223	Aa2/A+	Moody’s/S&P
Bank of Nova Scotia	1,012	0.0552	Aa2/A+	Moody’s/S&P
Canadian Imperial Bank	1,418	0.0918	Aa2/A+	Moody’s/S&P
Toronto Dominion MTN	1,012	0.0448	Aa1/AA-	Moody’s/S&P
Shell International Fin	1,791	0.2839	Aa2/AA-	Moody’s/S&P
Total foreign issues	6,519			
Cash and cash equivalents:				
Abn Amro Funding USA CP	1,997	0.0869	*	*
Bank of Montreal CP	1,498	0.0756	*	*
Collateralized Cp V CP	1,997	0.1047	*	*
Credit Suisse Ag CP	1,997	0.1035	*	*
Dnb Bank Asa CP	1,997	0.0869	*	*
Mufg Bank Ltd Ny Bran CP	1,997	0.0952	*	*
Sumitomo Mutsui Trust CP	500	0.0066		
Toyota Crdt Canada Inc CP	1,998	0.0782	*	*
Money market:				
First American Government Obligations Fund Class Z	254	—	*	*
Total cash and cash equivalents	14,233			
Total fair value of investments, including cash deposits	$ 102,824			
Portfolio weighted modified duration				

* The credit of this investment is unrated.

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Notes to Basic Financial Statements
August 31, 2020 and 2019

	August 31, 2019			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
U.S. government obligations:				
U.S. Treasury notes	$ 39,940	1.0367	Aaa/N/A	Moody's/S&P
U.S. government agencies and instrumentalities:				
Federal Home Loan Mortgage Corporation medium term notes	4,032	0.6222	Aaa/AA+	Moody's/S&P
Federal National Mortgage Association	5,097	0.3960	Aaa/AA+	Moody's/S&P
Federal Home Loan Bank bonds	13,920	1.5922	Aaa/AA+	Moody's/S&P
Federal Farm Credit banks	5,234	1.0932	Aaa/AA+	Moody's/S&P
Total U.S. government agencies and instrumentalities	28,283			
Total fair value of U.S. government securities	68,223			
Corporate obligations:				
Apple Incorporated	1,992	0.5371	Aa1/AA+	Moody's/S&P
Chevron Corporation	2,022	0.4836	Aa2/AA	Moody's/S&P
Exxon Mobil Corporation	2,018	0.1458	Aaa/AA+	Moody's/S&P
Exxon Mobil Corporation	1,119	0.2351	Aaa/AA+	Moody's/S&P
Total corporate obligations	7,151			
Foreign issues:				
Bank of Montreal MTN	1,288	0.1811	Aa2/A+	Moody's/S&P
Bank of Nova Scotia	1,011	0.1191	Aa2/A+	Moody's/S&P
Canadian Imperial Bank	1,417	0.1751	Aa2/A+	Moody's/S&P
Royal Bank of Canada MTN	2,022	0.0888	Aa2/AA-	Moody's/S&P
Shell International	2,838	0.1403	Aa2/AA-	Moody's/S&P
Toronto Dominion MTN	1,927	0.2157	Aa1/AA-	Moody's/S&P
Toronto Dominion MTN	1,012	0.0686	Aa1/AA-	Moody's/S&P
Total foreign issues	11,515			
Cash and cash equivalents:				
BNP Paribas Finance Inc. CP	2,467	0.0850	*	*
Cooperatieve Central CP	1,993	0.0183	*	*
Credit Agricole Crpin CP	2,975	0.0640	*	*
JP Morgan Securities CP	1,996	0.0117	*	*
MUFG Bank LTD NY Bran CP	2,984	0.0411	*	*
Natixis NY CP	2,491	0.0229	*	*
Swedbank AB CP	1,978	0.0557		

	August 31, 2019			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Toyota Motor Credit Company CP	$ 2,467	0.0853	*	*
Money market:				
First American Government Obligations Fund Class Z	269	—	*	*
Total cash and cash equivalents	19,620			
Other	—	—	*	*
Total fair value of investments, including cash deposits	$ 106,509			
Portfolio weighted modified duration				

* The credit of this investment is unrated.

The following tables are schedules that detail the Company's investments in the Capital Improvement Fund (thousands of U.S. dollars):

	August 31, 2019			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
U.S. government obligations:				
U.S. Treasury bills	$ 11,923	0.3501		
U.S. Treasury notes	47,497	0.2627	Aaa/N/A	Moody's/S&P
Total U.S. government obligations	59,420			
U.S. government agencies and instrumentalities:				
Federal Home Loan Mortgage Corporation medium term notes	100	0.0889	Aaa/AA+	Moody's/S&P
Total fair value of U.S. government securities	59,520			
Corporate obligations:				
Apple Incorporated	1,599	0.0801	Aa1/AA+	Moody's/S&P
Chevron Corporation	150	0.0188	Aa2/AA	Moody's/S&P
Institute for Advanced Study	300	0.0125	Aaa/AAA	Moody's/S&P
Walmart Stores, Inc.	1,999	0.0535	Aa2/AA	Moody's/S&P
Total corporate obligations	4,048			
Foreign issues:				
Toronto MTN	500	0.0780	Aa1/AA-	Moody's/S&P
Toronto Dominion MTN	461	0.5025	Aa1/AA-	Moody's/S&P
Total foreign issues	961			
Municipal issues:				
Pennsylvania ST Hsg Fin Agy Sf Mtge	145	0.0095	Aa2/AA+	Moody's/S&P
Pennsylvania ST Hsg Fin Agy Sf Mtge	125	0.0557	Aa2/AA+	Moody's/S&P
Pennsylvania ST Turnpike Commission	750	0.1436	Aaa/N/A	Moody's/S&P
University of Pittsburg PA Commonwealth	300	0.0095	Aa1/AA+	Moody's/S&P
Total municipal issues	1,320			
Cash and cash equivalents:				
Export Development Corporation CP	998	—	*	*
Salt River Project CP	200	—	*	*
Sentara VA CP	1,500	—	*	*
Money market:				
First American Government Obligations Fund Class Z	87	—	*	*
Total cash and cash equivalents	2,785			
Total fair value of investments including cash deposits	$ 68,634			
Portfolio weighted modified duration				

* The credit of this investment is unrated.

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

	August 31, 2020			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Money market:				
Fidelity Government Portfolio – Class I	$ 2,736	—	Aaa/AAA	Moody's/S&P
Total fair value of investments including cash deposits	$ 2,736			
Portfolio weighted modified duration				

* The credit of this investment is unrated.

	August 31, 2019			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Money market:				
Fidelity Government Portfolio – Class I	$ 2,711	—	Aaa/AAA	Moody's/S&P
Total fair value of investments including cash deposits	$ 2,711			
Portfolio weighted modified duration				

* The credit of this investment is unrated.

The following tables are schedules that detail the fair value hierarchy of the Company's investments in the Sinking Fund Reserve (thousands of U.S. dollars):

	August 31, 2020			
Investment type	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
U.S. government obligations:				
U.S. Treasury notes	$ 22,663	22,663	—	—
U.S. Treasury bonds	1,998	1,998	—	—
U.S. government agencies and instrumentalities:				
Federal Home Loan Mortgage Corporation medium term notes	14,704	—	14,704	—
Federal Home Loan Bank bonds	12,941	—	12,941	—
Federal Farm Credit banks	22,557	—	22,557	—
Total U.S. government agencies and instrumentalities	50,202	—	50,202	—
Total fair value of U.S. government securities	74,863	24,661	50,202	—
Corporate obligations:				
Apple Incorporated	2,025	—	2,025	—
Exxon Mobil Corporation	1,121	—	1,121	—
Chevron Corporation	2,035	—	2,035	—
Berkshire Hathaway Inc	1,019	—	1,019	—
Microsoft Corp	1,008	—	1,008	—
Total corporate obligations	7,209	—	7,209	—
Foreign issues:				
Bank of Montreal MTN	1,287	—	1,287	—
Bank of Nova Scotia	1,012	—	1,012	—
Canadian Imperial Bank	1,418	—	1,418	—
Toronto Domion MTN	1,012	—	1,012	—
Shell International Fin	1,791	—	1,791	—
Total foreign issues	6,519	—	6,519	—

	August 31, 2020			
Investment type	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents:				
Abn Amro Funding USA CP	$ 1,997	1,997	—	—
Bank of Montreal CP	1,498	1,498	—	—
Collateralized Cp V CP	1,997	1,997	—	—
Credit Suisse Ag CP	1,997	1,997	—	—
Dnb Bank Asa CP	1,997	1,997	—	—
Mufg Bank Ltd Ny Bran CP	1,997	1,997	—	—
Sumitomo Mutsui Trust CP	500	500	—	—
Toyota Crdt Canada Inc CP	1,998	1,998	—	—
Money market:				
First American Government Obligations Fund Class Z	254	254	—	—
Total cash and cash equivalents	14,233	14,233	—	—
Total fair value of investments, including cash deposits	$ 102,824	38,894	63,930	—

	August 31, 2019			
Investment type	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
U.S. government obligations:				
U.S. Treasury notes	$ 39,940	39,940	—	—
U.S. government agencies and instrumentalities:				
Federal Home Loan Mortgage Corporation medium term notes	4,032	—	4,032	—
Federal National Mortgage Association	5,097	—	5,097	—
Federal Home Loan Bank bonds	13,920	—	13,920	—
Federal Farm Credit banks	5,234	—	5,234	—
Total U.S. government agencies and instrumentalities	28,283	—	28,283	—
Total fair value of U.S. government securities	68,223	39,940	28,283	—

	August 31, 2019			
Investment type	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
Corporate obligations:				
Apple Incorporated	$ 1,992	—	1,992	—
Chevron Corporation	2,022	—	2,022	—
Exxon Mobil Corporation	2,018	—	2,018	—
Exxon Mobil Corporation	1,119	—	1,119	—
Total corporate obligations	7,151	—	7,151	—
Foreign issues:				
Bank of Montreal MTN	1,288	—	1,288	—
Bank of Nova Scotia	1,011	—	1,011	—
Canadian Imperial Bank	1,417	—	1,417	—
Royal Bank of Canada MTN	2,022	—	2,022	—
Shell International	2,838	—	2,838	—
Toronto Domion MTN	1,927	—	1,927	—
Toronto Domion MTN	1,012	—	1,012	—
Total foreign issues	11,515	—	11,515	—
Cash and cash equivalents:				
BNP Paribas Finance Inc. CP	2,467	2,467	—	—
Cooperative Centrale CP	1,993	1,993	—	—
Credit Agricole Crpin CP	2,975	2,975	—	—
JP Morgan Securities CP	1,996	1,996	—	—
MUFG Bank LTD NY Bran CP	2,984	2,984	—	—
Natixis NY CP	2,491	2,491	—	—
Swedbank AB CP	1,978	1,978	—	—
Toyota Motor Credit Company CP	2,467	2,467	—	—
Money market:				
First American Government Obligations Fund Class Z	269	269	—	—
Total cash and cash equivalents	19,620	19,620	—	—
Total fair value of investments, including cash deposits	$ 106,509	59,560	46,949	—

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

	August 31, 2019			
Investment type	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
U.S. government obligations:				
U.S. Treasury bills	$ 11,923	11,923	—	—
U.S. Treasury notes	47,497	47,497	—	—
Total U.S. government obligations	59,420	59,420	—	—
U.S. government agencies and instrumentalities:				
Federal Home Loan Mortgage Corporation medium term notes	100	—	100	—
Total fair value of U.S. government securities	59,520	59,420	100	—
Corporate obligations:				
Apple Incorporated	1,599	—	1,599	—
Chevron Corporation	150	—	150	—
Institute Advance Study	300	—	300	—
Walmart Stores Incorporated	1,999	—	1,999	—
Total corporate obligations	4,048	—	4,048	—
Foreign issues:				
Toronto MTN	500	—	500	—
Toronto Dominion MTN	461	—	461	—
Total foreign issues	961	—	961	—
Municipal Issues:				
Pennsylvania ST Hsg Fin Agy Sf Mtge	145	—	145	—
Pennsylvania ST Hsg Fin Agy Sf Mtge	125	—	125	—
Pennsylvania ST Turnpike Commission	750	—	750	—
University of Pittsburg PA	300	—	300	—
Total foreign obligations	1,320	—	1,320	—

	August 31, 2019			
Investment type	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents:				
Export Development Corporation CP	$ 998	998	—	—
Salt River Project CP	200	200	—	—
Sentara VA CP	1,500	1,500	—	—
Money market:				
First American Government Obligations Fund Class Z	87	87	—	—
Total cash and cash equivalents	2,785	2,785	—	—
Total fair value of investments, including cash deposits	$ 68,634	62,205	6,429	—

The following tables are schedules that detail the fair value hierarchy of the Company's investments in the Workers' Compensation Escrow Fund (thousands of U.S. dollars):

	August 31, 2020			
Investment type	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
Money market:				
Fidelity Government Portfolio – Class I	$ 2,736	2,736	—	—
Total fair value of investments, including cash deposits	$ 2,736	2,736	—	—

	August 31, 2019			
Investment type	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
Money market:				
Fidelity Government Portfolio – Class I	$ 2,711	2,711	—	—
Total fair value of investments, including cash deposits	$ 2,711	2,711	—	—

(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 as follows:

Bonds or notes of the U.S. government.

- U.S. Treasury obligations, including separate trading of registered interest and principal securities; 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.
- Obligations of the following U.S. government sponsored agencies: Government National 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.
- Collateralized banker's acceptances and certificate of deposit denominated in U.S. dollars and issued by a city code authorized depository certificate of deposit that must be secured by acceptable collateral with a total market value equal to 102.0% of the deposit.
- 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 an explicit guarantee, must be rated not lower than A2 by Moody's or A by S&P.
- 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.
- 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.
- 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.
- Money market mutual funds, as defined by the Securities and Exchange Commission, such money market funds must have assets over $15.0 billion, have the highest rating from Moody's, S&P, and Fitch, and contain only government securities.
- 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.

- 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.

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

	Percent of portfolio allowed	Percent of portfolio per issuer	Percent of outstanding securities per issuer
U.S. government	100	100	N/A
U.S. Treasury	100	100	N/A
U.S. agencies and instrumentalities	100	33	N/A
Banker's acceptances and certificates of deposit	15	3	3
Commercial paper	25	3	3
Corporate bonds	25	3	3
Collateralized mortgage obligations and pass-through securities	5	3	3
Commonwealth of PA and subdivisions of Commonwealth of PA	15	3	3
Money market mutual funds	25	10	3
Repurchase agreements	25	10	N/A

More than 90.6% of the Company's short-term investments as of August 31, 2020 are in the following: U.S. Treasury bills (29.8%), Commercial Paper (29.7%), Federal Home Loan Bank Bonds (20.5%), and Federal Home Loan Mortgage Corporation medium-term notes (10.6%). These investments are in accordance with the investment policy.

(e) Custodial Credit Risk

The Company has selected, as custodial bank, a member 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.

(4) Recoverable Costs

In compliance with orders issued by the PGC, the cost of projects that produce benefits over an extended period is recorded on the balance sheets as a recoverable cost in other assets. There is no return on the asset being charged to the customers. The unamortized costs included in other noncurrent assets were $0.5 million and $0.4 million as of August 31, 2020 and 2019, respectively. The unamortized costs included in other current assets on the balance sheets were $0.6 million and $0.4 million as of August 31, 2020 and 2019, respectively.

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 2020, settlements by the Company's insurance carriers provided less than $0.1 million associated with environmental remediation costs. Environmental remediation costs of approximately $0.6 million in FY 2020 were offset by insurance settlements received in prior fiscal years, and the remainder was recorded on the balance sheets as a recoverable cost in other noncurrent assets. The Company estimates additional expenditures to be approximately $35.2 million.

The Company has recognized COVID-19 pandemic expenses as a regulatory asset, because it is probable that the previously incurred costs will be recovered through rates. COVID-19 pandemic costs were approximately $2.2 million in FY 2020 and recorded on the balance sheets as a recoverable cost in other noncurrent assets.

(5) Deferred Compensation Plan

The Company offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Company employees with at least 30 days 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 $0.4 million in FY 2020 and $0.4 million in FY 2019. PGW's contributions are accounted for as part of administrative and general expenses on the statements of revenues and expenses and changes in net positions.

(6) Notes Payable

Pursuant to the provisions of the City of Philadelphia Note Ordinances, PGW may sell short-term notes to either support working capital requirements or pay the costs of certain capital projects and other project costs. PGW may issue short-term notes in a principal amount, which, together with interest, may not exceed $150.0 million outstanding to support working capital requirements. PGW may also issue additional short-term notes in an aggregate principal amount, which may not exceed $120.0 million outstanding at any time to pay the costs of certain capital projects and other project costs. As of December 1, 2017, all notes are supported by a Note Purchase and Credit Agreement and a security interest in PGW's revenues. Prior to that, all notes were supported by two irrevocable letters of credit and a security interest in PGW's revenues. The Note Purchase and Credit Agreement supporting PGW's combined commercial paper programs set the maximum level of outstanding notes plus interest at $120.0 million in 2020 and 2019, respectively. The commitment amount is $120.0 million under the current credit agreement. The expiration date of the credit agreement is December 31, 2021.

There were no Gas Works Revenue Capital Project Commercial Paper Notes (Capital Project Notes) or Gas Works Revenue Notes outstanding at August 31, 2020 and 2019.

(7) GCR Tariff Reconciliation

During the fiscal year ended August 31, 2020, the Company's actual gas costs were lower than its billed gas costs by approximately $28.7 million. This amount was netted with other applicable costs and recorded in other current liabilities on the balance sheet at August 31, 2020. Actual gas costs were $1.2 million higher than billed gas costs in FY 2019. This amount was netted with other applicable costs and recorded in other current assets on the balance sheet at August 31, 2019.

Natural Gas Pipeline Supplier Refund

The Company received refunds including interest in FY 2020 in the amount of $18.8 million related to Federal Energy Regulatory Commission/Pipeline Rate Cases. This amount was utilized i) as a reduction in the cost of gas for reconciliation purposes in the calculation of the applicable GCR; ii) as a credit to the Company's firm transportation suppliers; and iii) to establish a COVID-19 grant relief program.

The Company received less than $0.1 million in refunds in FY 2019, related to Federal Energy Regulatory Commission/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, 2020 and 2019 (thousands of U.S. dollars):

		August 31, 2020			August 31, 2019		
		Current portion	Long-term	Total	Current portion	Long-term	Total
Revenue bonds	$	53,765	857,845	911,610	52,870	911,610	964,480
Unamortized discount		(4)	(52)	(56)	(4)	(56)	(60)
Unamortized premium		9,342	78,928	88,270	10,080	87,920	98,000
Total revenue bonds	$	63,103	936,721	999,824	62,946	999,474	1,062,420

(Continued)

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, 2020 and 2019 (thousands of U.S. dollars):

	Year ended August 31, 2020				
	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Revenue bonds	$ 964,480	—	(52,870)	911,610	53,765
Other liabilities:					
Claims and judgments	$ 9,560	—	(118)	9,442	5,435
Environmental cleanup	39,121	—	(3,955)	35,166	1,028
Interest rate swap liability	23,114	2,136	—	25,250	—
Total other liabilities	$ 71,795	2,136	(4,073)	69,858	6,463

	Year ended August 31, 2019				
	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Revenue bonds	$ 1,016,300	—	(51,820)	964,480	52,870
Other liabilities:					
Claims and judgments	$ 14,064	—	(4,504)	9,560	3,925
Environmental cleanup	34,244	4,877	—	39,121	2,388
Interest rate swap liability	14,796	8,318	—	23,114	—
Total other liabilities	$ 63,104	13,195	(4,504)	71,795	6,313

(a) Principal Maturities and Scheduled Interest and Swap Payments

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):

		Revenue bonds		
	Principal	**Interest**	**Net swap amount**	**Total**
Fiscal year ending August 31:				
2021	53,765	37,139	4,378	95,282
2022	54,820	34,495	4,378	93,693
2023	56,690	31,709	4,378	92,777
2024	58,195	29,317	4,378	91,890
2025	54,015	27,419	3,623	85,057
2026–2030	233,190	113,666	5,762	352,618
2031–2035	175,095	73,845	—	248,940
2036–2040	125,965	41,992	—	167,957
2041–2045	67,780	18,521	—	86,301
2046–2047	32,095	2,427	—	34,522
Total	$ 911,610	410,530	26,897	1,349,037

This table assumes that there are no draws on letters of credit supporting variable rate debt issuances resulting in bank bonds. Bank bonds are subject to accelerated payment terms and increased interest rates. Variable rate debt issuances represent $152.8 million of the outstanding principal at August 31, 2020.

Future debt service is calculated using rates in effect at August 31, 2020 for variable rate bonds, which ranged from 0.07% to 0.14%. The variable rate received under the swaps is 70.0% of one-month London Interbank Offered Rate (LIBOR) until maturity, which was 0.11% at August 31, 2020.

(b) Bond Issuances – Refunding of Bonds and Defeasance of Bonds

1998 Ordinance Fifteenth Series Bonds

On August 16, 2017, the City issued Gas Works Revenue Bonds, Fifteenth Series (1998 General Ordinance) in the par amount of $273.1 million. A portion of the proceeds from the sale of the Fifteenth Series Bonds were utilized to refund a portion of the Seventh Series Bonds and redeem the City’s outstanding Capital Project Notes. The Fifteenth Series Bonds also contained new money debt issued to finance a portion of PGW’s ongoing Capital Improvement Program, pay the costs of issuing the bonds, and provide a deposit to the Sinking Fund Reserve. The Fifteenth Series Bonds, with fixed interest rates that range from 2.0% to 5.0%, have maturity dates through 2047. The loss on the refunding component was $0.3 million, which will be amortized over the life of the Fifteenth Series Bonds. This refunding transaction provided net present value debt service savings of

$0.7 million utilizing an arbitrage yield of 2.98%. The savings as a percentage of refunded bonds was 10.11%.

The Company's Eighth Series variable rate debt, as of August 31, 2020, was backed by letter of credit agreements, which expire on September 1, 2022 (Eight Series C), August 12, 2023 (Eight Series D), or August 1, 2024 (Eight Series B and E).

The Company's Fifth Series A-2 variable rate bonds are backed by an irrevocable letter of credit, which had an original stated expiration date of December 21, 2019. On April 22, 2019, this letter of credit was extended for a five-year term from the original stated expiration date resulting in a new stated expiration date of December 21, 2024.

In the event that the letter of credit agreements supporting the Eighth and Fifth Series bonds are not extended or replaced prior to their expiration dates, a mandatory tender of the then outstanding bonds will occur. If such mandatory tender results in draws on the letters of credit, the bonds will become bank bonds subject to accelerated payment terms and increased interest rates.

Interest rates and maturities of the outstanding revenue bonds are detailed as follows (thousands of U.S. dollars):

			Balance outstanding August 31	
	Interest rates	**Maturity date (fiscal year)**	**2020**	**2019**
5th Series A-2	Variable *	2035	$ 30,000	30,000
8th Series B	Variable **	2028	27,370	27,370
8th Series C	Variable **	2028	27,225	27,225
8th Series D	Variable **	2028	40,845	40,845
8th Series E	Variable **	2028	27,370	27,370
9th Series	2.00%–5.25%	2040	57,080	60,835
10th Series	3.00%–5.00%	2026	14,750	19,160
13th Series	3.00%–5.00%	2034	177,970	193,690
14th Series	2.00%–5.00%	2038	253,565	278,105
15th Series	2.00%–5.00%	2047	255,435	259,880
			$ 911,610	964,480

* As of August 31, 2020, the LIBOR based rate was 0.07%.

** As of August 31, 2020, the LIBOR based rate ranged from 0.07% to 0.09%.

(c) 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. Upon issuance of the Thirteenth Series Bonds, no debt under the 1975 General Ordinance remains outstanding.

Also provided by both general ordinances is the establishment of a Sinking Fund Reserve into which deposits are made 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, which operates as a debt service payment fund into which debt service payments are deposited as they come due, 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 moneys in the Sinking Fund, including the Sinking Fund Reserve.

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 $7.6 million and $8.1 million in FY 2020 and FY 2019, respectively, is reported as a component of accrued accounts.

(d) Interest Rate Swap Agreements

Objective – In January 2006, the City entered into a fixed rate pay or 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.

Terms – The swaps had an original termination date of August 1, 2031, which was subsequently amended to August 1, 2028. The swaps 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 2016, the underlying variable rate bonds maturing in FY 2017 through FY 2023 were refunded with fixed rate bonds and the related portions of the swaps, totaling $102.7 million in notional amount, were terminated. PGW made a termination payment of $13.9 million to fund this partial termination of the swaps which is included in unamortized loss on bond refunding on the Company's balance sheet.

As of August 31, 2020, the swaps had a notional amount of $122.8 million and the associated variable rate debt had a $122.8 million principal amount, broken down by series as follows:

- The Series B swap had a notional amount of $27.4 million and the associated variable rate bonds had a $27.4 million principal amount.
- The Series C swap had a notional amount of $27.2 million and the associated variable rate bonds had a $27.2 million principal amount.
- The Series D swap had a notional amount of $40.8 million and the associated variable rate bonds had a $40.8 million principal amount.
- The Series E swap had a notional amount of $27.4 million and the associated variable rate bonds had a $27.4 million principal amount.

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

Fair Value – As of August 31, 2020, the swaps had a combined negative fair value of approximately $25.3 million. The fair values of the interest rate swaps were estimated using the zero-coupon method and are classified as Level 2 within the fair value hierarchy as described in note 1. 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.

Risks – As of August 31, 2020, 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 International Swaps and Derivatives Association, Inc. 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 City of Philadelphia Gas Works Revenue 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).

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 if 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 as of and for the years ended August 31, 2020 and 2019 is as follows (thousands of U.S. dollars):

		Interest rate swap liability	Deferred outflows of resources
Balance, August 31, 2019	$	23,114	10,332
Change in fair value through August 31, 2020		2,136	2,136
Amortization of terminated hedge		—	1,420
Balance, August 31, 2020	$	25,250	13,888

		Interest rate swap liability	Deferred outflows of resources
Balance, August 31, 2018	$	14,796	594
Change in fair value through August 31, 2019		8,318	8,318
Amortization of terminated hedge		—	1,420
Balance, August 31, 2019	$	23,114	10,332

Because the original hedging relationship was terminated when the Sixth Series Bonds were refunded by the Eighth Series Bonds in 2009, there is a difference between the interest rate swap liability and the related deferred outflows of resources. The difference is being amortized on a straight-line basis to expense over the life of the hedge.

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

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

(9) Defeased Debt

In FY 2020, the Fiscal Agent with respect to the Gas Works Revenue Bonds (Escrow Agent with respect to the Escrow Deposit Agreement), paid the remaining maturing principal of the defeased bonds in the amount of $61.5 million and $5.6 million in a manner consistent with the Notices of Defeasance for the 9th Series and 12th Series B Gas Works Revenue Bonds, respectively. At August 31, 2020, there were no remaining assets held by the trustee in pledge of the defeased bonds.

Defeased debt of the Company (bonds issued by the Company payable from the proceeds of irrevocably pledged assets) at August 31, 2019 was as follows (thousands of U.S. dollars):

	Latest date maturing to	Interest rate		Bonds outstanding
9th Series	08/01/40	5.25 %	$	61,455
12th Series B	05/15/20	7.00		5,595
Total			$	67,050

The assets pledged, primarily noncallable U.S. government securities, had a market value of $69.2 million at August 31, 2019, bearing interest on face value from 1.25% to 5.88%. In FY 2019, the Fiscal Agent with respect to the Gas Works Revenue Bonds (Escrow Agent with respect to the Escrow Deposit Agreement), paid the maturing principal of the Defeased Bonds in the amount of $5.4 million in a manner consistent with the Notices of Defeasance for the 12th Series B Gas Works Revenue Bonds.

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.

(10) Defined Benefit Pension Plan

(a) Plan Description

The single employer Pension Plan provides pension benefits for all eligible employees of PGW and other eligible class employees of PFMC and PGC.

The Pension Plan provides 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 thirty 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 PGW to the Sinking Fund Commission of the City, which serves as the Trustee. Management believes that the Pension Plan is in compliance with all applicable laws.

(b) Benefits Provided

Normal Retirement Benefits: 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 ten 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.

Death Benefits: Before retirement, the death beneficiary of deceased active participants or of deferred vested participants are entitled to vested benefits provided such participants died after having attained age 45 and completed at least fifteen years of Credited Service and whose age plus years of credited service equals at least 65 or whom have completed at least fifteen years (effective May 15, 2015 – formerly twenty years) of Credited Service regardless of age. The benefit is payable for the death beneficiary's remaining lifetime equal to the amount the participant would have received had the participant retired due to a disability on the day preceding his/her death and elected the 100% contingent annuitant option.

Disability Benefits: Disability benefits are the same as the Normal Retirement Benefits and are based on Final Average Compensation and Credited Service as of the date of disability.

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

Except as noted in the following paragraph, covered employees are not required to contribute to the Pension Plan.

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 defined-contribution 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.

(c) Employees Covered by Benefit Terms

At June 30, 2020, the date of the most recent actuarial valuation, the Pension Plan membership consisted of the following:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving them	2,514
Participants:	
Vested	896
Nonvested	267
Total participants	1,163
Total membership	3,677

(d) Contributions

The Pension Plan funding policy provides for periodic employer contributions at actuarially determined amounts that are sufficient to accumulate assets to pay benefits when due considering employee contributions required for new hires after December 2011 who elect to participate in the Pension Plan. The employer contribution is determined using the Projected Unit Credit actuarial funding method. For the fiscal years ended August 31, 2020 and 2019, the actuarially determined employer contribution was $26.8 million and $28.8 million, respectively. For the fiscal years ended August 31, 2020 and 2019, PGW contributed $29.2 million and $28.8 million, respectively. The contributions for fiscal years ended August 31, 2020 and 2019 were based on the direction of the City of Philadelphia Director of Finance.

Employee contributions were approximately $1.5 and $1.2 million in the plan year ended June 30, 2020 and June 30, 2019, respectively.

(e) Net Pension Liability

The Company's net pension liability as of August 31, 2020 and 2019 was measured as of June 30, 2020 and 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2020 and June 30, 2019, respectively.

The total pension liability was determined using the entry age normal actuarial method and the following actuarial assumptions:

	2020	2019
Inflation	2.00 %	2.00 %
Investment rate of return	7.30	7.30
Salary increases		
Years of service		
—	8.86	4.50
1	8.59	4.50
2	8.31	4.50
3	8.04	4.50
4	7.77	4.50
5	7.49	4.50
6	7.22	4.50
7	6.94	4.50
8	6.67	4.50
9	6.39	4.50
10	6.12	4.50
11	5.84	4.50
12	5.57	4.50
13	5.29	4.50
14	5.02	4.50
15	4.74	4.50
16	4.54	4.50
17	4.33	4.50
18	4.12	4.50
19	3.91	4.50
20 or more	3.71	4.50

Mortality rates: Mortality rates for FY 2019 were based on the RP-2014 mortality tables for males and females generationally projected with scale MP-2018. Mortality rates for FY 2020 were based on the Pri-2012 mortality tables projected generationally from the central year using Scale MP-2020. The mortality rates for FY 2020 were updated based upon the experience study using retirement rates for active and terminated vested participants from 2014 through 2019.

Long-term rate of return: The long-term expected rate of return on Pension Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Pension Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class for FY 2020 are summarized in the following table:

Asset class	Minimum	Maximum	Target	Expected annual return
Domestic equity	35.0 %	55.0 %	45.0 %	8.7 %
International equity	10.0	30.0	20.0	8.8
Fixed income	25.0	45.0	35.0	5.0
Cash equivalents	—	10.0	—	
			100.0 %	

Discount rate: The discount rate used to measure the total pension liability at June 30, 2020 and 2019 was 7.3%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that Company contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee contributions. Based on those assumptions, the Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees.

Therefore, the long-term expected rate of return on Pension Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

(Thousands of U.S. dollars)

		Increase (decrease)		
		Total pension liability (a)	**Plan fiduciary net position (b)**	**Net pension liability (a)-(b)**
Balances at September 1, 2019	$	800,486	553,240	247,246
Changes for the year:				
Service cost		6,400	—	6,400
Interest		56,893	—	56,893
Differences between expected and actual experience		(3,034)	—	(3,034)
Contributions – employer		—	29,414	(29,414)
Contributions – employee		—	1,520	(1,520)
Net investment income		—	14,286	(14,286)
Benefit payments, including refunds of employee contributions		(55,061)	(55,061)	—
Administrative expenses		—	(168)	168
Change in assumptions		(24,891)	—	(24,891)
Net changes		(19,693)	(10,009)	(9,684)
Balances at August 31, 2020	$	780,793	543,231	237,562

Changes in Net Pension Liability

(Thousands of U.S. dollars)

	Increase (decrease)		
	Total pension liability (a)	**Plan fiduciary net position (b)**	**Net pension liability (a)-(b)**
Balances at September 1, 2018	$ 804,507	543,246	261,261
Changes for the year:			
Service cost	6,554	—	6,554
Interest	57,241	—	57,241
Differences between expected and actual experience	(12,089)	—	(12,089)
Contributions – employer	—	28,570	(28,570)
Contributions – employee	—	1,249	(1,249)
Net investment income	—	34,260	(34,260)
Benefit payments, including refunds of employee contributions	(53,893)	(53,893)	—
Administrative expenses	—	(192)	192
Change in assumptions	(1,834)	—	(1,834)
Net changes	(4,021)	9,994	(14,015)
Balances at August 31, 2019	$ 800,486	553,240	247,246

Sensitivity of the net pension liability to changes in the discount rate: The following table presents the net pension liability of the Company at June 30, 2020, calculated using the discount rate of 7.30%, as well as what the Company's net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.30%) or one-percentage-point higher (8.30%) than the current rate:

	1% Decrease 6.30%	**Current discount rate 7.30%**	**1% Increase 8.30%**
		(Thousands of U.S. dollars)	
Net pension liability	$ 325,853	237,562	163,926

Pension Plan's fiduciary net position: Detailed information about the Pension Plan's fiduciary net position is available in the separately issued Pension Plan financial report. Requests for additional information should be addressed to Chief Investment Officer, Philadelphia Board of Pensions and Retirements, 1500 John F. Kennedy Boulevard, Two Penn Center Plaza, 17th Floor, Philadelphia, PA 19102.

(Continued)

(f) Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the years ended August 31, 2020 and 2019, the Company recognized pension expense of $19.5 million and $30.3 million, respectively. At August 31, 2020 and 2019, the Company reported deferred outflows of resources and deferred inflows of resources related to the pension from the following sources (thousands of U.S. dollars):

	August 31, 2020		August 31, 2019	
	Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$ 3,499	8,047	8,067	8,949
Changes of assumptions	—	20,100	—	5,039
Net difference between projected and actual earnings on pension plan investments	14,742	—	—	4,242
Contributions made after measurement date	6,167	—	6,354	—
Total	$ 24,408	28,147	14,421	18,230

The $6.2 million reported as deferred outflows of resources related to employer contributions made after the measurement date as of June 30, 2020 will be recognized as a reduction of the net pension liability in the Company's FY 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (thousands of U.S. dollars):

Fiscal year:	
2021	$ (9,086)
2022	(5,871)
2023	8
2024	5,043
2025	—
Thereafter	—

(g) Fair Value Measurements

The following table sets forth by level, within the fair value hierarchy described in note 1(o), the plan's assets at fair value as of June 30, 2020 (thousands of U.S. dollars):

	Level 1	Level 2	Level 3	Total
Corporate bonds	$ —	81,814	—	81,814
Common and preferred stock	327,817	22,888	3	350,708
U.S. government securities	41,481	39,648	—	81,129
Financial agreements	—	—	—	—
Asset backed securities	—	7,506	—	7,506
Municipal obligations	—	1,201	—	1,201
	$ 369,298	153,057	3	522,358

The following table sets forth by level, within the fair value hierarchy described in note 1, the plan's assets at fair value as of June 30, 2019 (thousands of U.S. dollars):

	Level 1	Level 2	Level 3	Total
Corporate bonds	$ —	80,787	—	80,787
Common and preferred stock	346,141	25,897	2	372,040
U.S. government securities	44,028	29,290	—	73,318
Financial agreements	—	—	39	39
Asset backed securities	—	9,095	—	9,095
Municipal obligations	—	2,469	—	2,469
	$ 390,169	147,538	41	537,748

(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 retirees and their beneficiaries and dependents in accordance with their retiree medical program.

The OPEB Plan comprises (1) the PGW OPEB Trust (the Trust), which is used to receive, hold, and disburse assets accumulated to pay for some of the postemployment benefits other than pensions provided by PGW to its eligible retired employees and other eligible beneficiaries and (2) OPEB expenses paid for directly by PGW out of its general resources rather than through the Trust. The Trust was established for the exclusive benefit of PGW's retired employees and other eligible beneficiaries designated under the plan. Management believes that the OPEB Plan is in compliance with all applicable laws.

(b) Benefits Provided

Medical Benefits: For pre-65 retirees, a choice of medical plans is offered through Independence Blue Cross including Personal Choice, Blue Cross Blue Shield with Major Medical, or Keystone HMO's. Employees who retire after December 1, 2001 are provided the Keystone 5 Plan at PGW's expense and they can buy up to a more expensive plan. Employees who retire on or after September 1, 2007 are provided the Keystone 10 Plan at PGW's expense, and they can buy up to a more expensive plan. Union employees who retire after August 31, 2011 are provided the Keystone 15 Plan at PGW's expense and can buy up to a more expensive plan. Management employees who retire after August 31, 2011 continue to receive the Keystone 10 as the base plan and can buy up to a more expensive plan.

Reinsurance provides specific stop-loss coverage of $0.3 million on pre-65 Medical and Prescription Drug claims.

Eligible pre-65 retirees who relocate outside of the Keystone coverage area may elect to participate in the PGW Retiree Health Reimbursement Arrangement (HRA). Under the HRA, the Keystone base plan premium-equivalent will be credited to a participant's HRA account and will be available to reimburse the participant for eligible medical insurance premiums.

Medicare eligible retirees are provided a fully insured Medicare Supplement Plan through Independence Blue Cross.

Opt-out benefits of $1,500 per year for single coverage and $3,000 per year for married coverage are available to eligible retirees. This benefit is not available to a married couple who both retired from PGW and who are eligible for Medicare benefits. Retirees can maintain prescription drug and dental coverage even if they opt out of medical coverage.

Prescription Drug Benefits: Employees who retired on or after April 15, 1976 and prior to December 1, 2001, are offered a Prescription Drug Plan that has been established specifically for retirees and is separate from the plan that is offered to active employees. The retiree Prescription plan consists of a $2 copay for generic drugs, a $2 copay for brand name drugs when no generic drugs are available, and a $15 copay for brand name drugs when generic drugs are available. There are no deductibles and no lifetime maximums. Employees who retired prior to April 15, 1976 or on or after December 1, 2001 but before September 1, 2007 have a $5 copay for generics and a $10 copay for brand drugs. Employees who retire on or after September 1, 2007 have a $5 copay for generics and a $15 copay for brand drugs.

Effective, January 1, 2012, PGW moved Medicare eligible retirees into an Employee Group Waiver Plan arrangement. Covered drugs and copays remain the same. Prescription drug benefits are self-funded for all retirees.

Dental Benefits: For employees who retired after April 15, 1978, a basic dental plan is offered at no cost to the retiree. For employees who retired after June 1, 1984, an enhanced dental plan is offered. For eligible retirees who enroll in the enhanced dental plan, the retiree must pay the difference between the basic and enhanced plans. The dental plans were fully insured through August 31, 2016. Effective September 1, 2016, the dental benefits are self-funded.

Death Benefits: Nonunion employees are offered voluntary life insurance equal to two times their salary at retirement. At age 65, the life insurance benefit decreases by 5.0% per year for fifteen years until the benefit equals 25.0% of the original life insurance benefit at age 65. PGW pays the cost of the first $75,000 of coverage. Retirees in this category pay $0.35 per $1,000 per month for coverage in excess of $75,000.

Union employees are offered voluntary life insurance equal to one times their salary at retirement. At retirement, the life insurance benefit decreases by 10.0% per year for five years until the benefit equals 50.0% of the original life insurance benefit at retirement. Retirees in this category pay $0.35 per $1,000 of coverage per month, PGW pays the balance.

Upon the death of an active employee prior to satisfying the requirements for Preretirement Spouse's Death Benefits, surviving spouses and dependents are entitled to receive two years of health coverage paid by PGW. Upon the death of an active employee on or after satisfying the requirements for Preretirement Spouse's Death Benefits, surviving spouses and dependents are entitled to receive health coverage for life (or for five years if hired on or after May 21, 2011 if Union or hired on or after December 21, 2011 if Nonunion) paid by PGW.

Contributions: The OPEB Plan 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 the Keystone 5/Keystone 10/Keystone 15 plan at PGW's expense and can buy up to a more expensive plan. Retirees also contribute toward enhanced dental plan and life insurance coverage as described above. PGW pays 100.0% of the cost for the prescription drug plan after drug copays.

(c) Participants Covered

At December 31, 2019, the date of the latest actuarial valuation, the OPEB Plan's combined membership consisted of the following:

	Number
Retirees	1,455
Beneficiaries	408
Active employees – Union	1,144
Active employees – Management	527
Total number of participants	3,534

(d) Contributions

Contributions to the OPEB Plan are the amounts received (additions) from PGW as sponsor of the Plan. These contributions include both amounts paid by PGW out of general resources to fund benefits on a pay-as-you-go basis, and contributions related to rate surcharges approved by the PUC in May 2010 and continued in July 2015. For the OPEB Plan year ended December 31, 2019, PGW contributed $28.8 million on a pay-as-you-go basis, $16.0 million resulting from rate surcharges, and $2.5 million of its resources. For the OPEB Plan year ended December 31, 2018, PGW contributed $28.7 million on a pay-as-you-go basis, $16.0 million resulting from rate surcharges, and $2.5 million of its resources.

(e) Net OPEB Liability

The Company's net OPEB liability as of August 31, 2020 and 2019 was measured as of December 31, 2019 and 2018, and the OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2019 and 2018, respectively. The September 1, 2018 actuarial valuation was rolled forward to the December 31, 2018 measurement date.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and are subject to continual revision as actual amounts are compared to past expectations and new estimates are made about the future. 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.

The total OPEB liability was determined using the entry age normal actuarial method and the following actuarial assumptions used to value the postemployment medical liabilities can be categorized into the following three groups:

- *Benefit assumptions:* the initial per capita cost rates for medical coverage, and the face amount of employer-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 demographic assumptions were updated based upon the 2019 experience study using data from 2015 through 2018.

- *Economic assumptions:* the discount rate and health care cost trend rates.

Benefit assumptions:

- *Per capita claims:* Using actuarial standards, specifically Actuarial Standard of Practice No. 6, *Measuring Retiree Group Benefits Obligations and Determining Retiree Group Benefits Program Periodic Costs or Actuarially Determined Contributions (ASOP6)*, the annual age specific per capital claims cost rate were projected at the following assumed trend rates for future years (whole U.S. dollars):

	Medical		
Age	**Existing retirees and dependents**	**Future retirees and dependents**	**Prescription drug**
<50	$ 7,196	7,174	2,382
50–54	8,200	8,176	2,768
55–59	10,008	9,978	3,497
60–64	12,323	12,286	4,271
65–69	2,475	2,421	4,107
70–74	2,386	2,334	4,883
75–79	2,536	2,481	5,226
80–84	2,829	2,767	5,278
85+	3,086	3,019	5,099

- *Life insurance:* The claims cost for life insurance is based on the actuarial present value of projected life insurance claims increased by 15.0% to reflect the cost of the insurance funding vehicle.
- *Morbidity:* The below healthcare cost for prescription drug coverage and pre-65 medical coverage reflects the following changes due to increased or decreased usage as a result of aging:

Age	Medical	Prescription Drug
50–54	4.20 %	5.10 %
55–59	4.00	4.20
60–64	4.60	4.30
65–69	(2.20)	5.10
70–74	0.90	1.90
75–79	1.90	0.50
80–84	3.00	(1.30)
85+	—	—

Demographic assumptions:

- *Mortality rates:* Mortality rates for FY 2019 were based on the sex-distinct RP-2014 Employee, Healthy Annuitant and Disabled Retiree Mortality tables (head-count weighted) projection with scale MP-2018. Mortality rates for FY 2020 were based on the Public Pension General (PUB-G) Employee, Healthy Annuitant and Disabled Retiree Mortality Tables (head-count weighted) projected with scale MP-2019.
- *Retirement rates:* Retirement rates applicable once an employee is eligible for retirement benefits vary by age and service with rates as follows:

Age	Service less than 30–years	Service at least 30–years
55–60	10.0 %	15.0 %
61	10.0	30.0
62–64	25.0	50.0
65–69	50.0	50.0
70+	100.0	100.0

- *Withdrawal rates:* Turnover rates applicable before an employee is eligible for retirement benefits vary by age and service with illustrative rates as follows:

	Years of service					
Age	0	1	2	3	4	5
20	23.20 %	17.40 %	14.40 %	11.60 %	8.80 %	5.80 %
25	18.80	14.00	11.80	9.40	7.00	4.60
30	14.80	11.00	9.20	7.40	5.60	3.60
35	11.20	8.40	7.00	5.60	4.20	2.80
40	8.80	6.60	5.60	4.40	3.40	2.20
45	7.20	5.40	4.60	3.60	2.80	1.80
50	5.20	3.80	3.20	2.60	2.00	1.20
55	—	—	—	—	—	—

- *Salary increases: 4.5%*
- *Participation rate:* Participation assumes 100% of future retirees who meet the eligibility requirements will participate in the postemployment welfare plans upon retirement.

- *Disability rates:* Disability rates vary by age with illustrative rates as follows:

Age	Percent expected to become disabled in the next year
30	0.06 %
35	0.07
40	0.11
45	0.22
50	0.46
55	1.02
60	1.62

Economic assumptions:

- *Long-term rate of return:* The long-term expected rate of return on OPEB Plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of OPEB Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by expected inflation. The target allocation for each major asset class as of December 31, 2019 is summarized in the following table:

Asset class	Minimum	Maximum	Target	Expected annual return
Domestic equity large cap	27.5 %	37.5 %	32.5 %	8.2 %
Domestic equity small cap	10.0	15.0	12.5	7.9
Emerging market equity	5.0	10.0	7.5	11.2
International equity	15.0	20.0	17.5	8.5
Fixed income	20.0	40.0	30.0	3.2
Commodities/Real Assets	—	10.0	—	—
Cash equivalents	—	5.0	—	—
			100.0 %	

- *Healthcare cost trend:*

Fiscal year beginning (January 1)	Healthcare cost trend rates			
	Medical (pre-65)	**Medical (post-65)**	**Prescription Drugs**	**Dental**
2020	5.5 %	4.5 %	7.0 %	4.0 %
2021	5.0	4.5	6.5	4.0
2022	4.5	4.5	6.0	4.0
2023	4.5	4.5	5.5	4.0
2024	4.5	4.5	5.0	4.0
2025+	4.5	4.5	4.5	4.0

- *Discount rate:* The discount rate used for determining the total OPEB liability is the long-term expected rate of return on plan investments of 7.30% as of December 31, 2019, December 31, 2018 and December 31, 2017, which represents the long-term expected rate of return on Plan investments at the applicable measurement date.

Changes in Net OPEB Liability

(Thousands of U.S. dollars)

	Increase (decrease)		
	Total OPEB liability (a)	**Plan fiduciary net position (b)**	**Net OPEB liability (a)-(b)**
Balances at September 1, 2019	$ 520,533	184,454	336,079
Changes for the year:			
Service cost	5,867	—	5,867
Interest	37,374	—	37,374
Differences between expected and actual experience	(16,787)	—	(16,787)
Assumption changes	(24,572)	—	(24,572)
Benefit Payments	(28,845)	—	(28,845)
Contributions-employer	—	47,345	(47,345)
Project investment return on year	—	14,139	(14,139)
Plan asset gain/(loss)	—	28,305	(28,305)
Benefit payments	—	(28,845)	28,845
Administrative expenses and bank fees	—	(37)	37
Net changes	(26,963)	60,907	(87,870)
Balances at August 31, 2020	$ 493,570	245,361	248,209

Changes in Net OPEB Liability

(Thousands of U.S. dollars)

		Increase (decrease)	
	Total OPEB liability (a)	Plan fiduciary net position (b)	Net OPEB liability (a)-(b)
Balances at September 1, 2018	$ 559,631	180,743	378,888
Changes for the year:			
Service cost	6,268	—	6,268
Interest	40,262	—	40,262
Differences between expected and actual experience	(64,606)	—	(64,606)
Assumption changes	7,707	—	7,707
Benefit Payments	(28,729)	—	(28,729)
Contributions-employer	—	47,229	(47,229)
Project investment return on year	—	13,868	(13,868)
Plan asset gain/(loss)	—	(28,622)	28,622
Benefit payments	—	(28,729)	28,729
Administrative expenses and bank fees	—	(35)	35
Net changes	(39,098)	3,711	(42,809)
Balances at August 31, 2019	$ 520,533	184,454	336,079

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate: The following presents the Net OPEB liability of the Company at December 31, 2019, as well as what the Net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current discount rate:

	1% Decrease 6.3%	Current discount rate 7.3%	1% Increase 8.3%
		(Thousands of U.S. dollars)	
Net OPEB liability	$ 309,766	248,209	197,259

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates: The following presents the Net OPEB liability of the Company at December 31, 2019, as well as what the Net OPEB liability would be if it were calculated using healthcare cost trend rates are one-percentage-point lower or one-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current healthcare cost trend rates	1% Increase
		(Thousands of U.S. dollars)	
Net OPEB liability	$ 197,715	248,209	309,704

OPEB Plan's fiduciary net position: Detailed information about the OPEB Plan's fiduciary net position is available in the separately issued OPEB Plan financial report. Requests for additional information should be addressed to Administrator – PGW OPEB Trust, 800 W. Montgomery Avenue, Philadelphia, Pennsylvania 19122.

(f) OPEB Expense and Deferred Outflow of Resources and Deferred Inflows of Resources Related to Other Postemployment Benefits

For the years ended August 31, 2020 and 2019, the Company recognized OPEB expense of $10.9 million and $28.4 million, respectively. At August 31, 2020 and 2019, the Company reported deferred outflows of resources and deferred inflow of resources related to other postemployment benefits from the following sources (thousands of U.S. dollars):

	August 31, 2020		August 31, 2019	
	Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$ —	60,526	—	67,281
Changes of assumptions	29,177	20,954	42,995	2,593
Net difference between projected and actual earnings on OPEB plan investments	—	10,043	15,919	—
Contributions made after measurement date	32,021	—	32,262	—
Total	$ 61,198	91,523	91,176	69,874

The $32.0 million and $32.3 million reported as deferred outflows of resources related to employer contributions made after the measurement date as of December 31, 2019 and 2018, respectively, will be recognized as a reduction of the net OPEB liability in FY 2020 and FY 2019, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (thousands of U.S. dollars):

Fiscal year:		
2021	$	(18,278)
2022		(10,548)
2023		(19,588)
2024		(13,932)
2025		—
Thereafter		—

(g) Fair Value Measurements

The following table sets forth by level, within the fair value hierarchy described in note 1(o), the plan's assets at fair value as of December 31, 2019 (thousands of U.S. dollars):

		Level 1	Level 2	Level 3	Total
Bond mutual funds	$	233,857	—	—	233,857
U.S. government securities		11,406	—	—	11,406
	$	245,263	—	—	245,263

All investments of the OPEB Plan at December 31, 2018 are publicly traded mutual funds categorized in Level 1 of the fair value hierarchy as described in note 1(o).

(12) Defined Contribution Pension Plan

PGW contributes to a defined-contribution pension plan for all employees hired after May 21, 2011 (Union) or December 8, 2011 (Nonunion) who elect not to contribute to the defined-benefit plan. The Defined Contribution Plan (DC) is administered by the PGW Investment Committee. Benefit terms, including contribution requirements, for the DC Plan are established and may be amended by Ordinance of the City. For each employee in the DC Plan, the Company is required to contribute annually 5.5% of applicable wages to an individual employee account. Employees are not required to make contributions to the plan. For the years ended August 31, 2020 and 2019, the Company recognized pension expense of $1.7 million and $1.6 million, respectively, related to contributions to the DC Plan.

Participants are immediately vested in Company contributions and earnings on Company contributions.

The Company had no accrued liabilities for contributions payable to the DC Plan at August 31, 2020 and 2019.

(Continued)

The DC Plan is a "tax-qualified" 401 (a) plan that is designed to comply with appropriate federal tax laws under the Internal Revenue Code (Tax Code). The DC Plan is a "defined contribution" plan as defined by the Tax Code. It is considered a "defined contribution" plan because the benefit consists of a defined contribution made by PGW for the benefit of the employee. The defined contribution is calculated as an amount equal to five and one half percent (5.5%) of the employee's applicable wages. These amounts are deposited into an account for the benefit of the employee under the guidelines of the plan. The Company contributed $1.7 million and $1.6 million in FY 2020 and FY 2019, respectively. PGW's contributions are accounted for as part of administrative and general expenses in the statements of revenues and expense and changes in net position.

(13) Pollution Remediation Obligation

The pollution remediation obligations at August 31, 2020 and 2019 were $35.2 million and $39.1 million, respectively, which reflect the provisions of GASB Statement No. 49*, Accounting and Financial Reporting for Pollution Remediation Obligations*.

The Company recorded a reduction in the total liability for pollution remediation obligations of $3.9 million in FY 2020 and an addition in the total liability for pollution obligations of $4.9 million in FY 2019. The pollution remediation liability is reflected in other noncurrent and current liabilities in the balance sheets. 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. The regulatory asset is reflected in regulator asset – environmental on the balance sheets.

(14) 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 $0.3 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 sublimits 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.

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

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 maintains $5.0 million in Environmental Liability coverage for liability arising from nonowned Disposal Sites subject to an each incident deductible of $0.1 million, as well as a $5.0 million Cyber

(Privacy) Liability policy with a $0.3 million retention covering costs arising from a data or security breach. The Cyber policy limits were increased to $10.0 million with the policy renewal effective September 1, 2019.

The Company maintains a medical stop-loss insurance program for its self-insured healthcare plans. The coverage provides for a $0.3 million deductible per covered participant.

The Company has evaluated all open claims as of August 31, 2020 and has appropriately accrued for these claims on the balance sheets.

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):

		Beginning of year reserve	Current year claims and adjustments	Claims settled	End of year reserve	Current liability amount
Fiscal year ended August 31:						
2020	$	9,560	1,973	(2,091)	9,442	5,435
2019		14,064	(1,582)	(2,922)	9,560	3,925
2018		14,377	2,910	(3,223)	14,064	6,100

(15) Commitments and Contingencies

Commitments

Commitments for major construction and maintenance contracts were approximately $34.6 million and $36.9 million, as of August 31, 2020 and 2019, respectively.

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

Fiscal year:		
2021	$	587
2022		408
2023		128

Rent expense for the fiscal years ended August 31, 2020 and 2019 amounted to $1.5 million and $2.0 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 $5.1 million per month.

(Continued)

The Company has entered into long-term and seasonal contracts with suppliers providing the Company with natural gas. The Company has the ability to fix the price of the purchase of natural gas with these contracts.

The Company's FY 2021 Capital Budget was approved by City Council in the amount of $213.4 million. Within this approval, funding was provided to continue the implementation of an 18-mile CIMR Program. The cost for this program in FY 2021 is expected to be $28.8 million. The total six-year cost of the CIMR Program is forecasted to be $183.2 million. In addition to the 18-mile CIMR Program, the FY 2021 Capital Budget includes funding for an accelerated CIMR Program which PGW will include in its DSIC surcharge. This incremental program in FY 2021 is expected to cost $35.0 million. The total six-year cost of this incremental program is forecasted to be $220.0 million. The FY 2021 Capital Budget also includes $4.3 million for the purchase of smartpoint devices for the Automatic Meter Infrastructure (AMI) units, which will replace the Automatic Meter Reading (AMR) devices. The total six-year cost of this program to replace AMR units is approximately $28.1 million.

Contingencies

The Company's material legal proceedings are as described below. The Company believes that it has valid defenses to these legal proceedings and intends to defend them vigorously. PGW records reserves for estimated losses from contingencies when information available indicates that a loss is probable and the amount of the loss, or range of loss, can be reasonably estimated. Management has assessed the following matters based on current information and made a judgment concerning their potential outcomes, considering the nature of the claim, the amount and nature of damages sought, and the probability of success. The Company is unable to predict the outcome of these legal proceedings or reasonably estimate the scope or amount of any associated costs and potential liabilities.

Philadelphia Gas Works, Petitioner v. Pennsylvania Public Utility Commission and SBG Management Services, et. al., Respondents, Pennsylvania Commonwealth Court Docket Nos. 1291 CD 2018, 1405 CD 2018 and 1404 CD 2018. These are an appeal by PGW dated October 19, 2018 from the Orders of the PUC issued (a) December 8, 2016, and the related Opinions and Orders denying reconsideration that were issued on May 18, 2018 and on August 23, 2018; (b) September 20, 2018; and (c) October 4, 2018.

Eight complaints were filed by landlords and by SBG Management Services, Inc. (collectively, SBG), the property management company that manages the day-to-day operations of certain residential properties owned by the landlords. The complaints which challenged amounts owned by SBG to PGW that, inter alia, were subject to late payment charges by PGW were divided into three groups by the Commission. The Commission's Regulations and PGW's Commission approved tariff authorizes PGW to charge interest (in the form of a late payment charge) at the rate of 1.5% per month on the overdue balance of a utility bill. In addition, if a customer does not pay for natural gas services provided by PGW, a municipal lien (which is created by operation of the Pennsylvania Municipal Claim and Tax Lien Law, 53 P.S. §§ 7101, et. seq. (MCTLL)) may be docketed with the appropriate local court. The Commission held that it lacks jurisdiction over unpaid amounts for natural gas service provided by PGW when a municipal lien is docketed under the MCTLL. Based upon that conclusion, the Commission determined that once a lien is docketed, PGW may not apply rules set forth in its Commission-approved tariff to the arrearage amount giving rise to the lien and may not show that arrearage amount on its monthly bills to nonpaying customers. The PUC assessed civil penalties in the total amount of approximately $0.1 million against PGW, ordered PGW to refund sums totaling approximately $1.0 million to the complainants, correct its practices in the assessment of late payment charges on unpaid balances, and modify the payment application sequence associated with partial payments. This would require PGW to make changes to PGW's billing system.

In response, PGW filed the present appeals with the Pennsylvania Commonwealth Court (at Docket Nos. 1291 CD 2018, 1404 CD 2018 and 1405 CD 2018) from the Commission's decision in each group of complaints. Oral argument before the Court took place on November 12, 2019. On December 9, 2019, the Court reversed the orders of the PUC, finding that: (i) the PUC committed an error of law in holding that it lacked jurisdiction over gas charges subject to docketed liens, (ii) the PUC committed an error of law in holding that PGW could not continue to impose late fees of 1.5% per month on delinquent accounts once the City dockets a lien, and (iii) the PUC erred in imposing penalties, ordering refunds of previously imposed late fees, and directing billing changes relating to charges subject to docketed liens.

On January 8, 2020 SBG petitioned the Pennsylvania Supreme Court ("PA Supreme Court") to reverse the decision of the Commonwealth Court. On June 23, 2020, the PA Supreme Court granted SBG's petition for appeal, and oral argument before the PA Supreme Court took place on December 1, 2020. PGW opposes any reversal of the Commonwealth Court's decision and awaits the decision of the PA Supreme Court.

At this time, PGW cannot predict the impact on PGW's collections and collections practices if the Commonwealth Court decision were reversed and/or if late payment charges could not be assessed on monthly bills with respect to arrearages that are liened. As such, PGW can provide no assurances that the impact of a reversal would not be material to PGW.

(16) Subsequent Events

The Company has evaluated events and transactions that occurred between August 31, 2020 and December 21, 2020, which is the date the financial statements were available to be issued, for possible disclosure and recognition in the financial statements and noted the following:

Sixteenth Series Bonds (1998 Ordinance)

On October 21, 2020, the City issued Gas Works Revenue Bonds, Sixteenth Series A (1998 General Ordinance) and Sixteenth Series B (1998 General Ordinance) in the par amount of $203.2 million and $50.8 million, respectively.

The Sixteenth Series A Bonds, with fixed interest rates that range from 4.0% to 5.0%, have maturity dates through 2050. The proceeds from the sale of the Sixteenth Series A Bonds were issued to finance a portion of PGW's ongoing Capital Improvement Program, pay the costs of issuing the bonds, and provide a deposit to the Sinking Fund Reserve.

The Sixteenth Series B Bonds, with fixed interest rates that range from 4.0% to 5.0%, have maturity dates through 2040. The proceeds from the sale of the Sixteenth Series B Bonds were issued to refund the Ninth Series Bonds currently outstanding and pay the costs of issuing the bonds. The gain on the refunding component was $0.3 million, which will be amortized over the life of the Sixteenth Series B Bonds. This refunding transaction provided net present value debt service savings of $14.6 million utilizing an arbitrage yield of 2.11%. The savings as a percentage of refunded bonds was 25.6%, with $10.6 million cash flow savings realized in fiscal year 2021 through fiscal year 2023.

Base Rates

On February 28, 2020, PGW filed for an increase in its distribution base rates with the PUC. The filing sought a general rate increase calculated to produce $70.0 million, or 10.5%, in additional annual operating revenues based upon a twenty-year normal weather assumption. The filing also requested to increase the fixed monthly customer charge component, as well as the volumetric delivery charge component of base rates.

On August 26, 2020, PGW filed a Joint Petition for Partial Settlement (Settlement Agreement) in which all rate case parties joined or did not oppose except the Environmental Stakeholders group that is opposing PGW’s rate increase request. The Settlement Agreement provided PGW with a general rate increase of $35.0 million in annual operating revenues in three increments: $10.0 million for service rendered on or after January 1, 2021; $10.0 million on for service rendered on or after July 1, 2021; and $15.0 million for service rendered on or after on January 1, 2022. Settlement agreements with reduced revenue requirements are typical in PUC base rate proceedings and are the product of compromise between the parties’ diverse interests. The PUC has indicated that settlement results are often preferable to those achieved at the conclusion of a fully litigated proceeding.

On October 5, 2020, the ALJ’s recommended approval of the Partial Settlement with the following modifications: (1) the start of the phased-in rate increases be delayed by six months, beginning July of 2021; (2) PGW should not file a general rate increase any sooner than January 1, 2023, absent emergency relief, tariff changes or as authorized by Commission order or industry-wide changes in regulatory policy which affect PGW’s rates; and (3) no later than 90 days following entry of the Final Order in this matter, and biannually through 2022, PGW must meet with the Commission’s Pipeline Safety Division to review PGW’s increasing costs of pipeline replacement and to develop a plan to reduce pipeline replacement costs and leaks.

On November 19, 2020, the PUC entered its Order and Opinion in the case, which granted the exceptions filed by the Commission’s Bureau of Investigation and Enforcement (I&E), the Office of Consumer Advocate (OCA), the Office of Small Business Advocate (OSBA), the Philadelphia Industrial and Commercial Gas Users Group (PICGUG), and PGW; modified the ALJ’s recommended decision regarding the settled and litigated issues; and approved the Joint Petition for Partial Settlement, in its entirety, without modification. The new rates approved by the Settlement Agreement will become effective on January 1, 2021.

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

Required Supplementary Information (Unaudited)

Schedule of Changes in Net Pension Liability and Related Ratios

(Thousands of U.S. dollars)

	Fiscal year ending 2020	2019	2018	2017	2016	2015
Total pension liability:						
Service cost	$ 6,400	6,554	6,103	5,823	5,399	4,890
Interest cost	56,893	57,241	55,718	55,443	55,903	52,377
Changes in benefit terms	—	—	—	—	—	—
Differences between expected and actual experience	(3,034)	(12,089)	15,706	2,182	(8,840)	17,961
Changes in assumptions	(24,891)	(1,834)	(3,864)	(7,952)	26,748	44,876
Benefit payments	(55,061)	(53,893)	(52,627)	(51,376)	(50,447)	(46,917)
Net change in total pension liability	(19,693)	(4,021)	21,036	4,120	28,763	73,187
Total pension liability (beginning)	800,486	804,507	783,471	779,351	750,588	677,401
Total pension liability (ending)	780,793	800,486	804,507	783,471	779,351	750,588
Plan fiduciary net position:						
Contributions – employer	29,414	28,570	29,143	27,918	21,123	21,106
Contributions – employee	1,520	1,249	1,078	852	602	393
Net investment income	14,286	34,260	44,310	61,003	2,872	24,472
Benefit payments	(55,061)	(53,893)	(52,627)	(51,376)	(50,447)	(46,917)
Administrative expense	(168)	(192)	(184)	(129)	(1,611)	(1,480)
Net change in fiduciary net position	(10,009)	9,994	21,720	38,268	(27,461)	(2,426)
Plan fiduciary net position (beginning)	553,240	543,246	521,526	483,258	510,719	513,145
Plan fiduciary net position (ending)	543,231	553,240	543,246	521,526	483,258	510,719
Net pension liability (ending)	$ 237,562	247,246	261,261	261,945	296,093	239,869
Net position as a percentage of total pension liability	69.57 %	69.11 %	67.53 %	66.57 %	62.01 %	68.04 %
Covered payroll for the year ended June 30,	$ 95,934	98,454	101,271	94,767	90,860	95,187
Net pension liability as a percentage of covered payroll	247.63 %	251.13 %	257.98 %	276.41 %	325.88 %	252.00 %

Notes to schedule:

The amounts presented in each fiscal year were determined as of the June 30 that occurred within the fiscal year

Historical information:

The Company has presented the information noted above for those years for which information is available.

Ten-year trend information will be presented prospectively.

Changes in assumptions:

Investment Rate of Return: 7.30% in 2016-2020, 7.65% in 2015, and 7.95% in 2014.

Mortality Rates Adopted:

PRI-2012 mortality tables projected generationally from the central year using Scale MP-2020 in FY 2020.

RP-2014 static mortality table in FY 2016 generationally projected with scale MP-2015 in FY 2016, MP-2016 in FY 2017, MP-2017 in FY 2018, and MP-2018 in FY 2019.

RP-2000 static mortality projected to the year of valuation prior to FY 2018.

Unaudited – see accompanying independent auditors' report.

PHILADELPHIA GAS WORKS

(A Component Unit of the City of Philadelphia)

Required Supplementary Information (Unaudited)

Schedule of Pension Contributions

(Thousands of U.S. dollars)

Fiscal year ending		2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Actuarially determined contribution	$	26,844	28,797	28,395	29,260	26,476	21,526	24,385	23,673	23,802	22,936
Contributions made		29,227	28,797	28,395	29,260	26,476	21,526	24,385	23,673	23,802	22,936
Contribution deficiency/(excess)	$	(2,383)	—	—	—	—	—	—	—	—	—
Covered payroll for the year ended August 31,	$	94,634	99,494	97,431	91,176	87,416	91,579	99,606	101,968	102,279	102,279
Contributions as a percent of covered payroll		30.88 %	28.94 %	29.14 %	32.09 %	30.29 %	23.51 %	24.48 %	23.22 %	23.27 %	22.42 %

Notes to schedule:

Actuarial Valuation Date: July 1 for FY 2015-2020 and September 1 for prior periods

Methods and assumptions used to determine contributions:

Actuarial Cost Method: Projected Unit Credit

Asset Valuation Method: Assets smoothed over a five-year period beginning in FY 2016 and market value in FY 2015 and prior periods

Amortization Method: Contributions based on greater of 20-year level dollar open amortization method or 30-year level dollar closed amortization method

Salary Increases:

Varies by participant years of service [see Note 10(e)].

4.5% in 2019 and prior periods

General Inflation: 2.0%

Investment Rate of Return: 7.30% in FY 2020-2016, 7.65% in FY 2015, and 7.95% in FY 2014 and prior

Mortality Rates: Adopted RP-2014 static mortality table in FY 2016 generationally projected

PRI-2012 mortality tables projected generationally from the central year using Scale MP-2020 in FY 2020.

RP-2014 static mortality table in FY 2016 generationally projected with scale MP-2015 in FY 2016, MP-2016 in FY 2017, MP-2017 in FY 2018, and MP-2018 in FY 2019.

RP-2000 static mortality projected to the year of valuation prior to FY 2018.

Unaudited – see accompanying independent auditors’ report.

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

Required Supplementary Information (Unaudited)

Schedule of Changes in the Net OPEB Liability and Related Ratios

(Thousands of U.S. dollars)

		Fiscal Year Ending			
		2020	**2019**	**2018**	**2017**
Total OPEB liability:					
Service cost	$	5,867	6,268	5,180	5,315
Interest cost		37,374	40,262	38,182	39,961
Differences between expected and actual experience		(16,787)	(64,606)	(5,345)	(30,973)
Changes in assumptions		(24,572)	7,707	61,382	(6,481)
Benefit payments		(28,845)	(28,729)	(29,747)	(30,370)
Net change in total OPEB liability		(26,963)	(39,098)	69,652	(22,548)
Total OPEB liability (beginning)		520,533	559,631	489,979	512,527
Total OPEB liability (ending)	$	493,570	520,533	559,631	489,979
Plan fiduciary net position					
Contributions – employer	$	47,345	47,229	48,247	48,870
Investment income		42,444	(14,754)	22,669	10,710
Benefit payments		(28,845)	(28,729)	(29,747)	(30,370)
Administrative, investment management expenses and bank fees		(37)	(36)	(49)	(30)
Net change in plan fiduciary net position		60,907	3,710	41,120	29,180
Plan fiduciary net position (beginning)		184,454	180,744	139,623	110,443
Plan fiduciary net position (ending)		245,361	184,454	180,743	139,623
Net OPEB liability (ending)	$	248,209	336,079	378,888	350,356
Plan fiduciary net position as a percentage of the total OPEB liability		49.7 %	35.4 %	32.3 %	28.5 %
Covered employee payroll for the year ended December 31,	$	125,270	120,132	118,636	109,440
Net OPEB liability as a percentage of covered employee payroll		198.14 %	279.76 %	319.37 %	320.14 %

Notes to Schedule:

The amounts presented for each fiscal year were determined as of the calendar-year end that occurred within the fiscal year

Historical information:

The Company has presented the information noted above for those years for which information is available.

Ten-year trend information will be presented prospectively.

Changes in assumptions:

Discount rate: 7.30% in 2019, in 2018, and in 2017; 7.95% in 2017.

Inflation Rate: 2.0% in 2019, in 2018, in 2017, and in 2016.

Mortality Rates:

Adopted the sex-distinct U.S. Public Pension General (PUB-G) Employee, Healthy Annuitant and Disabled Retiree in 2019.

Adopted the sex-distinct RP-2014 Employee, Healthy Annuitant and Disabled Retiree in 2018, 2017, and 2016.

Mortality Tables: (head-count weighted) with projection scale MP-2019 in 2019, MP-2018 in 2018, MP-2017 in 2017, and MP-2015 in 2016.

Unaudited – see accompanying independent auditors’ report.

PHILADELPHIA GAS WORKS

(A Component Unit of the City of Philadelphia)

Required Supplementary Information (Unaudited)

Schedule of OPEB Contributions

(Thousands of U.S. dollars)

Fiscal year ending		**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**
Actuarially determined contribution	$	25,972	33,405	37,638	37,639	41,782	37,980	38,062	41,216	47,071	46,622
Contributions made		47,105	47,548	47,114	48,065	49,551	48,847	44,362	42,242	44,486	41,719
Contribution deficiency/(excess)	$	(21,133)	(14,143)	(9,476)	(10,426)	(7,769)	(10,867)	(6,300)	(1,026)	2,585	4,903
Covered employee payroll for the year ended August 31,	$	131,595	128,642	130,171	119,667	112,956	114,074	115,174	110,120	106,308	106,943
Contributions as a percent of covered employee payroll		35.80 %	36.96 %	36.19 %	40.17 %	43.87 %	42.82 %	38.52 %	38.36 %	41.85 %	39.01 %

Notes to schedule:

Actuarial Valuation Date: December 31, 2019 for 2020, September 1 (beginning of each fiscal year) in prior periods

Methods ad assumptions used to determine contributions:

Actuarial Cost Method: Entry Age Normal Cost Method

Asset Valuation Method: Market Value

Per Cpita Claims: ASOP Actuarial Standards

Salary Increases 4.5% in FY 2015 through 2020; and 3.0% in prior periods

General Inflation 2.0% in FY 2020 and 3.0% in prior periods

Participation Rates: Assumed 100.0% of future retirees who meet the eligibility requirements will participate in the OPEB plan. Current retirees who have opted out of coverage are assumed to continue to receive opt out payments in the future.

Life Insurance: The claims cost for life insurance is based on the actuarial present value of projected life insurance claims increased by 15.0% to reflect the cost of the insurance funding vehicle.

Discount rate: 7.30% in 2020 through 2017, 7.95% in FY 2016 through FY 2013, 8.00% in FY 2012 and FY 2011, and 5% in prior periods

Mortality Rates Adopted:

Sex-distinct U.S. Public Pension General (PUB-G) Employee, Healthy Annuitant and Disabled Retiree Mortality Tables (head-count weighted) projected with scale MP-2019 in FY 2020.

Sex-distinct RP-2014 Employee, Healthy Annuitant and Disabled Retiree Mortality tables (head-count weighted) projection with scale MP-2018 in FY 2019, MP-2017 in FY 2018, MP-2016 in FY 2017, MP-2015 in 2016, and MP-2014 in FY 2015.

2014 Static Annuitant and Non-Annuitant Mortality table as set forth in Treasury Regulation Section 1.430(h)(3)-1e in FY 2014.

2013 Static Annuitant and Non-Annuitant Mortality table as set forth in Treasury Regulation Section 1.430(h)(3)-1e in FY 2013.

2012 Static Annuitant and Non-Annuitant Mortality table as set forth in Treasury Regulation Section 1.430(h)(3)-1e in FY 2012.

RP2000 Combined Health Mortality Table in FY 2011 and prior years.

Unaudited – see accompanying independent auditors' report.