BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

VOLUME IV (PART 2 OF 3)

RESPONSES TO FILING REQUIREMENTS

ON BEHALF OF

PHILADELPHIA GAS WORKS

PHILADELPHIA GAS WORKS

R-2009-2139884

DECEMBER 2009

Philadelphia Gas Works' Base Rate Filing

II. RATE OF RETURN

II.A.5. Supply projected capital requirements and sources of Company, Parent and System (consolidated) for each of future three years.

RESPONSE:

Attached is PGW's sources and uses of cash for capital improvement expenditures for Fiscal Years 2008 through 2015.

PHILADELPHIA GAS WORKS
SOURCES AND USES OF CASH FOR CAPITAL IMPROVEMENT EXPENDITURES
FISCAL YEARS 2006 THROUGH 2015
(000's)

	Actual 2006	Actual 2007	Actual 2008	Estimate 2009	Budget 2010	Forecast 2011	Forecast 2012	Forecast 2013	Forecast 2014	Forecast 2015
SOURCES:										
Bond Proceeds @ Par	$ -	$ 200,000	$ -	$ -	$ 150,000	$ -	$ -	$ -	$ -	$ -
Proceeds From Capital										
Leasing										
Other Financings	4,055	9,346	815	7,710	26,495	24,656	42,625	42,670	45,067	70,737
Total Sources	4,055	209,346	815	7,710	176,495	24,656	42,625	42,670	45,067	70,737
USES:										
Changes in Capital										
Improvement Fund	(63,065)	132,498	(60,927)	(47,881)	90,875	(55,742)	(42,983)	(29,073)	(26,403)	-
Discount & Issuance Expense		(6,025)			2,400					
Deposit to Sinking Fund		12,855			11,100					
Lease Debt Service	5,807									
Funds Deposited in Escrow										
Capital Expenditures	61,313	70,018	61,742	55,591	72,120	80,398	85,608	71,743	71,470	70,737
Total Uses	4,055	209,346	815	7,710	176,495	24,656	42,625	42,670	45,067	70,737
Capital Improvement & Lease Funds										
Deposit	3,037	197,498	9,073	(2,881)	140,875	(5,742)	(2,983)	(4,073)	-	-
Drawdown	(66,102)	(65,000)	(70,000)	(45,000)	(50,000)	(50,000)	(40,000)	(25,000)	(26,403)	-
Changes in Fund	(63,065)	132,498	(60,927)	(47,881)	90,875	(55,742)	(42,983)	(29,073)	(26,403)	-
Balance End of Period	39,636	172,134	111,207	63,326	154,201	98,459	55,476	26,403	$ -	$ -

II. RATE OF RETURN

II.A.6. Provide a schedule of debt and preferred stock of Company, Parent and System (consolidated) as of test year-end and latest date, detailing for each issue (if applicable):

II.A.6.a. Date of issue

II.A.6.b. Date of maturity

II.A.6.c. Amount issued

II.A.6.d. Amount outstanding

II.A.6.e. Amount retired

II.A.6.f. Amount reacquired

II.A.6.g. Gain on reacquisition

II.A.6.h. Coupon rate

II.A.6.i. Discount or premium at issuance

II.A.6.j. Issuance expenses

II.A.6.k. Net proceeds

II.A.6.l. Sinking Fund requirements

II.A.6.m. Effective interest rate

II.A.6.n. Dividend rate

II.A.6.o. Effective cost rate

II.A.6.p. Total average weighted effective Cost Rate

RESPONSE:

Please see the attached debt schedule for the response to:

a, b, c, d, e, h, i, j, k, l, and m.

f Not applicable
g Not applicable
n Not applicable
o Not applicable
p Not applicable

PHILADELPHIA GAS WORKS
DEBT SCHEDULE

Name of Bond	A Date of Issue	B Date of Maturity	C Amount Issued	D Amount Outstanding	E Amount Retired	H Coupon Rate	I Discount at Issuance	I Premium at Issuance	J Issuance Expenses	K Net Proceeds
1975 Bond Ordinance										
Series 11 "C" T.E.C.A.	January 1, 1989	2012	$ -	$ 16,818,292.00	$ -	$ -	$ -	$ -	$ -	$ -
Series 11 "C"	January 1, 1989	2015	132,520,000.00	5,064,435.00	127,455,565.00	6.10%-7.25%	1,546,508.40	-	1,710,361.90	129,263,129.70
Series 16 th	June 1, 1999	2015	62,315,000.00	16,915,000.00	45,400,000.00	4.00%-5.50%	-	(1,474,644.60)	1,218,352.40	62,571,292.20
Series 17 th	April 2, 2003	2026	186,705,000.00	140,225,000.00	46,480,000.00	4.00%-5.375%	1,653,226.21	(9,893,346.85)	12,026,138.58	182,918,980.06
Series 18 th	October 14, 2004	2021	57,820,000.00	50,470,000.00	7,350,000.00	5.00%-5.25%	421,894.35	(4,850,688.50)	1,551,080.57	60,697,713.58
Series 19 th	May 15, 2007	2024	14,450,000.00	14,450,000.00	-	5.00%	83,777.19	(964,932.05)	1,524,053.79	13,807,101.07
				243,942,727.00						
1998 Bond Ordinance										
FIRST SERIES A	June 1, 1998	2026	161,640,000.00	84,995,000.00	76,645,000.00	4.50%-5.50%	-	(3,600,075.50)	3,140,361.02	162,099,714.48
FIRST SERIES C	June 1, 1998	2014	21,995,000.00	8,615,000.00	13,380,000.00	3.85%-5.00%	130,201.40	-	455,146.87	21,409,851.73
SECOND SERIES	June 1, 1999	2029	113,965,000.00	8,370,000.00	105,595,000.00	4.625%-5.375%	4,043,373.25	-	2,672,303.55	107,249,323.20
THIRD SERIES	June 1, 2001	2013	120,225,000.00	8,515,000.00	111,710,000.00	4.00%-5.50%	226,845.95	-	6,220,239.17	113,777,914.88
FOURTH SERIES	December 30, 2002	2032	125,000,000.00	92,585,000.00	32,415,000.00	4.00%-5.25%	855,757.34	-	10,049,029.32	114,095,213.34
FIFTH SERIES	October 14, 2004	2034	120,000,000.00	120,000,000.00	-	4.00%-5.25%	939,086.18	(5,974,875.65)	8,417,214.70	116,618,574.77
FIFTH SERIES A	October 14, 2004	2035	30,000,000.00	30,000,000.00	-	VARIABLE	119,436.03	-	374,464.50	29,506,099.47
SIXTH SERIES	January 20, 2006	2031	313,390,000.00	-	313,390,000.00	VARIABLE	949,571.70	-	13,396,135.30	299,044,293.00
SEVENTH SERIES	May 15, 2007	2038	200,000,000.00	196,955,000.00	3,045,000.00	4.00%-5.00%	1,089,808.40	(11,657,912.30)	4,562,587.27	206,005,516.63
SEVENTH SERIES Refunding	May 15, 2007	2029	30,900,000.00	30,900,000.00	-	5.00%	168,061.08	(2,214,398.80)	601,885.35	32,344,452.37
EIGHT SERIES A	August 20, 2009	2017	58,285,000.00	58,285,000.00	-	4.00%-5.25%	-	(422,616.80)	689,542.21	58,018,074.69
EIGHT SERIES B	August 20, 2009	2031	105,000,000.00	105,000,000.00	-	VARIABLE	-	-	665,467.59	104,334,532.41
EIGHT SERIES C	August 20, 2009	2031	50,000,000.00	50,000,000.00	-	VARIABLE	-	-	-	50,000,000.00
EIGHT SERIES D	August 20, 2009	2031	50,000,000.00	50,000,000.00	-	VARIABLE	-	-	-	50,000,000.00
EIGHT SERIES E	August 20, 2009	2031	50,000,000.00	50,000,000.00	-	VARIABLE	-	-	-	50,000,000.00
				894,220,000.00						

BOND DEBT	1975 Ordinance	1998 Ordinance	L Sinking Fund Requirements
2009	32,313,075.00	72,559,049.93	104,872,124.93

		Total Outstanding Debt	Interest Expense	M Effective Interest Rate
FY 2008-09	Revenue Bonds	1,138,162,727.00	63,601,770.00	5.5881%

PHILADELPHIA GAS WORKS
DEBT SCHEDULE

	A	B	C	D	E	H	I	I	J	K
Name of Bond	Date of Issue	Date of Maturity	Amount Issued	Amount Outstanding	Amount Retired	Coupon Rate	Discount at Issuance	Premium at Issuance	Issuance Expenses	Net Proceeds
1975 Bond Ordinance										
Series 11 "C" T.E.C.A.	January 1, 1989	2012	$ -	$ 18,433,564.00	$ -	$ -	$ -	$ -	$ -	$ -
Series 11 "C"	January 1, 1989	2015	132,520,000.00	5,064,435.00	127,455,565.00	6.10%-7.25%	1,548,508.40	-	1,710,361.90	129,263,129.70
Series 16 th	June 1, 1999	2015	62,315,000.00	16,915,000.00	45,400,000.00	4.00%-5.50%	-	(1,474,644.60)	1,218,352.40	62,571,292.20
Series 17 th	April 2, 2003	2026	186,705,000.00	132,675,000.00	54,030,000.00	4.00%-5.375%	1,653,228.21	(9,893,346.85)	12,026,138.58	182,918,980.06
Series 18 th	October 14, 2004	2021	57,820,000.00	39,490,000.00	18,330,000.00	5.00%-5.25%	421,894.35	(4,850,688.50)	1,551,080.57	60,697,713.58
Series 19 th	May 15, 2007	2024	14,450,000.00	14,450,000.00	-	5.00%	83,777.19	(964,932.05)	1,524,053.79	13,807,101.07
				227,027,999.00						
1998 Bond Ordinance										
FIRST SERIES A	June 1, 1998	2026	161,640,000.00	74,315,000.00	87,325,000.00	4.50%-5.50%	-	(3,600,076.50)	3,140,361.02	162,099,714.48
FIRST SERIES C	June 1, 1998	2014	21,995,000.00	7,050,000.00	14,945,000.00	3.85%-5.00%	130,201.40	-	455,146.87	21,409,651.73
SECOND SERIES	June 1, 1999	2029	113,965,000.00	5,715,000.00	108,250,000.00	4.625%-5.375%	4,043,373.25	-	2,672,303.55	107,249,323.20
THIRD SERIES	June 1, 2001	2013	120,225,000.00	5,815,000.00	114,410,000.00	4.00%-5.50%	226,845.95	-	6,220,239.17	113,777,914.88
FOURTH SERIES	December 30, 2002	2032	125,000,000.00	89,915,000.00	35,085,000.00	4.00%-5.25%	855,757.34	-	10,049,029.32	114,095,213.34
FIFTH SERIES	October 14, 2004	2034	120,000,000.00	117,520,000.00	2,480,000.00	4.00%-5.25%	939,086.18	(5,974,875.65)	8,417,214.70	116,618,574.77
FIFTH SERIES A	October 14, 2004	2035	30,000,000.00	30,000,000.00	-	VARIABLE	119,436.03	-	374,464.50	29,506,099.47
SIXTH SERIES	January 20, 2006	2031	313,390,000.00	-	313,390,000.00	VARIABLE	949,571.70	-	13,396,135.30	299,044,293.00
SEVENTH SERIES	May 15, 2007	2038	200,000,000.00	193,785,000.00	6,215,000.00	4.00%-5.00%	1,089,808.40	(11,657,912.30)	4,562,587.27	206,005,516.63
SEVENTH SERIES Refunding	May 15, 2007	2029	30,900,000.00	30,900,000.00	-	5.00%	168,081.08	(2,214,398.80)	601,865.35	32,344,452.37
EIGHT SERIES A	August 20, 2009	2017	58,285,000.00	56,690,000.00	1,595,000.00	4.00%-5.25%	-	(422,616.90)	689,542.21	58,018,074.69
EIGHT SERIES B	August 20, 2009	2031	105,000,000.00	105,000,000.00	-	VARIABLE	-	-	665,467.59	104,334,532.41
EIGHT SERIES C	August 20, 2009	2031	50,000,000.00	50,000,000.00	-	VARIABLE	-	-	-	50,000,000.00
EIGHT SERIES D	August 20, 2009	2031	50,000,000.00	50,000,000.00	-	VARIABLE	-	-	-	50,000,000.00
EIGHT SERIES E	August 20, 2009	2031	50,000,000.00	50,000,000.00	-	VARIABLE	-	-	-	50,000,000.00
				866,705,000.00						

			L					M
BOND DEBT	1975 Ordinance	1998 Ordinance	Sinking Fund Requirements			Total Outstanding Debt	Interest Expense	Effective Interest Rate
2010	30,100,500.00	67,181,018.00	97,281,518.00	FY 2009-10	Revenue Bonds	1,093,732,999.00	52,769,885.23	4.8247%

Philadelphia Gas Works' Base Rate Filing

II. RATE OF RETURN

II.A.7—II.A.10

RESPONSE: Not applicable to a municipally-owned, cash flow method company.

II. RATE OF RETURN

II.A.11. Provide AFUDC charged by company at test year-end and latest date, and explain method by which rate was calculated.

RESPONSE:

	12 Months Ended August 31, 2009	Two Months Ended October 31, 2009
Philadelphia Gas Works	$247,437	$44,365

AFUDC is calculated in accordance with the formula prescribed by the Federal Energy Regulatory Commission.

II. RATE OF RETURN

II.A.12. Set forth provisions of Company's and Parent's charter and indentures (if applicable) which describe coverage requirements, limits on proportions of types of capital outstanding, and restrictions on dividend payouts.

RESPONSE:

The following documents are attached:

- General Gas Works Revenue Bond Ordinance of 1975
- General Gas Works Revenue Bond Ordinance of 1998
- Commercial Paper Notes Ordinance

(Bill No. 1871)

AN ORDINANCE

Authorizing, generally, the issuance and sale by the City of Gas Works Revenue Bonds of the City of Philadelphia, prescribing the form of bonds, their execution, transfer, exchange, payment and redemption, prescribing the conditions precedent to the issue of specific series of bonds, including a supplemental authorizing ordinance, pledging the revenues of the Gas Works of the City as security, adopting a rate covenant, and directing the Gas Commission to impose rates sufficient to comply therewith, designating a fiscal agent and sinking fund depositary, establishing a Sinking Fund, including a Sinking Fund Reserve, and providing for its management, providing remedies upon default, and for amendments and modifications.

The Council of the City of Philadelphia hereby ordains:

SECTION 1.

ARTICLE I
AUTHORIZATION, SCOPE AND PURPOSE— SHORT TITLE

This Ordinance is enacted pursuant to the provisions of The First Class City Revenue Bond Act approved October 18, 1972 (Act No. 234, 53 P.S. §15901 to 15924) for the purpose of authorizing the issuance from time to time of gas works revenue Bonds of the City to be secured by a pledge of the revenues of the Gas Works of the City, in such principal amounts as shall from time to time be authorized by further ordinance of the Council as more particularly hereinafter set forth. This Ordinance shall be known as the General Gas Works Revenue Bond Ordinance of 1975.

SECTION 2.

ARTICLE II
DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION

SECTION 2.01. *Definitions.* For all purposes of this Ordinance and any ordinance supplemental hereto, except as otherwise expressly provided or unless the context otherwise requires:

Act means The First Class City Revenue Bond Act approved October 18, 1974 (Act No. 234, 53 P.S. §15901 to 15924) as from time to time amended. The words and phrases which are defined in the Act shall have such defined meaning when used in this Ordinance.

Bond or *Bonds* means any gas works revenue bond of the City issued and outstanding pursuant to the Act under this Ordinance and any supplemental ordinance and shall include installment bonds, temporary bonds and interim certificates.

Bondholder means the holder of any bearer bond and the registered owner of any registered bond and the term Holder, or Holders unless the context otherwise requires, shall be deemed to include the registered owners of any bond or bonds as well as the holders of bearer bonds.

City means the City of Philadelphia, Pennsylvania.

City Charges means the proportionate charges, if any, for services performed for the Gas Works of the City by all officers, departments, boards or commissions of the City which are contained in the computation of operating expenses of the Gas Works, including, without limitation, the expenses of the Gas Commission, and also means the base payments to the City contained in the Agreement between the City and the Manager and all other payments made to the City from Project Revenues.

Director of Finance means the chief financial, accounting and budget officer of the City as established by the Philadelphia Home Rule Charter.

Fiscal Agent means the bank named as such in Section 6.02 or its successor.

Fiscal Year means the fiscal year of the City.

Gas Works means all property, real and personal, owned by the City and used in the acquisition or manufacture, storage and distribution of natural, liquified, synthetic or manufactured gas or in the maintenance, management or administration thereof, and also means, as the context may require, the business entity managed by the Manager.

Manager means The Philadelphia Facilities Management Corporation currently managing the Gas Works pursuant to an ordinance of City Council approved December 29, 1972, setting forth the Agreement between the City and The Philadelphia Facilities Management Corporation, or its successor or such other person, corporation, board, commission or department of the City, which may be designated by ordinance to manage the Gas Works.

Net Operating Expenses means Operating Expenses exclusive of City Charges.

Operating Expenses means all costs and expenses of the Gas Works necessary and appropriate to operate and maintain the Gas Works in good operable condition during each fiscal year of the City, and shall include, without limitation, the Manager's fee, salaries and wages, purchases of service by contract, costs of materials, supplies and expendable equipment, maintenance costs, costs of any property or the replacement thereof or for any work or project, related to the Gas Works, which does not have a probable useful life of at least five years, pension and welfare plan and workmen's compensation requirements, provision for claims, refunds and uncollectible receivables and for City Charges, all in accordance with generally accepted municipal accounting principles consistently applied, but shall exclude depreciation and interest and sinking fund charges.

Project Revenues means the revenues pledged for the security and payment of the Bonds as set forth in Section 4.02.

Rate Covenant means the rate covenant contained in subsection (b) of Section 4.03.

Series when applied to Bonds means collectively all of the Bonds of a given issue authorized by Supplemental Ordinance as provided in Article IV thereof and may also mean, if appropriate, a subseries of any series if, for any reason, the City should determine to divide any series into one or more subseries of Bonds.

Sinking Fund means the Gas Works Revenue Bond Sinking Fund established by Section 6.01.

Sinking Fund Depositary means the bank named as such in Section 6.02 or its successor.

Sinking Fund Reserve means the Sinking Fund Reserve established by Section 6.04.

Supplemental Ordinance means an ordinance supplemental hereto enacted pursuant to the Act and this Ordinance by the Council of the City authorizing the issuance of a series of Bonds.

SECTION 2.02. *Interpretation.* All references in this Ordinance to articles, sections and other sub-divisions of the Ordinance are to the designated articles, sections or other sub-divisions of this Ordinance as originally enacted. The words "herein," "hereof," "hereby" and "hereunder" and other words of similar import refer to this Ordinance as a whole and not to any particular article, section or other sub-division.

SECTION 2.03. *Descriptive Headings.* The descriptive headings of the several articles and sections of this Ordinance are inserted for convenience only and shall not control or affect the meaning or construction of any of its provisions.

SECTION 2.04. *Severability.* In case any one or more of the provisions contained in this Ordinance or in any Bond or coupon issued pursuant hereto shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Ordinance or of said Bonds or coupons, and this Ordinance or said Bonds or coupons shall be construed and enforced as if such invalid, illegal or unenforceable provisions had never been contained therein.

SECTION 3.

ARTICLE III
CONCERNING THE BONDS

SECTION 3.01. *Forms Generally.* All Bonds, and the coupons, if any, appertaining thereto, shall be in substantially the forms set forth in this Article, with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Ordinance, and may be designated as of such Series by date, number, letter or otherwise and may also have such individual letters, identifying numbers or other marks, and such descriptive panels, registration panels, legends or endorsements placed thereon, as may, consistently with this Ordinance and the Act, be determined by the Director of Finance. The Bonds may also have printed thereon or on the reverse thereof the text of an approving legal opinion with respect thereto and an appropriate certificate as to its correspondence with an executed counterpart may be included on the face or on the reverse of the Bonds. Any portion of the text of any Bond may be set forth on the reverse thereof with an appropriate reference on the face of the bond.

SECTION 3.02. *Form of Fully Registered Bond.* Fully registered bonds shall be substantially in the following form:

(Form of Fully Registered Bond)

UNITED STATES OF AMERICA
COMMONWEALTH OF PENNSYLVANIA
CITY OF PHILADELPHIA
GAS WORKS REVENUE BOND

[Numerical Designation] $

[Series Designation]

[Interest Rate: % Semi-annual Interest $]

The City of Philadelphia, Pennsylvania (the City), for value received, hereby promises to pay in lawful money of the United States of America to or registered assigns, on , unless this Bond shall be redeemable and shall have previously been called for redemption and payment of the redemption price made or provided for, from the rentals, revenues and moneys of the City pledged for the payment hereof pursuant to the General Gas Works Revenue Bond Ordinance of 1975 (Ordinance No. approved , 1975) of the City (the 1975 Ordinance) but solely therefrom and not otherwise, upon surrender hereof, the principal sum of Dollars ($), and the pay interest on such principal amount in like money, but solely from said rentals, revenues and moneys aforesaid, to the registered owner by check or draft mailed to the registered owner at his address as it appears on the bond register, from the interest payment date next preceding the date hereof, unless the date hereof shall be an interest payment date, in which case from the date hereof, initially on and thereafter on each subsequent and until payment of such principal amount, or provisions therefor, shall have been made upon redemption or at or after maturity, at the annual rate shown hereon. The principal of and interest on this bond and the premium, if any, payable upon redemption are payable at the principal Philadelphia office of

Fiscal Agent of the City, in Philadelphia, Pennsylvania, or at the principal office of any successor Fiscal Agent appointed under the 1975 Ordinance.

This Bond is one of a duly authorized issue of bonds of the City designated as its Gas Works Revenue Bonds of the Series designated hereon (the Bonds), limited in aggregate principal amount to $ issued or to be issued pursuant to The First Class City Revenue Bond Act (Act No. 234 of the Pennsylvania General Assembly approved October 18, 1972, 53 P.S. §15901) (the Act) under the 1975 Ordinance and supplemental ordinance dated . The Bonds, together with all previous bonds of the City, if any, issued under the 1975 Ordinance and under previous supplemental ordinances and together with all bonds of the City hereafter issued under the 1975 Ordinance and all subsequent supplemental ordinances, are and will be equally and ratably secured under the 1975 Ordinance by a pledge of all the rents, rates and charges imposed or charged by the City for the use of or services rendered by the Gas Works of the City and of certain other moneys derived from the Gas Works and from the investment of such revenue. The 1975 Ordinance requires such revenues to be applied in order of priority to net operating expenses, sinking fund payments required by the 1975 Ordinance, payment of general obligation bonds of the City adjudged to be self-liquidating from Gas Works revenues, debt service on other general obligation bonds issued for the Gas Works, City charges and any other proper purpose of the City.

The City covenants, so long as this Bond shall remain outstanding, to make payments of interest on the indebtedness represented by this Bond, out of its Gas Works Revenue Bond Sinking Fund, in the semi-annual amount shown hereon on each interest payment date of this Bond, or as the case may be, the proportionate part thereof from the date hereof to the next interest payment date, and to pay, upon surrender hereof, from said Sinking Fund on the maturity date hereof or, if this Bond shall be selected for mandatory or optional redemption, then on the applicable redemption date, the principal amount hereof with the applicable premium, if any.

Reference is hereby made to the 1975 Ordinance for a statement of the terms and conditions under which previous bonds, if any, have been issued, under which the Bonds are issued and under which additional bonds will be issued, and for a statement of the particular rentals, revenues and moneys pledged for the security and payment of all bonds issued under the 1975 Ordinance, the nature, extent and manner of enforcement of the security, the terms and conditions under which the 1975 Ordinance may be amended or modified, and the rights of the holders or registered owners of the Bonds with respect to such security. The City hereby represents to and covenants with the registered owner of this Bond that no Gas Works revenue bonds of the City have been or will be issued for the payment of which the holder has or shall have a prior lien on or security interest in the revenues pledged for the payment of this Bond or a prior right to payment therefrom and that all Gas Works revenue bonds which have been or will be equally and ratably secured by such pledged revenues have and will be issued in accordance with the provisions of the 1975 Ordinance. However, nothing herein contained shall be construed to prevent the City from financing Gas Works projects by the issuance of its general obligation bonds or by the issuance of Gas Works revenue bonds under other authorization for the payment of which project revenues of the Gas Works may be pledged subject and subordinate in each fiscal year to the prior payment from such revenues of all principal, premium, interest and sinking fund requirements payable during such fiscal year under the 1975 Ordinance in respect of Gas Works Revenue Bonds issued and outstanding thereunder.

In the manner and upon the terms and conditions provided in the 1975 Ordinance,

(here insert specific provisions with respect to redemption, including, if applicable, mandatory redemption)

If less than an entire year's maturity is to be redeemed at any particular time, the Bonds or portions thereof to be redeemed shall be chosen by the Fiscal Agent by lot.

Each such redemption shall be made after notice by publication once a week for two successive weeks in not less than two or more than four daily newspapers published and of general circulation in the City of Philadelphia, Pennsylvania, the first publication to be not less than thirty (30) days or more than sixty (60) days prior to the date fixed for redemption. Notice having been so given and provision having been made for redemption from funds on deposit with the Fiscal Agent or Sinking Fund Depositary, all interest on Bonds called for redemption accruing after the date fixed for redemption shall cease, and the holders or registered owners of the Bonds called for redemption shall have no security, benefit or lien under the 1975 Ordinance or any right except to receive payment of the redemption price.

This Bond is transferable and exchangeable by the registered owner hereof in person or by his attorney duly authorized in writing, at the principal Philadelphia office of the Fiscal Agent, but only in the manner, subject to the limitations and upon payment of the charges provided in the 1975 Ordinance, and upon surrender and cancellation of this Bond. Upon any such transfer or exchange, the City shall issue in the name of the transferee or of the registered owner hereof, and shall deliver in exchange for this Bond, to or upon the order of such registered owner, a new registered Bond or new registered Bonds in authorized denominations aggregating the principal amount hereof or a coupon Bond or coupon Bonds of such denominations and aggregate principal amount with coupons attached representing all unpaid interest due or to become due and, in each case, maturing on the same date and bearing interest at the same rate as this Bond, and bearing the same designation as to series or subseries as this Bond.

As provided by the Act, this Bond, its transfer and the income therefrom (including any gains made on the sale thereof other than underwriting profits in a distribution thereof) shall at all times be free from taxation within and by the Commonwealth of Pennsylvania but this exemption shall not extend to underwriting profits or to gift, succession or inheritance taxes or any other taxes not levied directly on this Bond, the receipt of income therefrom, or the realization of gains on the sale thereof.

The City and the Fiscal Agent may treat the person in whose name this Bond is registered as the absolute owner hereof for all purposes whether or not this Bond or any installment of interest be overdue, and neither the City nor the Fiscal Agent shall be affected by any notice to the contrary. All payments of the principal, or premium upon redemption, of this Bond or of interest hereon to such registered owner in the manner herein and in the 1975 Ordinance set forth shall be valid and effectual to satisfy and discharge the liability upon this Bond to the extent of the sum or sums so paid whether or not notation of the same be made hereon, and any consent, waiver or other action taken by such registered owner pursuant to the provisions of the 1975 Ordinance shall be conclusive and binding upon such registered owner, his heirs, successors or assigns, and upon all transferees hereof whether or not notation thereof be made hereon or on any Bond issued in exchange or transfer hereof.

In case an event of default, as defined in the 1975 Ordinance, shall occur, the principal of all bonds then outstanding under the 1975 Ordinance may be declared or may become due and payable and any such declarations may thereafter be annulled, all upon the conditions and in the manner and with the effect provided in the 1975 Ordinance and in the Act.

This Bond is a special obligation of the City payable solely from the pledged rentals, revenues and moneys and neither the credit nor the taxing power of the City is pledged for the payment of the principal of, premium, if any, or interest on this Bond, nor shall this Bond be deemed to be a general obligation of the City.

It is hereby certified that all conditions, acts and things required to exist, happen and be performed under the Act and under the 1975 Ordinance precedent to and in the issuance of this Bond, exist, have happened and have been performed, and that the issuance and delivery of this Bond have been duly authorized by Ordinance of the City duly adopted.

IN WITNESS WHEREOF, the City of Philadelphia has caused this Bond to be properly executed by its Fiscal Agent, by two duly authorized officers thereof, and the facsimile of the seal of the City of Philadelphia to be imprinted hereon, and to be duly countersigned and attested by a facsimile signature of the City Controller, as of .

CITY OF
PHILADELPHIA

By ....
Fiscal Agent

Countersigned and Attested by (Facsimile Signature)

By ....
Authorized Officer

City Controller

By ....
Authorized Officer

SECTION 3.03. *Form of Coupon Bond and Form of Coupon for Interest.* Coupon Bonds and the coupons thereunto appertaining shall be substantially in the following form:

(Form of Coupon Bond)

UNITED STATES OF AMERICA
COMMONWEALTH OF PENNSYLVANIA
CITY OF PHILADELPHIA
GAS WORKS REVENUE BONDS

(Numerical Designation) $

(Series Designation)

%

The City of Philadelphia, Pennsylvania (the City), for value received, hereby promises to pay in lawful money of the United States of America to the bearer, or if this Bond is registered as to principal as hereinafter provided, to the registered owner hereof, on unless this Bond shall be redeemable and shall have previously been called for redemption and payment of the redemption price made or provided for, from the rentals, revenues and moneys of the City pledged for the payment hereof pursuant to the General Gas Works Revenue Bond Ordinance of 1975 (Ordinance No. approved , 1975) of the City (the 1975 Ordinance) but solely therefrom and not otherwise, upon surrender hereof, the principal sum of Dollars ($), and to pay interest on such principal amount in like money, but solely from said rentals, revenues and moneys aforesaid, from the date hereof initially on and thereafter on each subsequent and until payment of such principal amount, or provision therefor, shall have been made upon redemption or at or after maturity, at the annual rate shown hereon, but, with respect to interest accrued at or prior to maturity, only upon presentation and surrender of the coupons for interest hereunto appertaining as they severally mature. The principal of and interest on this Bond and the premium, if any, payable upon redemption, are payable at the principal Philadelphia office of , Fiscal Agent of the City, in Philadelphia, Pennsylvania, or at the principal office of any successor Fiscal Agent appointed under the 1975 Ordinance.

This Bond is one of a duly authorized issue of bonds of the City designated as its Gas Works Revenue Bonds of the series designated hereon (the Bonds), limited in aggregate principal amount to $, issued or to be issued pursuant to The First Class City Revenue Bond Act (Act No. 234 of the Pennsylvania General Assembly approved October 18, 1972, 53 P.S. §15901) (the Act) under the 1975 Ordinance and supplemental ordinance dated . The Bonds, together with all previous bonds of the City, if any, issued under the 1975 Ordinance and under previous supplemental ordinances and together with all bonds of the City hereafter issued under the 1975 Ordinance and all subsequent supplemental ordinances, are and will be equally and ratably secured under the 1975 Ordinance by a pledge of all the rents, rates and charges imposed or charged by the City for the use of or services rendered by the Gas Works of the City and of certain other moneys derived from the Gas Works and from the investment of such revenue. The 1975 Ordinance requires such revenues to be applied in order of priority to net operating expenses, sinking fund payments required by the 1975 Ordinance, payment of general obligation bonds of the City adjudged to be self-liquidating from Gas Works revenues, debt service on other general obligation bonds issued for the Gas Works, City charges and any other proper purpose of the City.

The City covenants, so long as this Bond shall remain outstanding, to make payments of interest on the indebtedness represented by this Bond, upon surrender of the applicable coupons, out of its Gas Works Revenue Bond Sinking Fund in the amount shown on the respective coupons hereunto appertaining on each interest payment date of this Bond and to pay, upon surrender hereof, from said Sinking Fund on the maturity date hereof or, if this Bond shall be selected for mandatory or optional redemption, then on the applicable redemption date, the principal amount hereof with the applicable premium, if any.

Reference is hereby made to the 1975 Ordinance for a statement of the terms and conditions under which previous bonds, if any, have been issued, under which the Bonds are issued and under which additional bonds will be issued, and for a statement of the particular rentals, revenues and moneys pledged for the security and payment of all bonds issued under the 1975 Ordinance, the nature, extent and manner of enforcement of the security, the terms and conditions under which the 1975 Ordinance may be amended or modified, and the rights of the holders or registered owners of the Bonds with respect to such security. The City hereby represents to and covenants with the holder of this Bond that no Gas Works Revenue Bonds of the City have been or will be issued for the payment of which the holder has or shall have a prior lien on or security interest in the revenues pledged for the payment of this Bond or a prior right to payment therefrom and that all Gas Works revenue bonds which have been or will be equally and ratably secured by such pledged revenues have and will be issued in accordance with the provisions of the 1975 Ordinance. However, nothing herein contained shall be construed to prevent the City from financing Gas Works projects by the issuance of its general obligation bonds or by the issuance of Gas Works revenue bonds under other authorization for the payment of which project revenues of the Gas Works may be pledged subject and subordinate in each fiscal year to the prior payment from such revenues of all principal, premium, interest and sinking fund requirements payable during such fiscal year under the 1975 Ordinance in respect of Gas Works Revenue Bonds issued and outstanding thereunder.

In the manner and upon the terms and conditions provided in the 1975 Ordinance,

(here insert specific provisions with respect to redemption, including, if applicable, mandatory redemption)

If less than an entire year's maturity is to be redeemed at any particular time, the Bonds or portions thereof to be redeemed shall be chosen by the Fiscal Agent by lot.

Each such redemption shall be made after notice by publication once a week for two successive weeks in not less than two or more than four daily newspapers published and of general circulation in the City of Philadelphia, Pennsylvania, the first publication to be not less than thirty (30) days nor more than sixty (60) days prior to the date fixed for redemption. Notice having been so given and provision having been made for redemption from funds on deposit with the Fiscal Agent or Sinking Fund Depositary, all interest on Bonds called for redemption accruing after the date fixed for redemption shall cease, and the holders or registered owners of the Bonds called for redemption shall have no security, benefit or lien under the 1975 Ordinance or any right except to receive payment of the redemption price.

This Bond is transferable by delivery unless registered as to principal in the name of the owner on the bond register of the City to be kept for that purpose at the principal Philadelphia Office of the Fiscal Agent, such registration to be noted hereon by the Fiscal Agent on behalf of the City. After such registration no transfer shall be valid unless made by the registered owner in person or by his duly authorized attorney and similarly noted upon said bond register and hereon. This Bond, however, may be discharged from registration by being in like manner transferred to bearer, and thereupon transferability by delivery shall be restored after which this Bond may again from time to time be registered or made transferable by delivery as before. Such registration, however, shall not affect the negotiability of the coupons for interest hereto attached, which shall always continue to be payable to bearer and to be transferable by delivery.

This Bond is exchangeable by the holder or, if registered as to principal, by the registered owner in person or by his attorney duly authorized in writing, at the principal Philadelphia office of the Fiscal Agent, but only in the manner, subject to the limitations, and upon payment of the charges provided in the 1975 Ordinance, and upon surrender of this Bond. Upon request for such exchange, the City shall issue in the name of the holder or registered owner of his nominee or in bearer form at the option of the holder or registered owner, and shall deliver in exchange for this Bond, to or upon the order of the holder or registered owner, a new registered Bond or new registered Bond in authorized denominations aggregating the principal amount hereof or a new coupon Bond or coupon Bonds of such demoninations and aggregate principal amount with coupons attached representing all unpaid interest due or to become due and, in each case, maturing on the same date and bearing interest at the same rate as this Bond, and bearing the same designation as to series or subseries as this Bond.

As provided by the Act, this Bond, its transfer and the income therefrom (including any gains made on the sale thereof other than underwriting profits in a distribution thereof) shall at all times be free from taxation within and by the Commonwealth of Pennsylvania but this exemption shall not extend to the underwriting profits or to gift, succession or inheritance taxes or any other taxes not levied directly on this Bond, the receipt of income therefrom, or the realization of gains on the sale thereof.

The City and the Fiscal Agent may treat the holder of this Bond if it shall not at the time be registered as to principal, the registered owner of this Bond if it shall at the time be so registered, and the holder of any coupon appertaining hereto, whether or not this Bond shall be so registered, as the absolute owner of this Bond or such coupon, as the case may be, for all purposes whether or not this Bond or such coupon be overdue, and neither the City nor the Fiscal Agent shall be affected by any notice to the contrary. Any consent, waiver or other action taken by the holder or registered owner hereof pursuant to the provisions of the 1975 Ordinance shall be conclusive and binding upon such holder or registered owner, his heirs, successors or assigns and upon all transferees hereof whether or not notation thereof be made hereon or on any Bond issued in exchange hereof.

In case an event of default, as defined in the 1975 Ordinance, shall occur, the principal of all bonds then outstanding under the 1975 Ordinance may be declared or may become due and payable and any such declarations may thereafter be annulled, all upon the conditions and in the manner and with the effect provided in the 1975 Ordinance and in the Act.

This Bond is a special obligation of the City payable solely from the pledged rentals, revenues and moneys and neither the credit nor the taxing power of the City is pledged for the payment of the principal of, premium, if any, or interest on this Bond, nor shall this Bond be deemed to be a general obligation of the City.

It is hereby certified that all conditions, acts and things required to exist, happen and be performed under the Act and under the 1975 Ordinance precedent to and in the issuance of this Bond, exist, have happened and have been performed, and that the issuance and delivery of this Bond have been duly authorized by Ordinance of the City duly adopted.

IN WITNESS WHEREOF, The City of Philadelphia has caused this Bond to be properly executed by its Fiscal Agent, by two duly authorized officers thereof, and the facsimile of the seal of the City of Philadelphia to be imprinted hereon, and to be duly countersigned and attested by a facsimile signature of the City Controller, and has also caused the coupons hereto attached to be authenticated with the facsimile signature of the City Controller, as of

Countersigned and
Attested by

(Facsimile Signature)
City Controller

CITY OF PHILADELPHIA

By ....
Fiscal Agent

By ....
Authorized Officer

By ....
Authorized Officer

(Form of Coupon)

Coupon No. $

On , the City of Philadelphia upon surrender of this Coupon will pay to the bearer unless the Bond hereinafter mentioned shall have been called for previous redemption and payment of the redemption price made or provided for, at the principal Philadelphia office of in Philadelphia, Pennsylvania, but only out of the rentals, revenues and moneys referred to in the Bond hereinafter mentioned, the amount shown hereon, in lawful money of the United States of America,

being interest then due on its Gas Works Revenue Bond, , dated as of ,
and numbered.

CITY OF PHILADELPHIA

By ....
City Controller

SECTION 3.04. *General Form, Content and Payment of Bonds.* Bonds shall be generally designated as Gas Works Revenue Bonds of the City and shall be issued in such series and within such series in such subseries as the City may from time to time determine. The aggregate principal amount of Bonds which may be issued, authenticated and delivered under this Ordinance is unlimited, but prior to issuance of each Series of Bonds, the City shall adopt a Supplemental Ordinance authorizing such Series.

The Bonds of each Series may be issued in coupon form with principal payable to bearer or registered as to principal only, in fully registered form, or may consist in whole or in part of one or more installment Bonds in fully registered form payable as to principal or subject to mandatory redemption in annual installments, or any combination of the foregoing, shall be issued in such aggregate principal amount, shall be dated on or as of such date or dates, shall be in such denominations, shall mature or be subject to mandatory redemption in such principal amounts and on such dates, shall bear interest from such date or dates and at such rate or rates, shall be subject to optional redemption at such times and upon such terms, and shall contain such other terms and conditions not inconsistent with this Ordinance or the Act, all as shall be determined by the City and set forth in the supplemental ordinance under which such bonds are issued, or as shall be determined by a designated officer or officers of the City thereunto authorized by the Supplemental Ordinance, or in the absence of such provisions or designation, as shall be determined by the Director of Finance as specified in Section 4.05.

The principal of and interest on (except the final installment of principal and the interest then payable) and the principal, premium, if any, and accrued interest payable upon partial redemption with respect to, all fully registered installment Bonds, and the interest payable in respect of fully registered Bonds, shall be payable by check or draft of the Fiscal Agent mailed to the registered owner of such Bonds at the address of such owner as it appears upon the bond register, and the records of the Fiscal Agent shall be conclusive as to such payment and shall bind such owner, his successors and assigns whether or not such payment be noted on such Bond. Except as aforesaid, the principal of all Bonds, the premium, if any, payable upon redemption thereof, and the interest on all coupon Bonds payable at or prior to maturity, shall be payable in lawful money of the United States of America at the principal Philadelphia office of the Fiscal Agent in Philadelphia, Pennsylvania, or at the principal office of a paying agent designated in such Bonds, but with respect to such principal, only upon presentation and surrender of such Bonds, or with respect to interest payable at or prior to maturity of such coupon Bonds, only upon presentation and surrender of the respective coupons for interest, except as otherwise herein provided with respect to mutilated, destroyed, lost or stolen Bonds or coupons.

Each Bond executed and delivered upon any transfer, exchange or substitution, shall carry all the rights to interest accrued and unpaid, and to accrue, which were carried by the Bond or Bonds surrendered upon such transfer or exchange, or as the case may be, the part thereof represented by such new Bond or Bonds, and notwithstanding anything to the contrary contained in this Ordinance, such new Bond, if a fully registered Bond, shall be so dated, and, if a coupon Bond, shall have attached thereto such coupons, that neither gain nor loss in interest shall result from such transfer, exchange, or substitution.

The foregoing provisions of this Section, any other provision in this Ordinance to the contrary notwithstanding, are subject to the express understanding that the principal of and interest on all Bonds issued hereunder and the premium, if any, payable on redemption thereof, shall be payable only from the rentals, revenues and moneys of the City pledged for the payment thereof pursuant to this Ordinance and not otherwise.

SECTION 3.05. *Registration of Bonds, Registrar, Bond Register.* The City shall keep or cause to be kept at the principal Philadelphia office of the Fiscal Agent, books for the registration and transfer of Bonds entitled to registration and transfer; and the City will register or transfer or cause to be registered or transferred therein, as hereinafter provided and under such reasonable regulations as may be prescribed by the Director of Finance, any Bonds entitled to be so registered or transferred, upon presentation for such purpose. The Fiscal Agent is hereby appointed the registrar of the City for the purpose of registering, transferring and exchanging the Bonds. The books kept pursuant to this Section are herein and in the Bonds referred to as the bond register.

SECTION 3.06. *Bonds are Negotiable Instruments.* The Bonds shall have the qualities of negotiable instruments under the law merchant and the laws pertaining to negotiable instruments of the Commonwealth of Pennsylvania, subject to the provisions for registration and transfer contained in Section 3.07 and 3.08 and in the Bonds.

SECTION 3.07. *Transfer of Coupon Bonds.* All coupon Bonds shall be negotiable and title thereto shall pass by delivery unless registered as to principal in the manner hereinafter provided. The bearer of any coupon Bond may have the ownership of the principal thereof registered on the bond register required to be kept pursuant to Section 3.05, and such registration shall be noted on the Bond. After such registration no transfer shall be valid unless made on such books by the registered owner in person, or by his duly authorized attorney, and similarly noted on the Bond; but such Bond may be discharged from registration by being in like manner transferred to bearer, and thereupon transferability by delivery shall be restored; and such Bond may again, from time to time, be registered or discharged from registration in the same manner as before. Such registration, however, shall not affect the negotiability by delivery of the coupons, but every such coupon shall continue to be transferable by delivery and shall remain payable to bearer.

SECTION 3.08. *Registration and Transfer of Fully Registered Bonds.* The names and addresses of the registered owners of all fully registered Bonds together with a brief description of the Bonds so registered shall be recorded in the bond register. Any fully registered Bond may be transferred at the principal Philadelphia office of the Fiscal Agent or surrendered for transfer at the principal office of one of the paying agents designated in such Bond, upon surrender of such Bond accompanied by delivery of a written instrument of transfer in form approved by the Director of Finance, duly executed by the registered owner of such Bond or his duly authorized attorney, and thereupon the City and the Fiscal Agent shall execute in the name of the transferee or transferees, and the Fiscal Agent shall deliver, a new fully registered Bond, or new fully registered Bonds, of like form, of the same Series, bearing the same rate of interest, of the same maturity, and for the same aggregate principal amount.

SECTION 3.09. *Exchange of Bonds.* All Bonds of any Series issued hereunder shall be exchangeable for like Bonds of different authorized denominations or for Bonds in different form of the same Series, as the case may be, and, in each case, in the same aggregate principal amount, maturing on the same dates and bearing the same rate of interest as the Bonds to be exchanged, all in the manner hereinafter provided. The holder of any bearer coupon Bond or Bonds or the registered owner of any registered Bond or Bonds desiring to exchange such Bond or Bonds shall surrender (or, in the case of registered Bonds, shall cause his attorney thereunto duly authorized to surrender) such Bond or Bonds in negotiable form or, as the case may be, accompanied by an appropriate instrument of transfer, together with all unmatured coupons appertaining to coupon Bonds so surrendered, at the principal Philadelphia office of the Fiscal Agent or at the principal office of one of the paying agents designated in the Bonds, together with a written request for exchange, in form approved by the Director of Finance, setting forth the form of Bond or Bonds requested to be issued in exchange, the denomination or denominations thereof and, if to be issued in partial or fully registered form, the person or persons in whose name such Bonds are to be registered. Thereupon and subject to the provisions of Section 3.10, the City and the Fiscal Agent shall execute and deliver to the persons thereunto entitled a new Bond or new Bonds in the form requested in authorized denominations aggregating the principal amount of the Bond or Bonds surrendered, maturing as to principal on the same date or dates, bearing the same rate of interest, and bearing the same designation as to series. All fully registered Bonds issued in exchange for Bonds of any series shall be dated on the date of issuance thereof and shall bear interest from the date from which interest was initially payable with respect to such Series or from the next preceding interest payment date of such Series, whichever is later, or, if the date of authentication shall be an interest payment date of such Series, from such date. All coupon Bonds issued in exchange for Bonds of any Series shall be dated as of the date of the initial issuance of such Series and all matured coupons shall be removed from such Bonds prior to their authentication and delivery in exchange. For the purpose of exchange, a fully registered installment Bond shall be deemed to represent separate Bonds each in the amount and of the maturity of the annual installments of principal provided for in such Bond.

SECTION 3.10. *Cost of Bond Registration, Transfer or Exchange, Miscellaneous Provisions Governing Transfers and Exchanges.* Registration, transfer, discharges from registration, and exchanges of Bonds authorized under this Article shall be without expense to the Holders of such Bonds, but any taxes or other governmental charges required to be paid with respect to the same shall be paid by the Holder requesting any such transaction, as a condition precedent to the exercise of such privilege.

The City shall not be required to make (a) any exchange or transfer of any Bonds during the period of fifteen business days next preceding any interest payment date for such Bonds, or (b) any exchange or transfer of any Bonds during the period of twenty business days next preceding the first publication or mailing of any notice of redemption of such Bonds.

All Bonds surrendered for exchange and the coupons, if any, attached thereto and all registered Bonds without coupons surrendered for transfer, shall be cancelled as the principal thereof and the coupons severally become due and payable and after such due date, may be cremated, shredded or otherwise destroyed by the Fiscal Agent.

All Bonds executed, authenticated and delivered in exchange for Bonds surrendered or upon the transfer of registered Bonds shall be valid obligations of the City, evidencing the same debt as the Bonds surrendered, and shall be secured by this Ordinance to the same extent as such surrendered Bonds.

SECTION 3.11. *Ownership of Bonds.* The City, the Fiscal Agent and any paying agent designated in any Bond may treat the holder of any coupon Bond if it shall not at the time be registered as to principal, the registered owner of any coupon Bond if it shall at the time be so registered, the holder of any coupon appertaining to a coupon Bond whether or not such coupon Bond shall be so registered, and the registered owner of any fully registered Bond, as the absolute owner of such Bond or such coupon, as the case may be, for all purposes whether or not such Bond or such coupon shall be overdue, and neither the City, the Fiscal Agent nor any paying agent shall be affected by any notice to the contrary. Any consent, waiver or other action taken by the holder of any bearer coupon Bond or by the registered owner of any Bond other than a bearer coupon Bond pursuant to the provisions of this Ordinance shall be conclusive and binding upon such Holder, his heirs, successors or assigns, and upon all transferees of such Bond whether or not notation of such consent, waiver or other action shall have been made on such Bond or on any Bond issued in exchange therefor.

SECTION 3.12. *Definitive and Temporary Bonds.* Bonds in definitive form shall be fully engraved or printed or lithographed on steel engraved borders. Until Bonds in definitive form of any Series are ready for delivery, the City and the Fiscal Agent may execute, and, upon the requst of the City in writing, the Fiscal Agent shall deliver in lieu of any such Bonds, and subject to the same provisions, limitations and conditions, one or more printed, lithographed or typewritten Bonds in temporary form, substantially of the tenor of the Bonds hereinbefore described, without coupons or with one or more coupons, and with appropriate omissions, variations and insertions. Such Bond or Bonds in temporary form may be for the amount of any authorized denomination or any multiple thereof, as the Director of Finance may determine. Until exchanged for Bonds in definitive form such Bonds in temporary form shall be entitled to the benefit of this Ordinance. Unless otherwise agreed with the Holder of such temporary Bond or Bonds, the City shall, without unreasonable delay, prepare, execute and deliver to the Fiscal Agent, and thereupon, upon the presentation and surrender of any Bond or Bonds in temporary form, the Fiscal Agent shall execute and deliver, in exchange therefor, a Bond or Bonds in definitive form of the same Series and same maturity for the same aggregate principal amount as the Bond or Bonds in temporary form surrendered. Such exchange shall be made by the City at its own expense and without making any charge therefor. Until such Bonds in definitive form are ready for delivery, the Holder of one or more Bonds in temporary form may, with the consent of the City, exchange the same, upon surrender thereof to the Fiscal Agent for cancellation, for Bonds in temporary form of like aggregate principal amount, of the same Series and maturity, in authorized denominations and bearing all unmatured coupons, if any.

SECTION 3.13. *Execution of Bonds.* The Bonds shall be executed on behalf of the City by the Fiscal Agent by the manual signatures of two of its duly authorized officers, under the seal of the City which shall be either affixed or reproduced thereon in facsimile and shall be countersigned and attested by the manual or facsimile signature of the Controller, all in accordance with the Act of March 24, 1949, P. L. 312, or in such other manner as shall be authorized by law and prescribed by supplemental ordinance. The coupons attached to coupon Bonds shall be executed on behalf of the City by the facsimile signature of the City Controller. Any such Bonds or coupons may be executed, issued and delivered notwithstanding that one or more of the officers signing such Bonds or whose facsimile signature shall be upon such Bonds or coupons or any thereof, shall have ceased to be such officer or officers at the time when such Bonds shall actually be delivered, and although at the nominal date of the Bond any such person shall not have been such officer.

SECTION 3.14. *Mutilated, Destroyed, Lost or Stolen Bonds.* Upon receipt by the Fiscal Agent and the City of evidence satisfactory to both of them that any outstanding Bond or coupon has been destroyed, lost or stolen, and of indemnity satisfactory to both of them, then, in the absence of notice to the City or to the Fiscal Agent that such Bond or coupon, if alleged to have been lost or stolen, has been acquired by a bona fide purchaser, or if a Bond or coupon has been mutilated, the City in its discretion acting through the Director of Finance, may execute and deliver a new bond of the same Series and same maturity and of like tenor (which shall have attached the same corresponding coupons, if any, as the mutilated, destroyed, lost or stolen Bond if such Bond were a coupon Bond) in exchange and substitution for, and upon surrender and cancellation of, the mutilated Bond and coupons, if any, or in lieu of and in substitution for the Bond and coupons, if any, so destroyed, lost or stolen.

The City may, for each new bond authenticated and delivered under the provisions of this Section, require the payment of the expenses, including counsel fees, which may be incurred by the City and the Fiscal Agent in the premises. In case any such mutilated, lost or stolen Bond or coupon has become or is about to become due and payable, the City, in its discretion, may, instead of issuing a new Bond or coupon, direct the payment thereof at maturity and the Fiscal Agent shall thereupon pay the same.

Any Bond or coupon issued under the provisions of this Section in lieu of any Bond or coupon alleged to be destroyed, lost or stolen shall constitute an original additional contractual obligation on the part of the City whether or not the Bond or coupon so alleged to be destroyed, lost or stolen be at any time enforceable by anyone, and shall be equally and proportionately entitled to the benefits of this Ordinance with all other Bonds and coupons issued under this Ordinance.

SECTION 3.15. *Installment Bonds—Interim Certificates.* Nothing in this Ordinance shall be construed to prohibit the authorization by supplemental ordinance of installment Bonds in the forms above provided with appropriate modifications or to prohibit the issuance of interim certificates pending the delivery of definitive Bonds in such form as shall be approved by the City Solicitor.

SECTION 4.

ARTICLE IV
ISSUANCE OF BONDS—SUPPLEMENTAL ORDINANCES

SECTION 4.01. *Purpose of Bonds.* The Bonds issued under this Ordinance shall be issued for the purpose of paying the cost of projects, as such term is defined in the Act, related to the Gas Works, of reimbursing any fund of the City from which such costs shall have been paid or advanced, of funding any of such costs for which the City shall have outstanding bond anticipation notes or other obligations, of refunding any Bonds of the City issued for the foregoing purposes under the Act, or of refunding general obligation bonds of the City issued for the foregoing purposes.

SECTION 4.02. *Pledge of Revenues; Grant of Security Interest; Application of Revenues.* The City hereby pledges for the security and payment of all Bonds and coupons, if any, issued under this Ordinance and hereby grants a security interest in, all rents, rates and charges imposed or charged by the City upon the owners or occupants of properties connected to, and upon all users of, gas distributed by the Gas Works and all other revenues derived therefrom (the Project Revenues) as such term is defined in the Act and all accounts, contract rights and general intangibles representing the Project Revenues, and in each case, the proceeds of the foregoing. For the purpose of compliance with the filing requirements of the Uniform Commercial Code in order to perfect the security interest herein granted, the Fiscal Agent shall be deemed to be and the City hereby recognizes the Fiscal Agent as, the representative of bondholders to execute financing statements as the secured party. Subject to the provisions of Section 7.02 hereof, all Project Revenues as and when collected in each fiscal year shall be applied first to Net Operating Expenses; second, to required payments into the Sinking Fund herein created to pay the principal of and interest on all Bonds issued hereunder and, if required, to accumulate, or to restore any deficiency in, the Sinking Fund Reserve; third, to the payment of any general obligation bonds adjudged to be self-liquidating on the basis of such expected revenues; fourth, to the payment of interest and sinking fund charges of other general obligation debt incurred for the Gas Works, and fifth, to the payment of City Charges. Any balance remaining may be applied to any proper purpose of the City. The foregoing provisions shall not be construed to require the segregation upon collection of revenues prior to default in the payment of the principal of and interest on Bonds.

SECTION 4.03. *Particular Covenants.* The City covenants with the Holders of all Bonds from time to time and at the time outstanding under this Ordinance, that so long as any such Bonds shall remain outstanding:

(a) No Bonds will be issued by the City hereunder or under any ordinance supplemental hereto unless the financial report of the chief fiscal officer of the City required by Section 8 of the Act to be filed with the City Council shall be accompanied by an engineering report of an independent consulting engineer or an independent firm of consulting engineers, in either case having broad experience in the design and analysis of the operation of gas works or gas distribution systems of the magnitude and scope of the Gas Works and a favorable reputation for competence in such field (the Engineers) setting forth the qualifications of the Engineers and:

(i) containing a statement that the Engineers have made such investigation of the physical properties included in the Gas Works and of the books and records of the Gas Works maintained by the City or by the Manager, as they deemed necessary; and

(ii) on the basis of such investigation containing:

(aa) the same matters, statements and opinion as are required by Section 8 of the Act to be contained in the financial report of the chief fiscal officer supported by appropriate schedules and summaries;

(bb) a statement that the Gas Works rents, rates and charges, on the basis of which the statements required by the foregoing clause (aa) are made, are currently and will be sufficient to comply with the Rate Covenant set forth in Section 4.03 (b); and

(cc) a statement that, in the opinion of the engineers, the Gas Works are in good operating condition or that adequate steps are being taken to make them so.

(b) it will, at a minimum, impose, charge and collect in each Fiscal Year such gas rates and charges as shall, together with all other Project Revenues (as defined in the Act) to be received in such Fiscal Year, equal not less than the greater of:

A. The sum of:

(i) all Net Operating Expenses payable during such Fiscal Year;

(ii) 150% of the amount required to pay sinking fund requirements for principal of and interest on all Bonds issued and outstanding hereunder which will become due and payable during such Fiscal Year; and

(iii) the amount, if any, required to be paid into the Sinking Fund Reserve during such Fiscal Year; or

B. The sum of:

(i) All Net Operating Expenses payable during such Fiscal Year; and

(ii) all Sinking Fund deposits required during such Fiscal Year in respect of all outstanding Bonds and in respect of all outstanding general obligation bonds issued for improvements to the Gas Works and all amounts, if any, required during such Fiscal Year to be paid into the Sinking Fund Reserve.

The Gas Commission is hereby authorized and directed, without further authorization, to impose and charge and to collect, or cause to be collected, rents, rates and charges which shall be sufficient in each Fiscal Year to comply with the foregoing Rate Covenant.

(c) It will pay or cause the Fiscal Agent or paying agent to pay from the Project Revenues deposited in the Sinking Fund the principal of, premium, if any, and interest on all Bonds as the same shall become due and payable and as more particularly set forth in the Bonds.

(d) It will continuously maintain in good condition and continuously operate the Gas Works.

(e) It will not in any Fiscal Year pay from the Project Revenues any City Charges or deposit from the Project Revenues in the general sinking fund of the City any sinking fund charges in respect of general obligation bonds of the City unless prior thereto or concurrently therewith all sinking fund charges in respect of Bonds issued and outstanding hereunder for such Fiscal Year, then payable, shall have been deposited in the Sinking Fund created hereby.

(f) It will not refund from the proceeds of Bonds any debt of the City represented by general obligation bonds or notes issued prior to January 1, 1974.

(g) That it has, by Ordinance, authorized the imposition of rates and charges by the Gas Commission sufficient from time to time to comply with Rate Covenant set forth in Section 4.03(b) and that it will not repeal or materially adversely dilute such authorization.

(h) It will, not later than 120 days following the close of each Fiscal Year, file with the Fiscal Agent a report of the operation of the Gas Works setting forth, among other things, in reasonable detail financial data concerning the Gas Works for such Fiscal Year, including a balance sheet, statements of income, equity, and changes in financial condition, and an analysis of funds available to cover debt service (in each case not inconsistent with the statements of income, expenses, and other accounts of the City audited by the City Controller) prepared by the Manager of the Gas Works in accordance with generally recognized municipal accounting principles consistently applied, showing compliance with the Rate Covenant, accompanied by a certificate of the Manager of the Gas Works that the Gas Works are in good operating condition and by a certificate of the Director of Finance that as of the date of such report the City has complied with all of the covenants in this Ordinance and in all ordinances supplemental hereto on its part to be performed. Such report shall be furnished to the Fiscal Agent in such reasonable number of copies as shall be required to meet the written requests of Bondholders therefor on a first come first served basis. The Fiscal Agent shall keep on file a copy of each report and its accompanying certificates for a period of ten (10) years and shall exhibit the same to, and permit the copying thereof by, any Bondholder or his authorized representative at all reasonable times.

SECTION 4.04. *Bonds to be Parity Bonds.* All bonds issued hereunder shall be parity Bonds equally and ratably secured by the pledge of and grant of security interest in, the Project Revenues without preference, priority or distinction as to lien or otherwise, except as otherwise hereinafter provided, of any one Bond or coupon over any other Bond or coupon or as between principal and interest.

The City hereby reserves the right, and nothing herein shall be construed to impair such right, to finance improvements to its Gas Works by the issuance of its general obligation bonds or by the issuance, under ordinances other than Supplemental Ordinances, of Gas Works bonds for the payment of which Project Revenues of the Gas Works may be pledged subject and subordinate in each Fiscal Year to the prior payment from such revenues of all principal, premium, interest and sinking fund requirements payable during such Fiscal Year under this Ordinance, as from time to time supplemented and amended, in respect of Bonds.

SECTION 4.05. *Sale of Bonds; Taxes Not to be Assumed; Terms and Provisions; Authority of Director of Finance.* To the extent, pursuant to Section 4.06, that the Supplemental Ordinance authorizing any Series of Bonds hereunder shall not otherwise provide:

(a) All bonds shall be sold at public, private or invited sale as a majority of the Mayor, the City Controller and the City Solicitor may determine to be in the best interest of the City and, if sold at competitive public sale, shall be sold to the purchaser or purchasers submitting the highest and best bid upon such terms and conditions of the bidding as shall be specified in an official notice of sale issued in the name of the City by the Director of Finance;

(b) no covenant to pay or assume any taxes shall be included in such Bonds; and

(c) subject to the foregoing, the terms upon which or the prices for which the Bonds are to be sold or exchanged, and the form, terms and provisions of the Bonds including, without limitation, the matters referred to in Section 5 of the Act, and in the second paragraph of Section 3.04 of this Ordinance shall be determined by the Director of Finance who is hereby designated as the officer of the City to make such determinations based, to the extent applicable, on the prices, interest rates or other terms set forth in the highest and best proposal conforming to the bidding specifications as ascertained and accepted on behalf of the City by the Director of Finance.

SECTION 4.06. *Conditions of Issuing Bonds, Supplemental Ordinance; Filing of Transcript; Use of Proceeds; Refunding Bonds.* Prior to the issuance of any series of Bonds, the Council shall adopt an ordinance supplemental hereto specifying the aggregate principal amount or maximum aggregate principal amount, and authorizing the issuance of such Bonds; stating that such Bonds are issued in respect of capital costs of a Gas Works project or projects of the City or to fund or refund bond anticipation or other obligations of the City issued in respect thereof or for the purpose of refunding debt issued for such purpose; making a finding based on the report of the Director of Finance of the City required by Section 8 of the Act that the Project Revenues pledged hereunder will be sufficient to comply with the Rate Covenant and also to pay all costs, expenses and payments required to be paid therefrom and in the order and priority stated in Section 4.02; and containing the covenant as to the payment of debt service required by Article IX, Section 10 of the Pennsylvania Constitution. Such Supplemental Ordinance may specify such form, terms and provisions of the Bonds to be issued thereunder, may specify a particular method of sale; may specify the terms upon which, or the prices for which, the Bonds are to be sold or exchanged, including, if applicable, competitive bidding specifications; may contain such amendments to this Ordinance, including amendments or rescission of the covenants herein contained, and may contain or authorize such further covenants and agreements, including such covenants as may be appropriate under existing regulations so that the Bonds may not be deemed to be "arbitrage bonds" as such term is defined in the Internal Revenue Code and applicable regulations, all as the Council may deem appropriate and proper and as shall be authorized or permitted by the Act but no such amendments, provisions, terms, covenants or agreements (other than those permitted under Section 8.01 and adopted pursuant thereto) which shall be inconsistent with the provisions of, or if they would impair a prior covenant contained in, this Ordinance as at the time amended or supplemented, shall become effective until all Bonds the holders of which are entitled to the protection of, or to enforce compliance with such prior covenant, shall cease to be outstanding.

Prior to the issuance of any Series of Bonds hereunder the Director of Finance shall, in addition to the filing requirements of Section 12 of the Act, file with the Fiscal Agent a transcript of the proceedings authorizing the issuance of such Series of Bonds which shall include (i) a certified copy of this Ordinance (unless previously so filed); (ii) a certified copy of the Supplemental Ordinance; (iii) an executed or certified copy of the report of the Director of Finance required by subsection (a) of Section 8 of the Act; (iv) an executed copy of the opinion of the City Solicitor required by subsection (b) of Section 8 of the Act; (v) an executed copy of the Engineer's report required by subsection (a) of Section 4.03; and (vi) a certificate of the Director of Finance that there is no default in the payment of the principal of, interest on, or premiums, if any, payable in respect of, any Bonds, that the amounts currently on deposit in the Sinking Fund Reserve meet the requirements of Section 6.04 that the report for the latest completed Fiscal Year required to be filed pursuant to subsection (h) of Section 4.03 has been filed and that during such Fiscal Year the City was in compliance with the Rate Covenant as therein shown, and that the City is currently in compliance with the Rate Covenant and all other covenants contained in this Ordinance and all Supplemental Ordinances, and thereupon the proper officers of the City and the Fiscal Agent shall be authorized to execute and deliver the Bonds so authorized, to receipt for the purchase price thereof and to execute and deliver on behalf of the City the usual closing statements, affidavits and certificates.

The Director of Finance, the City Solicitor, the City Controller and such other officers of the City as may be appropriate are authorized in connection with the issuance of any Series of Bonds hereunder, to prepare, execute and file on behalf of the City such statements, documents or other material as may accurately and properly reflect the financial condition of the City or other matters relevant to the issuance or payment of such Bonds and as may be required or appropriate to comply with applicable state or federal laws or regulations.

Unless otherwise provided in the Supplemental Ordinance, the proceeds of sale of all Bonds issued hereunder shall be deposited in the consolidated cash account of the City to the credit of the capital improvement funds and shall be disbursed therefrom, in accordance with established procedures, for the costs of the project or projects (as such term is defined in the Act) for which the Bonds were issued *provided*, however, that if such Bonds shall be issued for the purpose of funding or refunding bonds or notes previously issued by the City such proceeds shall, unless otherwise directed by the Supplemental Ordinance, be deposited in a special account in the Sinking Fund hereinafter authorized and deposited, invested (if appropriate) and disbursed under the direction of the Director of Finance for the purpose of retiring the bonds or notes being funded or refunded.

If the City shall, by Supplemental Ordinance, authorize the issuance of revenue refunding bonds pursuant to Section 10 of the Act, in the absence of specific direction or inconsistent authorization contained in the Supplemental Ordinance, the Director of Finance is hereby authorized in the name and on behalf of the City to take all such action, including the irrevocable pledge of proceeds and/or the income and profit from the investment thereof for the payment and redemption of the funded or refunded bond or notes and including the publication of all required redemption notices or the giving of irrevocable instructions therefor, as may be necessary or appropriate to accomplish the funding or refunding and to comply with the requirements of Section 10 of the Act.

SECTION 5.

ARTICLE V

REDEMPTION OF BONDS

SECTION 5.01. *Bonds May Be Subject to Redemption.* Bonds of any Series may be subject to either optional or mandatory redemption at the times, in the order, in the amounts, at the redemption prices, and other such terms, conditions and restrictions, all as may be set forth in the Supplemental Ordinance authorizing the issuance of such series or, in the absence of such provisions, as may be set forth in the Bonds at the direction of the Director of Finance and shall be set forth in the official notice of sale.

SECTION 5.02. *Notice, Selection by Lot.* Whenever the City shall, by ordinance of Council, determine to redeem all or part of the Bonds of any series in accordance with the right reserved so to do, or when the City or the Fiscal Agent shall be required to redeem Bonds pursuant to mandatory redemption provisions, the City or the Fiscal Agent, as the case may be, shall cause a notice of intention to redeem, signed in the name of the City by the Fiscal Agent, to be published once a week for two consecutive weeks, the first publication to be at least thirty days and not more than sixty days before the redemption date, in not less than two nor more than four daily newspapers published in the English language and of general circulation in the City. At least thirty days before the redemption date the Fiscal Agent shall mail such notice to each registered owner appearing upon the bond register of the registered Bonds to be redeemed, but failure so to mail any such notice shall not affect the validity of the proceedings for redemption. Such notice shall specify, unless a pertinent Supplemental Ordinance shall otherwise provide, the Series and the maturities of the Bonds so to be redeemed and also, if less than all then outstanding Bonds of a maturity are to be redeemed, the numbers of the Bonds to be redeemed which may be expressed in designated blocks, if applicable, and the date fixed for redemption, the redemption price and the place of payment, and shall further state that, from and after such date, interest thereon will cease to accrue.

In connection with the redemption of less than all the Bonds of a particular maturity or series, the Fiscal Agent shall draw by lot the number of the Bonds to be redeemed in such manner as it shall deem proper unless the Supplemental Ordinance establishing the terms and provisions of such Bonds or the redemption provisions of the particular Bonds provides that they shall be redeemable in the order or inverse order of their numbers or that such Bonds shall be redeemable in the order or inverse order of their maturities and all Bonds of a particular maturity or maturities are being redeemed. For the purpose of any drawing, the Fiscal Agent shall assign a number for each basic denomination.

SECTION 5.03. *Effect of Redemption, Payment.* Notice having been given in the manner hereinbefore provided in this Article or irrevocable instructions to give such notice having been delivered to the Fiscal Agent to pay said Bonds or portions thereof, and funds complying with the provisions of subparagraph (1) of Section 10 of the Act having been deposited in trust with the Fiscal Agent or having been set aside with the Sinking Fund Depositary in a special account in the Sinking Fund, prior to the date fixed for redemption, the Bonds or portions thereof so called for redemption, shall become due and payable on the redemption date so designated, and interest on such Bonds or portions thereof shall cease from such redemption date, whether such Bonds be presented for redemption or not, and the coupons representing the interest on any of said Bonds thereafter to accrue shall from that date be void and of no effect. The principal amount of all Bonds or portions thereof so called for redemption, together with the premium, if any, and accrued interest thereon, shall be paid by the Fiscal Agent, upon presentation and surrender thereof in negotiable form, accompanied by coupons, if any, representing such interest. All coupons maturing subsequent to the date of redemption must accompany each Bond so redeemed.

SECTION 5.04. *Partial Redemption.* Upon presentation of any Bond which is to be redeemed in part only, the City and the Fiscal Agent shall execute and deliver to the Holder thereof, at the expense of the City a new Bond or Bonds of authorized denominations in principal amount equal to and of the same Series and maturity as the unredeemed portion of the Bond or Bonds so presented, which new Bond or Bonds shall, at the option of the Holder, either be a coupon Bond or Bonds with all unmatured coupons thereto appertaining or a registered Bond or Bonds without coupons.

SECTION 6.

ARTICLE VI
SINKING FUND

SECTION 6.01. *Establishment of Sinking Fund.* There is hereby established a sinking fund to be known as the City of Philadelphia Gas Works Revenue Bond Sinking Fund (referred to in this Ordinance as the Sinking Fund) for the benefit and security of the Holders of all Bonds. The Sinking Fund shall be held in the name of the City in an account or accounts separate and apart from all other accounts of the City and payments therefrom shall be made only as hereinafter in this Ordinance provided.

The City covenants and the Director of Finance is directed to deposit in, and there is hereby appropriated to, the Sinking Fund from the pledged revenues in each Fiscal Year such amounts as will, together with interest and profits earned and to be earned on investments held therein, be sufficient to accumulate, on or before each interest and principal payment date of the Bonds, the amounts required to pay the principal of and the interest on the Bonds then becoming due and payable. Payment into the Sinking Fund shall be scheduled at such times and in such amounts in relation to the receipt of revenues and the operation and maintenance requirements of the Gas Works as the Director of Finance shall determine.

SECTION 6.02. *Fiscal Agent.* Such state or federally chartered bank as may from time to time be appointed by the City in accordance with law, shall act as Fiscal Agent in respect of all Bonds issued under this Ordinance or in respect of any particular issue or issues of Bonds. The Fiscal Agent shall also act as Sinking Fund Depositary of the Sinking Fund, and as paying agent and registrar of the Bonds in respect of which it is the Fiscal Agent. Nothing in this Ordinance shall be construed to prevent the City from engaging other or additional Fiscal Agents from time to time or from engaging other or additional sinking fund Depositaries, paying agents or registrars of the Bonds or any series thereof.

Subject to the foregoing, the proper officers of the City are authorized to enter into contracts or to confirm existing agreements governing the maintenance of accounts and records, the disposal of cancelled Bonds and coupons, the rights, duties, privileges and immunities of the Fiscal Agent, and such other matters as are authorized by the Act and as are customary and appropriate and to confirm the agreement of the Fiscal Agent, in its several capacities, to comply with the provisions of the Act and of this Ordinance.

SECTION 6.03. *Payments From the Sinking Fund.* The Sinking Fund Depositary shall, on direction of the Director of Finance, or if for any reason he should fail to give such direction, on the direction of the Fiscal Agent, liquidate investments, if necessary, and pay over from the Sinking Fund in cash to the Fiscal Agent not later than the due date thereof the full amount of the principal, interest on, and premium, if any, payable upon redemption of, all Bonds.

Any excess moneys in the Sinking Fund, including any excess amount in the Sinking Fund Reserve and moneys for the payment of the interest, principal and premium of bonds unclaimed after the due date for two years, shall be repaid to the City but such repayment shall not discharge the obligation, if any, for which such moneys were previously held in the Sinking Fund.

SECTION 6.04. *Sinking Fund Reserve.* There is hereby established a Sinking Fund Reserve which shall be held by the Sinking Fund Depositary as part of the Sinking Fund but for which separate accounts shall be maintained. Unless otherwise provided in the applicable Supplemental Ordinance in compliance with this Section 6.04, the City shall, under direction of the Director of Finance, deposit in the Sinking Fund Reserve from the proceeds of sale of each Series of Bonds issued hereunder, an amount equal to the maximum amount required in any Fiscal Year to pay the principal of and interest on the Bonds of such Series becoming due and payable in such Fiscal Year. The money and investments (valued at market) in the Sinking Fund Reserve shall be held and maintained in an amount equal at all times to the maximum principal and interest requirements in any subsequent Fiscal Year of all bonds issued and outstanding hereunder, *provided* that if the Supplemental Ordinance authorizing a Series of Bonds shall authorize the accumulation from Project Revenues of a reserve of such amount in respect of such Bonds over a period of not more than six Fiscal Years after the issuance and delivery of such Bonds, then the full payment of the annual deposits required under such Supplemental Ordinance will meet the Sinking Fund Reserve requirement of this Ordinance in respect of such Bonds.

If, at any time and for any reason, the moneys in the Sinking Fund, other than in the Sinking Fund Reserve, shall be insufficient to pay as and when due, the principal of (and premium if any) or interest on any Bond or Bonds, the Sinking Fund Depositary is hereby authorized and directed to withdraw from the Sinking Fund Reserve and pay over to the Fiscal Agent the amount of such deficiency. If by reason of such withdrawal or for any other reason there shall be a deficiency in the Sinking Fund Reserve, the City hereby covenants to restore such deficiency as required by Section 7.02.

SECTION 6.05. *Management of the Sinking Fund.* To the extent that debt service in respect of any Series of Bonds shall not be financed as a part of the cost of the project or projects for which the Bonds are issued, in which case the amount of the debt service financed shall be deposited in the Sinking Fund from the proceeds of Bonds, sinking fund payments from the pledged revenues in respect of each Series of Bonds shall commence during the six-month period immediately preceding the first interest payment date of each Series for which debt service has not been completely funded and in any event not later than one year subsequent to the estimated completion or acquisition of projects to be constructed or acquired as estimated by the Manager of the Gas Works and, in all other cases, not later than one year subsequent to the date of the Bonds. The moneys, including interest bearing deposits, in the Sinking Fund to the extent not otherwise invested and to the extent not insured, shall be secured as required by the Act and, to the extent not currently required for the payment of debt service, shall be continuously invested and reinvested in securities or interest bearing deposits authorized by the Act, all at the direction and under the management of the Director of Finance. Interest and profits from such investments shall be added to the Sinking Fund and credited in reduction of or to complete required deposits into the Sinking Fund.

SECTION 6.06. *Consolidated Fund.* The Sinking Fund shall be a consolidated fund for the equal and proportionate benefit of the holders of all Bonds from time to time outstanding hereunder and may be invested and reinvested on a consolidated basis. The principal of and interest on and profits (and losses if any) realized on investments in the Sinking Fund shall be allocated prorata for the Series or the specific Bonds in respect of which such investments were made without distinction or priority but moneys (and the investments thereof) specifically deposited for the payment of any particular installment of principal, interest or premium shall be held and applied exclusively to the payment of such particular principal, interest or premium.

SECTION 7.

ARTICLE VII
DEFAULTS AND REMEDIES

SECTION 7.01. *Defaults and Statutory Remedies.* If the City shall fail or neglect to pay or to cause to be paid the principal of, redemption premium, if any, or the interest on any Bond or any Series of Bonds issued hereunder, whether at stated maturity or upon call for prior redemption, or if the City shall fail to comply with any provision of the bonds or with any covenant of the City contained in this Ordinance or an applicable Supplemental Ordinance then, under and subject to the terms and conditions stated in the Act, the Holder or Holders of any Bond or Bonds shall be entitled to all of the rights and remedies, including the appointment of a trustee, provided in the Act.

SECTION 7.02. *Additional Remedies.* If the City shall fail or neglect to make deposits into the Sinking Fund, including the Sinking Fund Reserve, in the amounts and at the times required by this Ordinance and as provided in the Bonds or if, for any reason, there shall be insufficient moneys on deposit in the Sinking Fund for the payment in full of the principal (and premium, if any) or of interest on the Bonds as and when the same shall from time to time become due and payable, then the City covenants that it will without notice thereof from any Bondholder, fiscal agent, paying agent or sinking fund depositary, and so long as such default shall continue, immediately upon such default deposit in the Sinking Fund, on a dail of all pledged revenues of the Gas Works, or percentage thereof as the Director of Financ mine. The covenant of this Section 7.02 sha cally enforceable by any trustee appointed Section 20 of the Act or if there be no sucl pointed, then by the Holder of any Bond out

SECTION 7.03. *Remedies Not Exclusive; E1 In Exercise of Remedies.* No remedy herein conferred upon or reserved to the trustee, if Holder of any bond is intended to be exclusi specifically provided in the Act) of any oth remedies, and each and every such remedy sl lative, and shall be in addition to every other hereunder or now or hereafter existing at lav or by statute.

No delay or omission of the trustee, if one or of any Holder of the Bonds to exercise power accruing upon any default shall imp right or power or shall be construed to be a such default, or an acquiescence therein; and and remedy given by this Article, by the Act may be exercised from time to time, and as be deemed expedient.

SECTION 7.04. *Remedies to be Enforced Pledged Revenues.* Any decree or judgment ment of money against the City by reason of under shall be enforceable only against the nues and the investments thereof and no de ment against the City upon an action broug shall order or be construed to permit the o tachment, seizure, or sale upon execution property of the City.

SECTION 8.

ARTICLE VIII
AMENDMENTS AND MODIFICAT

SECTION 8.01. In addition to the adoption of Supplemental Ordinances supplementing and/or amending this Ordinance as provided in Section 4.06 in connection with the issuance of successive series of bonds, this Ordinance and any Supplemental Ordinance may be further supplemented, modified or amended: (a) to cure any ambiguity, formal defect or omission herein or therein; (b) to grant to or confer upon Bondholders, or a trustee, if any, for the benefit of Bondholders any additional rights, remedies, powers, authority, or security that may be lawfully granted or conferred; (c) to comply with any mandatory provision of state or federal law or with any permissive provision of such law or regulation which does not substantially impair the security or right to payment of the Bonds but no amendment or modification shall be made with respect to any outstanding Bonds to alter the amount, rate or time of payment, respectively, of the principal thereof or the interest thereon or to alter the redemption provisions thereof without the written consent of the Holders of all affected outstanding Bonds; and (d) except as aforesaid, in such other respect as may be authorized in writing by the Holders of 67% in principal amount of the Bonds outstanding and affected. Bonds which have become due and payable on a fixed redemption date in accordance with Section 5.03 shall be deemed to be not outstanding.

SECTION 9.

ARTICLE IX
MISCELLANEOUS

SECTION 9.01. *Ordinances are Contracts With Bondholders.* This Ordinance and Supplemental Ordinances adopted pursuant hereto are contracts with the Holders of all Bonds from time to time outstanding hereunder and thereunder and shall be enforceable in accordance with the provisions of Article VII and the laws of Pennsylvania.

SECTION 9.02. *Repeals.* All ordinances and parts of ordinances heretofore adopted to the extent that the same are inconsistent herewith are hereby repealed.

APP. NO. 397—44

CERTIFICATION: This is a true and correct copy of

the original Ordinance approved by the Mayor on

MAY 30 1975

Charles H Sawyer Jr

Chief Clerk of the Council

City of Philadelphia

(Bill No. 980232)

AN ORDINANCE

Authorizing, generally, the issuance of Gas Works Revenue Bonds of the City of Philadelphia which shall be subordinate to bonds issued under the General Gas Works Revenue Bond Ordinance of 1975, which ordinance is hereby amended to limit issuances of bonds thereunder, prescribing the form of bonds issued hereunder and providing for their execution, transfer, exchange, payment and redemption, prescribing the conditions precedent to the issue of specific series of bonds, including supplemental authorizing ordinances, pledging certain revenues of the Gas Works as security, adopting a rate covenant, and directing the Gas Commission to impose rates sufficient to comply therewith, designating a fiscal agent and sinking fund depositary, establishing a Sinking Fund, including a Sinking Fund Reserve, and providing for its management, providing remedies upon default, and providing for amendments and modifications.

THE COUNCIL OF THE CITY OF PHILADELPHIA HEREBY ORDAINS:

SECTION 1.

ARTICLE I

AUTHORIZATION, SCOPE AND PURPOSE
SHORT TITLE

This Ordinance is enacted pursuant to the provisions of The First Class City Revenue Bond Act approved October 18, 1972 (Act No. 234, 53 P.S. 15901 et seq.), as amended, for the purpose of authorizing the issuance from time to time of revenue bonds of the City to be secured by a pledge of certain revenues of the Gas Works as security, in such principal amounts as shall from time to time be authorized by further ordinances of the Council of the City as more particularly hereinafter set forth. This Ordinance shall be known as the General Gas Works Revenue Bond Ordinance of 1998.

ARTICLE II

DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION

SECTION 2.01. **Definitions.** For all purposes of this Ordinance and any ordinance supplemental hereto, except as otherwise expressly provided or unless the context otherwise requires:

Accreted Value means, with respect to any Capital Appreciation Bond, as of any specified date, the Original Value of such Bond, plus interest accreted on such Bond to such date, all as may be provided in an applicable Supplemental Ordinance.

Act means The First Class City Revenue Bond Act approved October 18, 1972 (Act No. 234, 53 P.S. 15901 to 15224), as from time to time amended. The words and phrases which are defined in the Act shall have such defined meanings when used in this Ordinance.

Bond or Bonds means any Gas Works revenue bond or note of the City issued and outstanding pursuant to the Act under this Ordinance and any Supplemental Ordinance.

Bond Counsel means any firm of nationally recognized bond counsel acceptable to the City.

Bondholder or Holder means the registered owner of any Bond.

Bond Register means the list of the names and addresses of Bondholders and the principal amounts and numbers of the Bonds held by them maintained by the Fiscal Agent on behalf of the City.

Bond Year for any Series of Bonds means each one-year period (or shorter period from the date of issue) that ends at the close of business on the date in the calendar year that is selected by the City as permitted under the Code. If no day is selected by the City before the earlier of the final maturity date of the Series of Bonds or the date that is five (5) years after the issue date, the Bond Year with respect to such Series of Bonds shall end on each anniversary of the issue date and on the final maturity date.

Business Day means a day other than a Saturday, Sunday or holiday on which the Fiscal Agent is authorized or required to be closed under applicable state or federal law.

Capital Appreciation Bonds means any Bonds issued hereunder which do not pay interest until maturity or until a specified date prior to maturity, but whose Original Value accretes periodically to the amount due on the maturity date.

City means The City of Philadelphia, Pennsylvania.

City Charges means the proportionate charges, if any, for services performed for the Gas Works by all officers, departments, boards or commissions of the City which are contained in the computation of operating expenses of the Gas Works, including, without limitation, the expenses of the Gas Commission, and also means the base payments to the City contained in the Management Agreement and all other payments made to the City from Gas Works Revenues.

City Controller means the head of the City's auditing department as provided by the Philadelphia Home Rule Charter.

City Solicitor means the head of the City's law department as provided by the Philadelphia Home Rule Charter.

Code means the Internal Revenue Code of 1986, as amended, or any successor legislation, and the regulations and published rulings promulgated thereunder or applicable thereto.

Credit Facility means any letter of credit, standby bond purchase agreement, line of credit, surety bond, insurance policy or other insurance commitment or similar agreement (other than a Qualified Swap or an Exchange Agreement) that is provided by a commercial bank, insurance company or other institution, with a current long term rating (or whose obligations thereunder are guaranteed by a financial institution with a long term rating) from Moody's and S&P not lower than "A."

Credit Facility Issuer or issuer of a Credit Facility means each issuer of a Credit Facility then in effect, and its successors. References herein to the Credit Facility Issuer shall be read to mean the issuer of the Credit Facility applicable to a particular Series of Bonds or each issuer of a Credit Facility, as the context requires.

Debt Service Requirements means, for a specified period, the sum of (i) the principal of (whether at maturity or pursuant to mandatory redemption) and interest (other than capitalized interest) on Outstanding Bonds payable during the period and (ii) all net amounts due and payable by the City under Qualified Swaps and Exchange Agreements during the period. For purposes of estimating Debt Service Requirements for any future period, (i) any Option Bond outstanding during such period shall be assumed to mature on the stated maturity date thereof, except that the principal amount of any Option Bond tendered for payment and cancellation before its stated maturity date shall be deemed to accrue on the date required for payment pursuant to such tender; (ii) Debt Service Requirements on Bonds for which the City has entered into a Qualified Swap or an Exchange Agreement shall be calculated assuming that the interest rate on such Bonds shall equal the stated fixed or variable rate payable by the City on the Qualified Swap or Exchange Agreement or, if applicable and if greater than such stated rate, the applicable rate for any Bonds issued in connection with the Qualified Swap or Exchange Agreement adjusted, in the case of variable rate obligations, as provided in Section 4.03(b); and (iii) Debt Service Requirements with respect to Variable Rate Bonds shall be subject to adjustments as permitted by Section 4.03(b).

Director of Finance means the chief financial, accounting and budget officer of the City as established by the Philadelphia Home Rule Charter, including a person acting as Director of Finance under applicable law.

Exchange Agreement means, with respect to a Series of Bonds, or any portion thereof to the extent from time to time permitted by applicable law, any interest exchange agreement,

interest rate swap agreement, currency swap agreement or other contract or agreement, other than a Qualified Swap, authorized, recognized and approved by a Supplemental Ordinance as an Exchange Agreement and providing for payments to and from an entity whose senior long term debt obligations, other senior unsecured long term obligations, or claims paying ability or whose obligations under an Exchange Agreement are guaranteed by an entity whose senior long term debt obligations, other senior unsecured long term obligations or claims paying ability, are rated not less than A3 by Moody's, A- by S&P or A- by Fitch, or the equivalent thereof by any successor thereto as of the date the Exchange Agreement is entered into, which payments are calculated by reference to fixed or variable rates and constituting a financial accommodation between the City and the counterparty.

Fiscal Agent means any bank, bank and trust company or trust company named as such in Section 6.02 or its successor.

Fiscal Year means the fiscal year of the Gas Works.

Fitch means Fitch IBCA, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns and if such corporation shall for any reason no longer perform the functions of a securities rating agency, "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency designated by the City. Whenever rating categories of Fitch are specified in this Ordinance, such categories shall be irrespective of gradations within a category.

Gas Commission means the Gas Commission provided for by the Philadelphia Home Rule Charter as presently constituted or hereafter reconstituted in accordance with law.

Gas Works means all property, real and personal, owned by the City and used in the acquisition or manufacture, storage and distribution of natural, liquefied, synthetic or manufactured gas or in the maintenance, management or administration thereof and all activities ancillary and related thereto, and also means, as the context may require, the business entity managed by the Manager.

Gas Works Revenues means all operating and nonoperating revenues of the Gas Works derived from its activities and assets involved in the supply, manufacture, storage and distribution of gas, including all rents, rates and charges imposed or charged by the City upon the owners or occupants of properties connected to, and upon all users of, gas distributed by the Gas Works and all other revenues derived therefrom and all other income derived by the City from the Gas Works. Revenues derived from activities unrelated to the supply, manufacture, storage and distribution of gas or assets related thereto shall not be included in Gas Works Revenues, provided that the Gas Works receives fair payment for the use of gas related assets and personnel of the Gas Works used in such activities, which payments shall be included in Gas Works Revenues. In particular, Gas Works Revenue shall not include revenue from enterprises or functions not related to gas activities (e.g., activities involving the supply, generation or distribution of electricity). Gas Works Revenues shall not include those portions of the Gas Works' rents, rates and charges which are securitized and sold pursuant to Section 4.03(b). Gas Works Revenues may be divided into separate components in one or more Supplemental Ordinances and any Series of Bonds issued thereafter may be limited as to source of payment to one or more of such components as provided in the Supplemental Ordinance authorizing the particular Series of Bonds.

Government Obligations means any of the following which

are noncallable and which at the time of investment are legal investments under the Act for the moneys proposed to be invested therein:

(a) direct general obligations of, or obligations the payment of principal of and interest on which are unconditionally guaranteed as to full and timely payment by, the United States of America;

(b) direct obligations and fully guaranteed certificates of beneficial interest of the Export-Import Bank of the United States; consolidated debt obligations and letter of credit-backed issues of the Federal Home Loan Banks; participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation; debentures of the Federal Housing Administration; mortgage-backed securities (except stripped mortgage securities which are valued greater than par on the portion of unpaid principal) and senior debt obligations of the Federal National Mortgage Association; participation certificates of the General Services Administration; guaranteed mortgage-backed securities and guaranteed participation certificates of the Government National Mortgage Association; guaranteed participation certificates and guaranteed pool certificates of the Small Business Administration; debt obligations and letter of credit-backed issues of the Student Loan Marketing Association; local authority bonds of the U.S. Department of Housing & Urban Development; guaranteed Title XI financings of the U.S. Maritime Administration; or

(c) obligations issued by the Resolution Funding Corporation pursuant to the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (the "FIRRE Act"), (i) the principal of which obligations is payable when due from payments of the maturing principal of non-interest bearing direct obligations of the United States of America which are issued by the Secretary of the Treasury and deposited in the Funding Corporation Principal Fund established pursuant to the FIRRE Act, and (ii) the interest on which obligations, to the extent not paid from other specified sources, is payable when due by the Secretary of the Treasury pursuant to the FIRRE Act.

Independent means a person who is not a salaried employee or elected or appointed official of the City; provided, however, that the fact that such person is retained regularly by or transacts business with the City shall not make such person an employee within the meaning of this definition.

Interim Debt means any bond anticipation notes or other temporary borrowing which the City anticipates permanently financing with Bonds or other long term indebtedness under this Ordinance or otherwise.

Management Agreement means the Agreement dated December 29, 1972 between the City and the Manager for the management and operation of the Gas Works, as presently or hereafter amended, or any successor agreement which may be entered into by the City pertaining to the management of the Gas Works.

Manager means Philadelphia Facilities Management Corporation, currently managing the Gas Works pursuant to the Management Agreement, or its successor or such other person, corporation, board, commission or department of the City which may be designated by the City to manage the Gas Works.

Mayor means the Mayor of the City.

Moody's means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State

of Delaware, its successors and assigns, and if such corporation shall for any reason no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the City. Whenever rating categories of Moody's are specified in this Ordinance, such categories shall be irrespective of gradations.

Net Operating Expenses means Operating Expenses exclusive of City Charges.

1975 Ordinance means the General Gas Works Revenue Bond Ordinance of 1975, as amended.

Office of the Fiscal Agent means the corporate trust office of the Fiscal Agent designated by the Fiscal Agent.

Operating Expenses means all costs and expenses of the Gas Works necessary and appropriate to operate and maintain the Gas Works in good operable condition during each Fiscal Year, and shall include, without limitation, the Manager's fee, salaries and wages, purchases of service by contract, costs of materials, supplies and expendable equipment, maintenance costs, costs of any property or the replacement thereof or for any work or project, related to the Gas Works, which does not have a probable useful life of at least five years, pension and welfare plan and workmen's compensation requirements, provision for claims, refunds and uncollectible receivables and for City Charges, all in accordance with generally accepted municipal accounting principles consistently applied, but shall exclude depreciation and interest and sinking fund charges. Operating Expenses shall not include Unrelated Expenses.

Option Bond means any Bond which by its terms may be tendered by and at the option of the Holder thereof for payment by the City prior to its stated maturity date or the maturity date of which may be extended by and at the option of the Holder thereof.

Ordinance means this Ordinance, as from time to time amended.

Original Value, with respect to a Series of Bonds issued as Capital Appreciation Bonds, means the principal amount paid by the initial purchasers thereof on the date of original issuance.

Outstanding, when used with reference to the Bonds, means, as of any particular date, all Bonds which have been authenticated and delivered under this Ordinance, except:

(a) Bonds canceled after purchase in the open market or because of payment or redemption prior to maturity;

(b) Bonds for the payment or redemption of which sufficient moneys shall have been theretofore deposited with the Fiscal Agent (whether upon or prior to the maturity or redemption date of any such Bonds), provided that, if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in Section 5.02 or arrangements satisfactory to the Fiscal Agent shall have been made therefor, or waiver of such notice satisfactory in form to the Fiscal Agent shall have been filed with the Fiscal Agent; and

(c) Bonds in lieu of which or in substitution for which others have been authenticated and delivered under Section 3.04.

Bonds paid with the proceeds of any Credit Facility shall be

Outstanding until the issuer of such Credit Facility has been reimbursed for the amount of the payment or has presented the Bonds for cancellation.

Philadelphia Home Rule Charter means the Philadelphia Home Rule Charter, as amended or superseded by any new home rule charter, adopted pursuant to authorization of the First Class City Home Rule Act approved April 21, 1949, P.L. 665, sec. 1 et seq. (53 P.S. 13101 et seq.).

Prior Obligations means the obligations of the Gas Works to The Philadelphia Municipal Authority existing on the date of adoption of this Ordinance.

Qualified Escrow Securities means funds which are represented by (i) demand deposits, interest-bearing time accounts, savings deposits or certificates of deposit, but only to the extent such deposits or accounts are fully insured by the Federal Deposit Insurance Corporation or any successor United States governmental agency, or to the extent not insured, fully secured and collateralized by Government Obligations having a market value (exclusive of accrued interest) at all times at least equal to the principal amount of such deposits or accounts, (ii) if at the time permitted under the Act, obligations of any state or political subdivision thereof or any agency or instrumentality of such state or political subdivision for which cash, Government Obligations or a combination thereof have been irrevocably pledged to or deposited in a segregated escrow account for the payment when due of principal or redemption price of and interest on such obligations, and any such cash or Government Obligations pledged and deposited are payable as to principal or interest in such amounts and on such dates as may be necessary without reinvestment to provide for the payment when due of the principal or redemption price of and interest on such obligations, and such obligations are rated by any Rating Agency in the highest rating category assigned by such Rating Agency to obligations of the same type, or (iii) noncallable Government Obligations. In each case such funds (i) are subject to withdrawal, mature or are payable at the option of the holder at or prior to the dates needed for disbursement, provided such deposits or accounts, whether deposited by the City or by such depository, are insured or secured as public deposits with securities having at all times a market value exclusive of accrued interest equal to the principal amount thereof, (ii) are irrevocably pledged for the payment of such obligations and (iii) are sufficient, together with the interest to the disbursement date payable with respect thereto, if also pledged, to meet such obligations in full.

Qualified Swap or Swap Agreement means, with respect to a Series of Bonds or any portion thereof, any financial arrangement that (i) is entered into by the City with an entity that is a Qualified Swap Provider at the time the arrangement is entered into; (ii) provides that (a) the City shall pay to such entity an amount based on the interest accruing at a fixed rate on an amount equal to the principal amount of the Outstanding Bonds of such Series or portion thereof, and that such entity shall pay to the City an amount based on the interest accruing on a principal amount initially equal to the same principal amount of such Bonds, at either a variable rate of interest or a fixed rate of interest computed according to a formula set forth in such arrangement (which need not be the same as the actual rate of interest borne by the Bonds) or that one shall pay to the other any net amount due under such arrangement or (b) the City shall pay to such entity an amount based on the interest accruing on the principal amount of the Outstanding Bonds of such Series or portion thereof at a variable rate of interest as set forth in the arrangement and that such entity shall pay to the City an amount based on interest accruing on a principal amount equal to the same principal amount of such Bonds at a

variable rate of interest or a fixed rate of interest computed according to a formula set forth in such arrangement (which need not be the same as the actual rate of interest borne by the Bonds) or that one shall pay to the other any net amount due under such arrangement; and (iii) which has been designated in writing to the Fiscal Agent by the City as a Qualified Swap with respect to such Bonds.

Qualified Swap Provider means, with respect to a Series of Bonds, an entity whose senior long term debt obligations, other senior unsecured long term obligations or claims paying ability, or whose payment obligations under a Qualified Swap are guaranteed by an entity whose senior long term debt obligations, other senior unsecured long term obligations or claims paying ability, are rated (at the time the subject Qualified Swap is entered into) at least as high as Aa by Moody's and AA by S&P, or the equivalent thereof by any successor thereto.

Rate Covenant means the rate covenant contained in subsection (b) of Section 4.03.

Rating Agency means Moody's, S&P or Fitch, to the extent that any of such rating services have issued a credit rating on any of the Outstanding Bonds or, upon discontinuance of any of such rating services, such other nationally recognized rating service or services if any such rating service has issued a credit rating on any of the Outstanding Bonds.

Rebate Amount means the amount with respect to a Series of Bonds which is required to be paid to the United States of America, as of any computation date, in compliance with the restrictions imposed by Section 148(f) of the Code.

S & P means Standard & Poor's Ratings Services, a corporation organized and existing under the laws of the State of New York, its successors and assigns, and if such corporation shall for any reason no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the City. Whenever rating categories of S&P are specified in this Ordinance, such categories shall be irrespective of gradations within a category.

Senior Bonds means Bonds which shall be first in right of payment and as to which the coverage requirement under the Rate Covenant shall be 150%.

Series, when applied to Bonds, means collectively all of the Bonds of a given issue authorized by Supplemental Ordinance as provided in Article IV hereof and may also mean, if appropriate, a subseries of any such issue if, for any reason, the City should determine to divide any such issue into one or more subseries of Bonds.

Sinking Fund means the 1998 Ordinance Gas Works Revenue Bond Sinking Fund established by Section 6.01.

Sinking Fund Depositary means the Fiscal Agent or any other bank, bank and trust company or trust company appointed as such by the City.

Sinking Fund Reserve means the Sinking Fund Reserve established by Section 6.04.

Sinking Fund Reserve Requirement means, with respect to all Bonds secured by the Sinking Fund Reserve, an amount equal to the greatest amount of Debt Service Requirements payable in any Fiscal Year (except that such Debt Service Requirements will be computed as if any Qualified Swap did not exist and the Debt Service Requirements attributable to any

Variable Rate Bonds may be based upon the fixed rate of interest as set forth in the Supplemental Ordinance for such Bonds), determined as of any particular date.

Subordinate Bonds means those Bonds which shall be subordinate in right of payment to Senior Bonds and as to which the coverage requirement under the Rate Covenant shall be 100%.

Supplemental Ordinance means an ordinance supplemental hereto enacted pursuant to the Act and this Ordinance by the Council of the City authorizing the issuance of a Series of Bonds.

Uncertificated Bond means any Bond which is fully registered as a to principal and interest and which is not represented by an instrument.

Unrelated Expenses means expenses unrelated to the supply, manufacture, storage and distribution of gas or assets related thereto.

Variable Rate Bond means any Bond, the rate of interest on which is subject to change prior to maturity and cannot be determined in advance of such change.

SECTION 2.02. **Interpretation.** All references in this Ordinance to articles, sections and other sub-divisions are to the designated articles, sections or other sub-divisions of this Ordinance as from time to time amended. The words "herein," "hereof," "hereby" and "hereunder" and other words of similar import refer to this Ordinance as a whole and not to any particular article, section or other subdivision.

SECTION 2.03. **Descriptive Headings.** The descriptive headings of the several articles and sections of this Ordinance are inserted for convenience only and shall not control or affect the meaning or construction of any of its provisions.

SECTION 2.04. **Severability.** In case any one or more of the provisions contained in this Ordinance or in any Bond issued pursuant hereto shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Ordinance or of said Bonds, and this Ordinance or said Bonds shall be construed and enforced as if such invalid, illegal or unenforceable provisions had never been contained therein.

ARTICLE III

CONCERNING THE BONDS

SECTION 3.01. **Forms Generally.** All Bonds shall be in substantially the form set forth in this Article III, with such appropriate insertions, omissions, substitutions and other variations, including, without limitation, provisions for optional and mandatory redemption, variable interest rates, capital appreciation, book entry and coupon form, as are required or permitted by this Ordinance or any Supplemental Ordinance, and may be designated as of such Series by date, number, letter or otherwise and may also have such individual letters, identifying numbers or other marks, legends or endorsements placed thereon, as may, consistently with this Ordinance and the Act, be determined by a Supplemental Ordinance or by the Director of Finance. The Supplemental Ordinance or the Director of Finance shall also determine whether or not a Series of Bonds is to be issued in a manner whereby interest thereon

will be excluded from gross income for Federal income tax purposes and whether or not a Series of Bonds is to be secured by the Sinking Fund Reserve. The Bonds may also have printed thereon or on the reverse thereof the text of an approving legal opinion with respect thereto and an appropriate certificate as to its correspondence with an executed counterpart may be included on the face or on the reverse of the Bonds. A statement of bond insurance applicable to any Bonds may also be printed on such Bonds. Any portion of the text of any Bond may be set forth on the reverse thereof with an appropriate reference on the face of the Bond.

SECTION 3.02. **Form of Fully Registered Bond.** Bonds shall be substantially in the following form, subject to modification as provided in Section 3.01:

(Form of Fully Registered Bond)

No. R- $

UNITED STATES OF AMERICA

COMMONWEALTH OF PENNSYLVANIA

CITY OF PHILADELPHIA GAS WORKS REVENUE BOND
(1998 General Ordinance) Series of

Interest Rate	Maturity Date	Dated Date	CUSIP

REGISTERED OWNER:

City of Philadelphia

PRINCIPAL AMOUNT: DOLLARS

The City of Philadelphia, Pennsylvania (the "City"), for value received, hereby promises to pay, but only out of Pledged Amounts (as hereinafter defined), to the Registered Owner identified above or registered assigns (the "Holder"), on the Maturity Date identified above, upon the presentation and surrender hereof, the Principal Amount identified above and to pay (but only out of the Pledged Amounts) interest on said Principal Amount at the annual rate specified above, from the most recent Interest Payment Date (as hereinafter defined) to which interest has been paid or duly provided for, or, if no interest has been paid, from ,
on and
in each year (each an "Interest Payment Date"), commencing
, until payment of the principal sum shall have been made or provided for.

The principal of this Bond, upon maturity or redemption, is payable at the Principal Office of , or its successor, as Fiscal Agent (the "Fiscal Agent"). Interest on this Bond will be paid by the Fiscal Agent on each Interest Payment Date by check or draft mailed to the person in whose name this Bond is registered on the registration books of the City (the "Bond Register") maintained by the Fiscal Agent and at the address appearing thereon on the [last] [fifteenth] day of the month preceding such Interest Payment Date (the "Record Date") or in lieu thereof, if so requested in a written notice provided to the Fiscal Agent not less than ten (10) days prior to the relevant Interest Payment Date by a Bondholder of $1,000,000 or more in aggregate principal amount of Bonds, by wire transfer to an account in a bank located in the United States designated by such Bondholder. Any such interest not so timely paid or duly provided for shall cease to be payable to the person who is the registered owner hereof as of the Record Date and shall be

City of Philadelphia

payable to the person who is the registered owner hereof at the close of business on the fifteenth (15th) day prior to the date set for the payment of such defaulted interest (the "Special Payment Date"). Such Special Payment Date shall be fixed by the Fiscal Agent in accordance with Section 2.03 of the Ordinance (as hereinafter defined). The principal of and interest on this Bond are payable in lawful money of the United States of America.

Interest on this Bond shall be paid on each Interest Payment Date and shall be computed on the basis of a year of 360 days consisting of twelve 30-day months and the actual number of days elapsed.

This Bond is fully registered in the name of the owner on the Bond Register kept for that purpose at the Office of the Fiscal Agent. No transfer shall be valid as against the City or the Fiscal Agent unless made by the registered owner in person or by his duly authorized attorney or legal representative and similarly noted upon the Bond Register and hereon. Upon any such transfer or exchange, the City and the Fiscal Agent shall execute and deliver to or upon the order of the registered owner, a new registered Bond or Bonds, in authorized denominations aggregating the principal amount hereof, maturing on the same date, bearing interest at the same rate, bearing the same series designation as this Bond and registered in such names as shall be requested.

The City and the Fiscal Agent may treat the person in whose name this Bond is registered as the absolute owner of this Bond for all purposes whether or not this Bond shall be overdue, and the City and the Fiscal Agent shall not be affected by any notice to the contrary. All payments of the principal, interest or redemption price made to the registered owner hereof in the manner set forth herein and in the Ordinance (as hereinafter defined) shall be valid and effectual to satisfy and discharge the liability upon this Bond to the extent of the sum or sums so paid, whether or not notation of the same be made hereon, and any consent, waiver or action taken by such registered owner pursuant to the provisions of the Ordinance shall be conclusive and binding upon such registered owner, such owner's heirs, successors and assigns, and upon all transferees hereof, whether or not notation thereof be made hereon or on any Bond issued in exchange therefor.

This Bond is one of a duly authorized issue of bonds of the City designated as its Gas Works Revenue Bonds (1998 General Ordinance) of the Series designated hereon (the "Bonds"), limited in aggregate principal amount to $ issued or to be issued pursuant to The First Class City Revenue Bond Act (Act No. 234 of the Pennsylvania General Assembly approved October 18, 1972, as amended, 53 P.S. 15901 et seq.) (the "Act") under the General Gas Works Revenue Bond Ordinance of 1998 (the "Ordinance") and the supplemental ordinance dated (the "Supplemental Ordinance"). (Terms used herein, unless defined herein, shall have the meanings given in the Ordinance or the Supplemental Ordinance.) The Bonds, together with all previous bonds of the City, if any, issued under the Ordinance and under previous supplemental ordinances and together with all bonds of the City hereafter issued under the Ordinance and all subsequent supplemental ordinances, are and will be secured under the Ordinance by a pledge of all the rents, rates and charges imposed or charged by the City for the use of or services rendered by the Gas Works of the City and of certain other moneys derived from the Gas Works and from the investment of such revenue (the "Gas Works Revenues") and amounts held in the Sinking Fund Reserve established under the Ordinance (collectively, the "Pledged Amounts"). This Bond is a [Senior] [Subordinate] Bond and is [prior] [subordinate] in right of payment to other bonds issued under the Ordinance except other [Senior]

[Subordinate] Bonds, as to which it is equally and ratably secured. The Ordinance requires Gas Works Revenues to be applied in order of priority to (1) Net Operating Expenses then payable, (2) debt service on bonds issued under the General Gas Works Revenue Bond Ordinance of 1975, as amended, and amounts required to be paid into the sinking fund reserve thereunder, (3) debt service on Senior Bonds, payments (other than termination payments) due to the issuers of Qualified Swaps and Exchange Agreements related to Senior Bonds and payments due in respect of obligations of the Gas Works to The Philadelphia Municipal Authority existing on the date of adoption of the Ordinance, (4) payments due to issuers of Credit Facilities related to Senior Bonds, (5) debt service on Subordinate Bonds and payments due in respect of obligations of the Gas Works on a parity with Subordinate Bonds (including notes issued under the City's General Inventory and Receivables Gas Works Revenue Note Ordinance of 1993, or any similar ordinance, and amounts payable to the provider of a Credit Facility in respect of such notes) and payments (other than termination payments) due to the issuers of Qualified Swaps and Exchange Agreements related to Subordinate Bonds, (6) payments due to issuers of Credit Facilities related to Subordinate Bonds, (7) required payments of the Rebate Amount to the United States, (8) replenishment of any deficiency in the Sinking Fund Reserve, (9) payment of general obligation bonds of the City adjudged to be self-liquidating from Gas Works revenues, (10) debt service on other general obligation bonds issued for the Gas Works, and (11) City charges and any other proper purpose of the Gas Works (including any termination payments to issuers of Qualified Swaps and Exchange Agreements), except Unrelated Expenses.

The City covenants, so long as this Bond shall remain outstanding, to make payments of interest on the indebtedness represented by this Bond, out of the Sinking Fund, in the semi-annual amount shown hereon on each interest payment date of this Bond, or, as the case may be, the proportionate part thereof from the date hereof to the next interest payment date, and to pay, upon surrender hereof, from the Sinking Fund on the maturity date hereof or, if this Bond shall be selected for mandatory or optional redemption, then on the applicable redemption date, the principal amount hereof with the applicable premium, if any, plus, in the case of redemption, all interest accrued to the redemption date.

Reference is hereby made to the Ordinance for a statement of the terms and conditions under which previous bonds, if any, have been issued, under which the Bonds are issued and under which additional bonds will be issued, and for a statement of the particular rentals, revenues and moneys pledged for the security and payment of all bonds issued under the Ordinance, the nature, extent and manner of enforcement of the security, the terms and conditions under which the Ordinance may be amended or modified, and the rights of the holders or registered owners of the Bonds with respect to such security. The City hereby represents to and covenants with the registered owner of this Bond that, except for bonds issued under the General Gas Works Revenue Bond Ordinance of 1975 (which has been closed to future bond issuances other than refunding bonds and bonds issued upon exchanges, transfers or replacements), and in the case of Subordinate Bonds, outstanding and future Senior Bonds, (i) no Gas Works revenue bonds of the City have been or will be issued for the payment of which the holder has or shall have a prior lien on or security interest in the revenues pledged for the payment of this Bond or a prior right to payment therefrom and (ii) all Gas Works revenue bonds which have been or will be equally and ratably secured by such pledged revenues have and will be issued in accordance with the provisions of the Ordinance. However, nothing herein contained shall be construed to prevent the City from financing

Gas Works projects by the issuance of its general obligation bonds or by the issuance of Gas Works revenue bonds under other authorization for the payment of which project revenues of the Gas Works may be pledged subject and subordinate in each fiscal year to the prior payment from such revenues of all principal, premium, interest and sinking fund requirements payable during such fiscal year under the Ordinance in respect of Gas Works revenue bonds issued and outstanding thereunder.

[Insert redemption provisions.]

Notice of Redemption

When the City shall determine to redeem Bonds, upon prior written notice to the Fiscal Agent of the redemption date and the principal amount of Bonds to be redeemed, or whenever the Fiscal Agent shall be required to redeem Bonds from moneys in the Sinking Fund, without action on the part of the City, the Fiscal Agent, at the City's expense, shall cause a notice of redemption to be mailed to the Bondholders. Such notice shall, among other things, state the redemption price and the date fixed for redemption, that on such date the Bonds called for redemption will be due and become payable at the Office of the Fiscal Agent, and that from and after such date interest thereon shall cease to accrue; provided, however, that the Holders of any Bonds to be redeemed may file written waivers of notice with the Fiscal Agent, and if so waived, such Bonds may be redeemed and all rights and liabilities of said Holders shall mature and accrue on the date set for such redemption without the requirement of written notice. If a notice is given with respect to an optional redemption prior to moneys for such redemption being deposited with the Fiscal Agent, such notice shall be conditioned upon the deposit of moneys with the Fiscal Agent on or before the date fixed for redemption and such notice shall be of no effect unless such moneys are so deposited.

The notice to Bondholders shall be deposited by the Fiscal Agent in the United States mail, first-class postage prepaid, at least thirty (30) days, but not more than sixty (60) days prior to the redemption date, addressed to the Holders of Bonds called for redemption at the addresses appearing upon the Bond Register. Any notice of redemption mailed in accordance with the requirements set forth herein shall be conclusively presumed to have been duly given, whether or not such notice is actually received by the Bondholder. No defect in the notice with respect to any Bond (whether in the form of notice or the mailing thereof) shall affect the validity of the redemption proceedings for any other Bonds.

No covenant or agreement contained in this Bond or in the Ordinance shall be deemed to be a covenant or agreement of any official, officer, agent or employee of the City in his individual capacity, and any official executing this Bond nor any such officer, agent or employee shall be liable personally on this Bond or under the Ordinance or the Supplemental Ordinance or be subject to any personal liability or accountability by reason of the issuance or sale of this Bond, all such liability of such members, officers, agents and employees being released as a condition of and as consideration for the adoption of the Ordinance and the Supplemental Ordinance and the issuance of this Bond.

THIS BOND IS A SPECIAL OBLIGATION OF THE CITY PAYABLE SOLELY FROM THE PLEDGED AMOUNTS AND NEITHER THE CREDIT NOR THE TAXING POWER OF THE CITY IS PLEDGED FOR THE PAYMENT OF THE PRINCIPAL OF, OR PREMIUM, IF ANY, OR INTEREST ON, THIS BOND, NOR SHALL THIS BOND BE DEEMED TO BE A GENERAL OBLIGATION OF THE CITY.

It is hereby certified that all conditions, acts and things required to exist, happen and be performed under the Act and under the Ordinance precedent to and in the issuance of this Bond, exist, have happened and have been performed, and that the issuance and delivery of this Bond have been duly authorized by ordinance of the City duly adopted.

IN WITNESS WHEREOF, The City of Philadelphia, Pennsylvania has caused this Bond to be properly executed by its Fiscal Agent, by two duly authorized officers thereof, and the facsimile of the seal of the City of Philadelphia to be imprinted hereon, and to be duly countersigned and attested by a facsimile signature of the City Controller, as of

THE CITY OF PHILADELPHIA, PENNSYLVAN

By:__________________
Fiscal Agent

Countersigned and Attested by (Facsimile Signature) By:__________________
Authorized Officer

City Controller By:__________________
Authorized Officer

SECTION 3.03. **General Form, Content and Payment of Bonds.** The Bonds shall be generally designated as Gas Works Revenue Bonds (1998 General Ordinance) of the City and shall be issued in such Series and within such Series in such subseries as the City may from time to time determine. The aggregate principal amount of Bonds which may be issued, authenticated and delivered under this Ordinance is unlimited, but prior to issuance of each Series of Bonds, the City shall adopt a Supplemental Ordinance authorizing such Series.

The Bonds of each Series shall be issued in such aggregate principal amount, shall be dated on or as of such date or dates, shall be in such denominations, shall mature or be subject to mandatory redemption in such principal amounts and on such dates, shall bear interest from such date or dates and at such rate or rates (including, without limitation, variable, adjustable and convertible rates), shall be subject to optional redemption at such times and upon such terms, shall be designated as Senior Bonds or Subordinate Bonds (and within such categories may be designated as subordinate to other Bonds in such category and may be limited as to source of payment to one or more specific components of Gas Works Revenues), and shall contain such other terms and conditions not inconsistent with this Ordinance or the Act, all as shall be determined by the City and set forth in the Supplemental Ordinance under which such Bonds are issued, or as shall be determined by a designated officer or officers of the City thereunto authorized by the Supplemental Ordinance or, in the absence of such provisions or designation, as shall be determined by the Director of Finance as specified in Section 4.05.

If permitted by applicable law, any Series of Bonds may be issued as Uncertificated Bonds and the foregoing provisions specifying the form of Bonds shall be inapplicable to such Series of Bonds.

A Series of Bonds may be secured by a Credit Facility meeting the requirements of this Ordinance and the applicable Supplemental Ordinance. In connection with the issuance of its Bonds or at any time thereafter so long as a Series of Bonds remains Outstanding, the City also may enter into Qualified

Swaps or Exchange Agreements if a majority of the Mayor, the City Controller and the City Solicitor determines that such Qualified Swap or Exchange Agreement will assist the City in more effectively managing its interest costs or its interest rate exposure. The City's payment obligation under any Qualified Swap or Exchange Agreement shall be made only from Gas Works Revenues. Unless otherwise acknowledged by each Rating Agency by virtue of its confirmation of the existing credit ratings on the City's Outstanding Bonds, the City will not enter into any Qualified Swap or Exchange Agreement unless it gives at least fifteen (15) days advance notice of its intention to do so to each of the Rating Agencies, which notice shall specify the identify of the Qualified Swap Provider or Exchange Agreement counterparty, as the case may be.

The principal of, premium, if any, and interest on Bonds issued hereunder shall be payable in lawful money of the United States of America, which at the time of payment is legal tender for the payment of public and private debts; provided that, if applicable law permits, the principal or redemption price of and the interest on a Series of Bonds may be payable in such foreign currency as may be specified in the Supplemental Ordinance authorizing such Series of Bonds. Principal of and premium, if any, on Bonds shall be payable at the Office of the Fiscal Agent, upon presentation and surrender of the Bonds as the same shall become due and payable. Interest on the Bonds shall be paid by the Fiscal Agent on each interest payment date by check or draft mailed to the person in whose name a Bond is registered on the registration books maintained by the Fiscal Agent (as hereinafter provided) at the close of business on the associated record date, and at the address appearing on such registration books or in lieu thereof, if so requested in a written notice provided to the Fiscal Agent not less than ten (10) days prior to the relevant interest payment date by a Bondholder of $1,000,000 or more in aggregate principal amount of Bonds, by wire transfer to an account in a bank located in the United States designated by such Bondholder. Any such interest not so timely paid or duly provided for shall cease to be payable to the person who is the registered owner thereof as of the associated record date, and shall be payable to the person who is the registered owner thereof (or of one or more predecessor bonds) at the close of business on the special record date preceding the special payment date set by the Fiscal Agent whenever moneys become available for payment of such interest. Notice of such special payment date shall be given by the Fiscal Agent to registered owners as of the special record date not less than ten (10) days prior to the special payment date. All Bonds shall provide that principal or redemption price and interest in respect thereof shall be payable only out of Gas Works Revenues, moneys in the Sinking Fund Reserve and proceeds of any applicable letter of credit, bond insurance policy or other Credit Facility then in effect.

Each Bond executed and delivered upon any transfer, exchange or substitution, shall carry all the rights to interest accrued and unpaid, and to accrue, which were carried by the Bond or Bonds surrendered upon such transfer or exchange, or, as the case may be, the part thereof represented by such new Bond, and, notwithstanding anything to the contrary contained in this Ordinance, such new Bond shall be so dated that neither gain nor loss in interest shall result from such transfer, exchange or substitution.

The foregoing provisions of this Section 3.03, any other provision in this Ordinance to the contrary notwithstanding, are subject to the express understanding that the principal of and interest on all Bonds issued hereunder and the premium, if any, payable on redemption thereof, shall be payable only from the rentals, revenues and moneys of the City pledged for the payment thereof pursuant to this Ordinance and not otherwise.

SECTION 3.04. **Registration, Transfer and Exchange of Bonds; Persons Treated as Bondholders.** The Fiscal Agent shall maintain and keep on behalf of the City, at its Principal Office, the Bond Register, which shall, at all reasonable times, be open for inspection by the City; and, upon presentation for such purpose of any Bond entitled to registration or registration of exchange or transfer at the Office of the Fiscal Agent, the Fiscal Agent shall register or register the exchange or transfer of such Bond in the Bond Register, under the provisions hereof and such reasonable regulations as the City and the Fiscal Agent may prescribe. The Fiscal Agent shall make all necessary provisions to permit the exchange or transfer of Bonds at its Principal Office.

The transfer of any Bond shall be registered in the Bond Register at the written request of the Bondholder thereof or his attorney duly authorized in writing, upon surrender and cancellation thereof at the Office of the Fiscal Agent, together with a written instrument of transfer satisfactory to the Fiscal Agent duly executed by the Bondholder or his duly authorized attorney. Upon the registration of transfer of any such Bond or Bonds, the City shall issue in the name of the transferee, in authorized denominations, a new fully registered Bond or Bonds in the same aggregate principal amount and of like tenor as the surrendered Bond or Bonds.

The Bonds, upon surrender thereof at the Office of the Fiscal Agent, may, at the option of the Bondholder thereof or his attorney duly authorized in writing, be exchanged for an equal aggregate principal amount of any authorized denominations of Bonds of the same Series and maturity and having the same interest rate as the surrendered Bonds.

In all cases in which the privilege of exchanging or transferring Bonds is exercised, the City shall execute and the

Fiscal Agent shall authenticate and deliver Bonds in accordance with the provisions of this Ordinance. For every such exchange or transfer of Bonds, whether temporary or definitive, the City or the Fiscal Agent may make a charge sufficient to reimburse it for any tax or other governmental charge required to be paid with respect to such exchange or transfer, which sum or sums shall be paid by the person requesting such exchange or transfer as a condition precedent to the exercise of the privilege of making such exchange or transfer.

The Fiscal Agent shall not be required to make any exchange or transfer of any Bonds during the period of fifteen Business Days next preceding any interest payment date for such Bonds or during the period of twenty Business Days next preceding the first mailing of any notice of redemption of such Bonds or to make any exchange or transfer of any Bonds called for redemption.

All Bonds executed, authenticated and delivered in exchange for Bonds surrendered or upon the transfer of surrendered Bonds shall be valid obligations of the City, evidencing the same debt as the Bonds surrendered, and shall be secured by this Ordinance to the same extent as such surrendered Bonds.

The City and the Fiscal Agent may deem and treat the Bondholder of any Bond as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal of and interest on such Bond and for all other purposes, and the City and the Fiscal Agent shall not be affected by any notice to the contrary. All such payments so made to any such Holder or upon his order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid. Any consent, waiver or other action taken by the Holder of any Bond pursuant to the provisions of this

Ordinance shall be conclusive and binding upon such Holder, such Holder's heirs, successors or assigns and upon all transferees of such Bond, whether or not notation thereof is made on such Bond or any Bond issued in exchange therefor.

SECTION 3.05. **Bonds are Negotiable Instruments.** The Bonds shall have the qualities of negotiable instruments under the law merchant and the laws pertaining to negotiable instruments of the Commonwealth of Pennsylvania, subject to the provisions for registration and transfer contained in Section 3.04 and in the Bonds.

SECTION 3.06. **Temporary Bonds.** Until Bonds in definitive form are ready for delivery, the City and the Fiscal Agent may execute and deliver to the purchasers thereof, subject to the provisions, limitations and conditions set forth above, one or more Bonds in temporary form, whether printed, typewritten, lithographed or otherwise produced, substantially in the form of the definitive Bonds, with appropriate omissions, variations and insertions, and in authorized denominations. Until exchanged for Bonds in definitive form, such Bonds in temporary form shall be entitled to the lien and benefit of this Ordinance, including the right to transfer and exchange any Bond in temporary form for other Bonds in temporary form. Upon the presentation and surrender of any Bond or Bonds in temporary form, the City and the Fiscal Agent shall, without unreasonable delay, prepare, execute and deliver to the Holder or Holders thereof, in exchange therefor, a Bond or Bonds in definitive form. Such exchange shall be made without making any charge therefor to the Holders of such Bonds in temporary form.

SECTION 3.07. **Execution of Bonds.** The Bonds shall be executed on behalf of the City by the Fiscal Agent by the manual signatures of two of its duly authorized officers, under the seal of the City which shall be either affixed or reproduced thereon in facsimile and shall be countersigned and attested by the manual or facsimile signature of the City Controller, all in accordance with the Act of March 24, 1949, P. L. 312, or in such other manner as shall be authorized by law and prescribed by Supplemental Ordinance. Any such Bonds may be executed, issued and delivered notwithstanding that one or more of the officers signing such Bonds or whose facsimile signature shall be upon such Bonds, shall have ceased to be such officer or officers at the time when such Bonds shall actually be delivered, and although at the nominal date of such Bonds any such person shall not have been such officer.

SECTION 3.08. **Mutilated, Destroyed, Lost or Stolen Bonds.** Upon receipt by the Fiscal Agent and the City of evidence satisfactory to both of them that any Outstanding Bond has been mutilated, destroyed, lost or stolen, and of indemnity satisfactory to both of them, the City and the Fiscal Agent shall execute and deliver a new Bond of the same Series, maturity date, principal amount and interest rate in exchange and substitution for, and upon surrender and cancellation of, the mutilated Bond or in lieu of and in substitution for the Bond so destroyed, lost or stolen.

The City may, for each new Bond authenticated and delivered under the provisions of this Section 3.08, require the payment of the expenses, including counsel fees, which may be incurred by the City and the Fiscal Agent in connection therewith. In case any such mutilated, destroyed, lost or stolen Bond has become or is about to become due and payable, the City, in its discretion, may, instead of issuing a new Bond, direct the payment thereof at maturity and the Fiscal Agent shall thereupon pay the same.

Any Bond issued under the provisions of this Section 3.08

in lieu of any Bond alleged to be destroyed, lost or stolen shall constitute an original additional contractual obligation on the part of the City, whether or not the Bond so alleged to be destroyed, lost or stolen is at any time enforceable by anyone, and shall be equally and proportionately entitled to the benefit of this Ordinance with all other Bonds issued under this Ordinance.

SECTION 3.09. **Credit Enhancement; Exchange Agreements; Qualified Swaps.** As provided by Supplemental Ordinance and subject to the requirements of this Ordinance, the City may provide for a Credit Facility, Exchange Agreement or Qualified Swap with respect to any Series of Bonds or portion thereof.

ARTICLE IV

ISSUANCE OF BONDS; PLEDGE OF REVENUES; COVENAN

SECTION 4.01. **Purpose of Bonds.** The Bonds issued under this Ordinance shall be issued for the purpose of paying the cost of projects, as such term is defined in the Act, related to the Gas Works, of reimbursing any fund of the City from which such costs have been paid or advanced, of funding any of such costs for which the City shall have outstanding bond anticipation notes or other obligations, of refunding any bonds of the City issued for the foregoing purposes under the Act, of refunding general obligation bonds of the City issued for the foregoing purposes or of financing anything else relating to the Gas Works permitted under the Act.

SECTION 4.02. **Pledge of Revenues; Grant of Security Interest; Application of Revenues; Limitation on Recourse.**

The City hereby pledges for the security and payment of all Bonds issued under this Ordinance and hereby grants a lien on and security interest in, all Gas Works Revenues, all accounts, contract rights and general intangibles representing the Gas Works Revenues and all funds and accounts established under this Ordinance, and in each case, the proceeds of the foregoing, except as limited for a Series of Bonds in the Supplemental Ordinance authorizing the issuance of such Series of Bonds; provided, however, that the pledge of this Ordinance may also be for the benefit of the provider of a Credit Facility, Qualified Swap or Exchange Agreement, or any other person who undertakes to provide moneys for the account of the City for the payment of principal or redemption price of and interest on any Series of Bonds on an equal and ratable basis with the related Series of Bonds, to the extent provided by any Supplemental Ordinance. For the purpose of compliance with the filing requirements of the Uniform Commercial Code in order to perfect the security interest herein granted, the Fiscal Agent shall be deemed to be, and the City hereby recognizes the Fiscal Agent as, the representative of Bondholders to execute financing statements as the secured party. All Gas Works Revenues as and when collected in each Fiscal Year shall be applied in order of priority, to the extent then payable, to (1) Net Operating Expenses then payable, (2) debt service on bonds issued under the 1975 Ordinance and amounts required to be paid into the sinking fund reserve under the 1975 Ordinance, (3) debt service on Senior Bonds, payments (other than termination payments) due to the issuers of Qualified Swaps and Exchange Agreements related to Senior Bonds and payments due in respect of obligations of the Gas Works to The Philadelphia Municipal Authority existing on the date of adoption of the Ordinance, (4) payments due to issuers of Credit Facilities related to Senior Bonds, (5) debt service on Subordinate Bonds and payments due in respect of obligations of the Gas Works on a parity with Subordinate Bonds

(including notes issued under the City's General Inventory and Receivables Gas Works Revenue Note Ordinance of 1993, or any similar ordinance, and amounts payable to the provider of a Credit Facility in respect of such notes) and payments (other than termination payments) due to the issuers of Qualified Swaps and Exchange Agreements related to Subordinate Bonds, (6) payments due to issuers of Credit Facilities related to Subordinate Bonds, (7) required payments of the Rebate Amount to the United States, (8) replenishment of any deficiency in the Sinking Fund Reserve, (9) payment of general obligation bonds of the City adjudged to be self-liquidating from Gas Works Revenues, (10) debt service on other general obligation bonds issued for the Gas Works, and (11) City charges and any other proper purpose of the Gas Works (including any termination payments to issuers of Qualified Swaps and Exchange Agreements), except Unrelated Expenses. The foregoing provisions shall not be construed to require the segregation of revenues upon collection.

Neither the Bonds nor the City's reimbursement or other contractual obligations with respect to any Credit Facility, Qualified Swap or Exchange Agreement shall constitute a general indebtedness or a pledge of the full faith and credit of the City within the meaning of any constitutional or statutory provision or limitation of indebtedness. No Bondholder or beneficiary of any of the foregoing agreements shall ever have the right, directly or indirectly, to require or compel the exercise of the ad valorem taxing power of the City for the payment of the principal and redemption price of or interest on the Bonds or the making of any payments hereunder. The Bonds and the obligations evidenced thereby and by the foregoing agreements shall not constitute a lien on any property of the City other than the Gas Works Revenues.

SECTION 4.03. **Particular Covenants.** The City covenants with the Holders of all Bonds from time to time and at the time outstanding under this Ordinance, that so long as any such Bonds shall remain outstanding:

(a) No Bonds will be issued by the City hereunder or under any ordinance supplemental hereto unless the financial report of the chief fiscal officer of the City required by Section 8 of the Act is filed with the Council of the City. Such report may be given in reliance on an engineering report of an Independent consulting engineer or an Independent firm of consulting engineers, in either case having broad experience in the design and analysis of the operation of gas works or gas distribution systems of the magnitude and scope of the Gas Works and a favorable reputation for competence in such field (the "Engineer") setting forth the qualifications of the Engineer and

(i) containing a statement that the Engineer has made such investigation of the physical properties included in the Gas Works and of the books and records of the Gas Works maintained by the City or by the Manager, as it deemed necessary; and

(ii) on the basis of such investigation containing:

(aa) the same matters, statements and opinion as are required by Section 8 of the Act to be contained in the financial report of the chief fiscal officer supported by appropriate schedules and summaries;

(bb) a statement that the Gas Works rents, rates and charges, on the basis of which the statements required by the foregoing clause (aa) are made, are currently and will be sufficient to comply with the Rate Covenant set forth in Section 4.03(b); and

(cc) a statement that, in the opinion of the Engineer, the Gas Works are in good operating condition or that adequate steps are being taken to make them so.

(b) It will, at a minimum, impose, charge and collect in each Fiscal Year such gas rates and charges as shall, together with all other Gas Works Revenues to be received in such Fiscal Year, equal not less than the greater of:

A. The sum of:

(i) all Net Operating Expenses payable during such Fiscal Year;

(ii) all principal of and interest on bonds issued and outstanding under the 1975 Ordinance payable during such Fiscal Year and amounts required to be paid into the sinking fund reserve under the 1975 Ordinance during such Fiscal Year;

(iii) 150% of the amount required to pay Sinking Fund deposits required during such Fiscal Year in respect of all Outstanding Senior Bonds and 100% of the amounts payable in respect of the Prior Obligations during such Fiscal Year;

(iv) the amount required to pay Sinking Fund deposits required during such Fiscal Year in respect of all Outstanding Subordinate Bonds and other obligations of the Gas Works on a parity with Subordinate Bonds payable during such Fiscal Year;

(v) the amount, if any, required to be paid into the Sinking Fund Reserve during such Fiscal Year;

(vi) the Rebate Amount required to be paid to the

United States during such Fiscal Year; and

(vii) the amounts required to be paid to the issuers of Credit Facilities and the providers of Qualified Swaps and Exchange Agreements during such Fiscal Year; or

B. The sum of:

(i) all Net Operating Expenses payable during such Fiscal Year;

(ii) all principal of and interest on bonds issued and outstanding under the 1975 Ordinance payable during such Fiscal Year and amounts required to be paid into the sinking fund reserve under the 1975 Ordinance during such Fiscal Year;

(iii) all Sinking Fund deposits required during such Fiscal Year in respect of all Outstanding Bonds and all amounts payable in respect of obligations of the Gas Works which are on a parity with any of the Bonds and in respect of general obligation bonds issued for improvements to the Gas Works and all amounts, if any, required during such Fiscal Year to be paid into the Sinking Fund Reserve;

(iv) the Rebate Amount required to be paid to the United States during such Fiscal Year; and

(v) the amounts required to be paid to the issuers of Credit Facilities and the providers of Qualified Swaps and Exchange Agreements during such Fiscal Year.

For purposes of estimating Sinking Fund deposits with respect to Interim Debt and Variable Rate Bonds, the City shall be entitled to assume that (1) Interim Debt will be amortized

over a period of up to the maximum term permitted by the Act, but not in excess of the useful life of the assets to be financed, on an approximately level debt service basis and bear interest at the average interest rate on bonds of a similar maturity and credit rating (without any credit enhancement) as the Bonds Outstanding under this Ordinance and (2) Variable Rate Bonds will bear interest at a rate equal to the average interest rate on such Variable Rate Bonds during the period of twenty-four (24) consecutive calendar months immediately preceding the date of calculation or during such shorter period that such Variable Rate Bonds have been Outstanding.

The Gas Commission is hereby authorized and directed, without further authorization, to impose and charge and to collect, or cause to be collected, rents, rates and charges which shall be sufficient in each Fiscal Year to comply with the foregoing Rate Covenant.

Notwithstanding the requirements of this Section 4.03(b) and the pledge under Section 4.02, the City may, at such time as there are no bonds outstanding under the 1975 Ordinance, pursuant to a Supplemental Ordinance, securitize and sell that portion of the Gas Works rents, rates and charges which relate to assets which are designated as non-performing by the Gas Commission and as to which the Gas Commission has designated specific rents, rates or charges; provided that prior to any such securitization and sale the City delivers to the Fiscal Agent (1) an Engineer's report including a statement that, for the three year period following such securitization and sale, the Gas Works rents, rates and charges (excluding those securitized and sold) are currently and will be sufficient to comply with the Rate Covenant set forth in Section 4.03(b) applied as if the percentage in subsection A(iii) were 175% rather than 150% and (2) an opinion of Bond Counsel that such securitization and sale will not adversely affect the exclusion from gross income for Federal income tax purposes of interest on any Outstanding Bonds the interest on which is intended to be so excluded. Proceeds received from any such securitization and sale shall be excluded from Gas Works Revenues in all calculations relating to the Rate Covenant and, notwithstanding any provision of this Ordinance to the contrary, may be used to redeem or refund obligations issued to finance the related assets designated as non-performing.

(c) It will pay or cause the Fiscal Agent or any paying agent appointed by the City to pay from the Gas Works Revenues deposited in the Sinking Fund the principal of, and premium, if any, and interest on, all Bonds as the same shall become due and payable and as more particularly set forth in the Bonds.

(d) It will continuously maintain in good condition and continuously operate the Gas Works.

(e) It will not in any Fiscal Year pay from the Gas Works Revenues any City Charges or deposit from the Gas Works Revenues in the general sinking fund of the City any sinking fund charges in respect of general obligation bonds of the City unless prior thereto or concurrently therewith all sinking fund charges then payable in respect of Outstanding Bonds shall have been deposited in the Sinking Fund, all amounts then payable in respect of obligations of the Gas Works which are on a parity with Bonds shall have been paid, all amounts then payable to issuers of Credit Facilities and providers of Qualified Swaps and Exchange Agreements shall have been paid and all deposits then required to the Sinking Fund Reserve shall have been made.

(f) It will, not later than 120 days following the close of each Fiscal Year, file with the Fiscal Agent a report of the

operation of the Gas Works setting forth, among other things, in reasonable detail financial data concerning the Gas Works for such Fiscal Year, including a balance sheet, statements of income, equity, and changes in financial condition, and an analysis of funds available to cover debt service (in each case not inconsistent with the statements of income, expenses, and other accounts of the City audited by the City Controller) prepared by the Manager in accordance with generally recognized municipal accounting principles consistently applied, showing compliance with the Rate Covenant, accompanied by a certificate of the Manager that the Gas Works are in good operating condition and by a certificate of the Director of Finance that as of the date of such report the City has complied with all of the covenants in this Ordinance and in all ordinances supplemental hereto on its part to be performed. Such report shall be furnished to the Fiscal Agent in such reasonable number of copies as shall be required to meet the written requests of Bondholders therefor on a first come first served basis. The Fiscal Agent shall keep on file a copy of each report and its accompanying certificates for a period of ten (10) years and shall exhibit the same to, and permit the copying thereof by, any Bondholder or his authorized representative at all reasonable times.

SECTION 4.04. **Parity and Priority of Bonds.** All Bonds issued hereunder shall be secured by the pledge of, and grant of a security interest in, the Gas Works Revenues, except as limited for a Series of Bonds in the Supplemental Ordinance authorizing the issuance of such Series of Bonds. Subordinate Bonds shall be subordinate to Senior Bonds in right of payment of principal, premium, if any, and interest. Senior Bonds and Subordinate Bonds shall not have any preference, priority or distinction as to lien or otherwise, except as otherwise provided herein or in a Supplemental Ordinance, over any other Senior Bonds or Subordinate Bonds, respectively.

The City hereby reserves the right, and nothing herein shall be construed to impair such right, to finance improvements to its Gas Works by the issuance of its general obligation bonds or by the issuance, under ordinances other than Supplemental Ordinances, of Gas Works obligations for the payment of which Gas Works Revenues may be pledged subject and subordinate in each Fiscal Year to the prior payment from such revenues of all principal, premium, interest and sinking fund requirements payable during such Fiscal Year under this Ordinance, as from time to time supplemented and amended, in respect of Bonds.

SECTION 4.05. **Sale of Bonds; Taxes Not to be Assumed; Terms and Provisions; Authority of Director of Finance.** To the extent that the Supplemental Ordinance authorizing any Series of Bonds hereunder shall not otherwise provide pursuant to Section 4.06:

(a) All Bonds shall be sold at public, private or invited sale upon such terms not inconsistent with the Act as a majority of the Mayor, the City Controller and the City Solicitor may determine to be in the best interest of the City and, if sold at competitive public sale, shall be sold to the purchaser or purchasers submitting the highest and best bid upon such terms and conditions of the bidding as shall be specified in an official notice of sale issued in the name of the City by the Director of Finance;

(b) no covenant to pay or assume any taxes shall be included in such Bonds; and

(c) subject to the foregoing, the terms upon which or the prices for which the Bonds are to be sold or exchanged, and the form, terms and provisions of the Bonds, including, without limitation, the matters referred to in Section 5 of the Act and in the second paragraph of Section 3.03, shall be determined by

the Director of Finance, who is hereby designated as the officer of the City to make such determinations based, to the extent applicable, on the prices, interest rates or other terms set forth in the highest and best proposal conforming to the bidding specifications as ascertained and accepted on behalf of the City by the Director of Finance.

SECTION 4.06. **Conditions of Issuing Bonds, Supplemental Ordinance; Filing of Transcript; Use of Proceeds; Refunding Bonds.** Prior to the issuance of any Series of Bonds, the Council of the City shall adopt an ordinance supplemental hereto specifying the aggregate principal amount or maximum aggregate principal amount, and authorizing the issuance of such Bonds; stating that such Bonds are issued in respect of capital costs of a Gas Works project or projects of the City or to fund or refund bond anticipation or other obligations of the City issued in respect thereof or for the purpose of refunding debt issued for such purpose; making a finding based on the report of the Director of Finance required by Section 8 of the Act that the Gas Works Revenues pledged hereunder will be sufficient to comply with the Rate Covenant and also to pay all costs, expenses and payments required to be paid therefrom and in the order and priority stated in Section 4.02; and containing the covenant as to the payment of debt service required by Article IX, Section 10 of the Pennsylvania Constitution. Such Supplemental Ordinance may specify such form, terms and provisions of the Bonds to be issued thereunder; may specify a particular method of sale; may specify the terms upon which, or the prices for which, the Bonds are to be sold or exchanged, including, if applicable, competitive bidding specifications; may contain such amendments to this Ordinance, including amendments or rescission of the covenants herein contained, and may contain or authorize such further covenants and agreements, including such covenants as may be appropriate under existing regulations so that the Bonds may not be deemed to be "arbitrage bonds" as such term is defined in the Code and applicable regulations, all as the Council of the City may deem appropriate and proper and as shall be authorized or permitted by the Act, but no such amendments, provisions, terms, covenants or agreements (other than those permitted under Section 9.01 and adopted pursuant thereto) which shall be inconsistent with the provisions of, or if they would impair a prior covenant contained in, this Ordinance as at the time amended or supplemented, shall become effective until all Bonds the holders of which are entitled to the protection of, or to enforce compliance with, such prior covenant shall cease to be outstanding.

Prior to the issuance of any Series of Bonds hereunder, the Director of Finance shall, in addition to the filing requirements of Section 12 of the Act, file with the Fiscal Agent a transcript of the proceedings authorizing the issuance of such Series of Bonds which shall include (i) a certified copy of this Ordinance (unless previously so filed); (ii) a certified copy of the Supplemental Ordinance; (iii) an executed or certified copy of the report of the Director of Finance required by subsection (a) of Section 8 of the Act; (iv) an executed copy of the opinion of the City Solicitor required by subsection (b) of Section 8 of the Act; and (v) an opinion of Bond Counsel to the effect that (1) the Series of Bonds has been duly issued for a permitted purpose under the Act and under this Ordinance, (2) all conditions precedent to the issuance of the Series of Bonds pursuant to the Act and this Ordinance have been satisfied, (3) the Series of Bonds has been duly authorized, executed and delivered and constitutes the legal, valid and binding obligation of the City and (4) if the interest on the Series of Bonds is intended to be excluded from gross income for Federal income tax purposes, interest on the Series of Bonds will be so excluded; and thereupon the proper officers of the City and the Fiscal Agent shall be authorized to execute and deliver the

Bonds so authorized, to receipt for the purchase price thereof and to execute and deliver on behalf of the City the usual closing statements, affidavits and certificates.

The Director of Finance, the City Solicitor, the City Controller and such other officers of the City as may be appropriate are authorized, in connection with the issuance of any Series of Bonds hereunder, to prepare, execute and file on behalf of the City such statements, documents or other material as may accurately and properly reflect the financial condition of the City or other matters relevant to the issuance or payment of such Bonds and as may be required or appropriate to comply with applicable state or federal laws or regulations.

Unless otherwise provided in the Supplemental Ordinance, the proceeds of sale of all Bonds issued hereunder shall be deposited in the consolidated cash account of the City to the credit of the capital improvement funds and shall be disbursed therefrom, in accordance with established procedures, for the costs of the project or projects (as such term is defined in the Act) for which the Bonds were issued; provided, however, that, if such Bonds shall be issued for the purpose of funding or refunding bonds or notes previously issued by the City, such proceeds shall, unless otherwise directed by the Supplemental Ordinance, be deposited in a special account in the Sinking Fund and deposited, invested (if appropriate) and disbursed under the direction of the Director of Finance for the purpose of retiring the bonds or notes being funded or refunded, and provided further that proceeds of the sale of any Series of Bonds representing capitalized interest on such Series of Bonds shall be deposited in a separate account in the Sinking Fund and applied, together with any profit from investment thereof, only to pay interest on such Series of Bonds.

If the City shall, by Supplemental Ordinance, authorize the issuance of revenue refunding bonds pursuant to Section 10 of the Act, in the absence of specific direction or inconsistent authorization contained in the Supplemental Ordinance, the Director of Finance is hereby authorized in the name and on behalf of the City to take all such action, including the irrevocable pledge of proceeds and the income and profit from the investment thereof for the payment and redemption of the funded or refunded bonds or notes and, if a Qualified Swap or Exchange Agreement has been provided with respect to Bonds to be refunded, provision for the payment of all amounts due and payable by the City to the provider of such Qualified Swap or Exchange Agreement upon the refunding of such Bonds and the mailing of all required redemption notices or the giving of irrevocable instructions therefor, as may be necessary or appropriate to accomplish the funding or refunding and to comply with the requirements of Section 10 of the Act.

ARTICLE V

REDEMPTION OF BONDS

SECTION 5.01. **General Provisions for Redemption.** Bonds issued hereunder shall be subject to redemption at such times, in such order, at such redemption prices, upon such notice, unless waived, and upon such terms and conditions as may be expressed in the particular Bonds, or, as the case may be, in the pertinent Supplemental Ordinance. Notwithstanding or in limitation of the foregoing, a Supplemental Ordinance for a Series of Bonds may contain provisions for optional redemption of such Series of Bonds which may be retained by the City as a call option or may be held by the City or sold simultaneously with such Series of Bonds or at future dates as determined by such Supplemental Ordinance. Unless otherwise

specified in the Bonds or the pertinent Supplemental Ordinance, Bonds subject to optional redemption may be redeemed in such order of maturity as specified by the Director of Finance and within a maturity by lot. Whenever Bonds to be redeemed are required to be selected by lot, the Fiscal Agent shall be authorized to draw by lot the numbers of the Bonds to be redeemed in any manner deemed reasonable by the Fiscal Agent. In the case of a Bond of a denomination greater than the minimum authorized denomination, the Fiscal Agent shall treat such Bond as representing such number of separate Bonds as is obtained by dividing the actual principal amount of such Bond by the minimum authorized denomination.

SECTION 5.02. **Notice of Redemption.** Unless otherwise provided by Supplemental Ordinance, when the City shall determine to redeem Bonds, upon prior written notice to the Fiscal Agent of the redemption date and the principal amount of Bonds to be redeemed, or whenever the Fiscal Agent shall be required to redeem Bonds from moneys in the Sinking Fund without action on the part of the City, the Fiscal Agent, at the City's expense, shall cause a notice of redemption to be mailed to the Holders of the Bonds being redeemed. Such notice shall specify (i) the complete official name of the Series of Bonds being redeemed; (ii) if less than all then Outstanding Bonds of a Series are to be redeemed, the numbers, including CUSIP numbers if applicable, of the Bonds to be redeemed, which may, if appropriate, be expressed in designated blocks of numbers, (iii) the date of issue of each Bond being redeemed as originally issued, (iv) the rate of interest borne by each Bond being redeemed, (v) the maturity date of each Bond being redeemed and (vi) any other descriptive information considered appropriate by the City to accurately identify the Bonds being redeemed. Such notice shall also state the redemption price and the date fixed for redemption, that on such date the Bonds called for redemption will be due and become payable at the

Office of the Fiscal Agent, and that from and after such date, interest thereon shall cease to accrue; provided, however, that the Holders of any Bonds being redeemed may file written waivers of notice with the Fiscal Agent, and if so waived, such Bonds may be redeemed and all rights and liabilities of said Holders shall mature and accrue on the date set for such redemption without the requirement of written notice. If a notice is given with respect to an optional redemption prior to moneys for such redemption being deposited with the Fiscal Agent, such notice shall be conditioned upon the deposit of moneys with the Fiscal Agent on or before the date fixed for redemption and such notice shall be of no effect unless such moneys are so deposited.

The notices required to be given by this Section 5.02 shall state that no representation is made as to correctness or accuracy of the CUSIP numbers listed in such notice or stated on the Bonds.

The notice to Bondholders shall be deposited by the Fiscal Agent in the United States mail, first-class postage prepaid, at least thirty (30) days, but not more than sixty (60) days, unless otherwise provided with respect to any Series of Bonds in the Supplemental Ordinance authorizing such Series of Bonds, prior to the redemption date, addressed to the Holders of Bonds called for redemption at the addresses appearing in the Bond Register. Any notice of redemption mailed in accordance with the requirements set forth herein shall be conclusively presumed to have been duly given, whether or not such notice is actually received by the Bondholders. No defect in the notice with respect to any Bond (whether in the form of notice or the mailing thereof) shall affect the validity of the redemption proceedings for any other Bonds.

When notice of redemption is mailed to Bondholders, the

Fiscal Agent shall mail a similar notice to The Bond Buyer and each Rating Agency then maintaining a rating on such Bonds, but failure to mail any such notice referred to in this paragraph or any defect in such mailed notice or in the mailing thereof shall not affect the validity of the redemption notice.

Not more than sixty (60) days following the applicable redemption date, a further notice shall be mailed as provided above to the Bondholders of any Bonds called for redemption and not then presented for payment containing substantially the same information set forth above.

SECTION 5.03. **Effect of Redemption; Payment.** Notice having been given in the manner hereinbefore provided in this Article V or irrevocable instructions to give such notice having been delivered to the Fiscal Agent to pay said Bonds or portions thereof, and funds complying with the provisions of subparagraph (1) of Section 10 of the Act having been deposited in trust with the Fiscal Agent or having been set aside with the Sinking Fund Depositary in a special account in the Sinking Fund, on or prior to the date fixed for redemption, the Bonds or portions thereof so called for redemption, shall become due and payable on the redemption date so designated, and interest on such Bonds or portions thereof shall cease from such redemption date, whether such Bonds be presented for redemption or not. The principal amount of all Bonds or portions thereof so called for redemption, together with the premium, if any, and accrued interest thereon, shall be paid by the Fiscal Agent, upon presentation and surrender thereof.

SECTION 5.04. **Partial Redemption.** Upon presentation of any Bond which is to be redeemed in part only, the City and the Fiscal Agent shall execute and deliver to the Holder thereof, at the expense of the City, a new Bond or Bonds of authorized denominations in aggregate principal amount equal to and of the same Series and maturity as the unredeemed portion of the Bond or Bonds so presented.

ARTICLE VI

SINKING FUND

SECTION 6.01. **Establishment and Investment of Sinking Fund.** There is hereby established a sinking fund to be known as the City of Philadelphia 1998 Ordinance Gas Works Revenue Bond Sinking Fund (referred to in this Ordinance as the "Sinking Fund") for the benefit and security of the Holders of all Bonds. The Sinking Fund shall be held in the name of the City in an account or accounts separate and apart from all other accounts of the City and payments therefrom shall be made only as hereinafter in this Ordinance provided.

The City covenants and the Director of Finance is directed to deposit in, and there is hereby appropriated to, the Sinking Fund from the Gas Works Revenues in each Fiscal Year such amounts as will, together with interest and profits earned and to be earned on investments held therein, be sufficient to accumulate therein (exclusive of the amount in the Sinking Fund Reserve), on or before each interest and principal payment date of the Bonds, the amounts required to pay the principal of and the interest on the Bonds then becoming due and payable. Payment into the Sinking Fund shall be scheduled at such times and in such amounts in relation to the receipt of revenues and the operation and maintenance requirements of the Gas Works as the Director of Finance shall determine.

The Fiscal Agent shall establish such accounts in the Sinking Fund as it deems appropriate to identify the source or

use of moneys therein. Without limiting the generality of the preceding sentence, moneys deposited in the Sinking Fund to pay the redemption price of particular Bonds shall be held in separate accounts and applied only for such redemption.

SECTION 6.02. **Fiscal Agent.** Such state or federally chartered bank, bank and trust company or trust company as may from time to time be appointed by the City in accordance with law, shall act as Fiscal Agent in respect of all Bonds issued under this Ordinance or in respect of any particular Series of Bonds. The Fiscal Agent shall also act as Sinking Fund Depositary of the Sinking Fund and as paying agent and registrar of the Bonds in respect of which it is the Fiscal Agent, unless others are appointed in such capacities by the City. Nothing in this Ordinance shall be construed to prevent the City from engaging other or additional Fiscal Agents from time to time or from engaging other or additional Sinking Fund Depositaries, paying agents or registrars of the Bonds or any Series thereof.

Subject to the foregoing, the proper officers of the City are authorized to enter into contracts or to confirm existing agreements governing the maintenance of accounts and records, the disposal of canceled Bonds, the rights, duties, privileges and immunities of the Fiscal Agent, and such other matters as are authorized by the Act and as are customary and appropriate and to confirm the agreement of the Fiscal Agent, in its several capacities, to comply with the provisions of the Act and of this Ordinance.

SECTION 6.03. **Payments From the Sinking Fund.** The Sinking Fund Depositary shall, on direction of the Director of Finance, or if for any reason he should fail to give such direction, on the direction of the Fiscal Agent, liquidate investments, if necessary, and pay over from the Sinking Fund in cash to the Fiscal Agent not later than the due date thereof the full amount of the principal, interest on, and premium, if any, payable upon redemption of, Bonds.

Any excess moneys in the Sinking Fund, including any excess amount in the Sinking Fund Reserve, shall be transferred to the operating accounts of the Gas Works.

SECTION 6.04. **Sinking Fund Reserve.** There is hereby established a Sinking Fund Reserve which shall be held by the Sinking Fund Depositary as part of the Sinking Fund but for which a separate account shall be maintained. Unless otherwise provided in the applicable Supplemental Ordinance in compliance with this Section 6.04, the City shall, under direction of the Director of Finance, deposit in the Sinking Fund Reserve from the proceeds of sale of each Series of Bonds issued hereunder and/or Gas Works Revenues an amount which, together with other amounts in the Sinking Fund Reserve, will cause the amount in the Sinking Fund Reserve to equal the Sinking Fund Reserve Requirement. The money and investments (valued at market) in the Sinking Fund Reserve and amounts which can be drawn under Credit Facilities held for the Sinking Fund Reserve shall be held and maintained in an amount equal to the Sinking Fund Reserve Requirement.

In lieu of a deposit to the Sinking Fund Reserve or in substitution for amounts in the Sinking Fund Reserve, the City may provide one or more letters of credit or other Credit Facilities in the same aggregate amount issued by a provider or providers whose credit facilities are such that bonds secured by such credit facilities are rated in one of the three highest rating categories by Moody's or S&P, provided that (1) in the case of a substitution for moneys in the Sinking Fund Reserve, an opinion of Bond Counsel is delivered to the Fiscal Agent that such substitution will not adversely affect the exclusion from

gross income for Federal income tax purposes of interest on the Bonds the interest on which is intended to be so excluded, (2) each such Credit Facility permits the Fiscal Agent to make a draw thereon up to the principal amount thereof if the Sinking Fund Reserve is needed to cover a shortfall in the Sinking Fund and other moneys in the Sinking Fund Reserve are insufficient and (3) each such Credit Facility provides that a draw will be made thereon to replenish the Sinking Fund Reserve on the expiration thereof unless the City has otherwise made such deposit to the Sinking Fund Reserve or has obtained another Credit Facility meeting the requirements of this Section 6.04.

If, at any time and for any reason, the moneys in the Sinking Fund, other than in the Sinking Fund Reserve, shall be insufficient to pay as and when due, the principal of, and premium, if any, and interest on, any Bond or Bonds secured by the Sinking Fund Reserve, the Sinking Fund Depositary is hereby authorized and directed to withdraw from the Sinking Fund Reserve and to draw on Credit Facilities held for the Sinking Fund Reserve and pay over to the Fiscal Agent the amount of such deficiency. If by reason of such withdrawal (including draws on any Credit Facilities held to satisfy the Sinking Fund Reserve Requirement) or for any other reason there shall be a deficiency in the Sinking Fund Reserve, the City hereby covenants to restore such deficiency (either by a deposit of funds or the reinstatement of the cash limits of Credit Facilities) within twelve months. The Sinking Fund Reserve shall be valued by the Sinking Fund Depositary promptly after any withdrawal from the Sinking Fund Reserve or any other event indicating a possible deficiency in the Sinking Fund Reserve and on August 31 of each Fiscal Year.

SECTION 6.05. **Consolidated Fund.** The Sinking Fund shall be a consolidated fund for the equal and proportionate benefit of the Holders of all Bonds from time to time

Outstanding hereunder and may be invested and reinvested on a consolidated basis. The principal of and interest on and profits (and losses if any) realized on investments in the Sinking Fund shall be allocated pro rata for the Series of Bonds or the specific Bonds in respect of which such investments were made without distinction or priority, but moneys (and the investments thereof) specifically deposited for the payment of any particular installment of principal, interest (including capitalized interest) or premium in respect of particular Bonds shall be held and applied exclusively to the payment of such particular principal, interest or premium.

ARTICLE VII

INVESTMENT OF FUNDS

SECTION 7.01. **Management of Funds and Accounts.** The moneys on deposit in the funds and accounts established hereunder, to the extent not currently required, shall be invested and secured as required by Section 9 of the Act, all at the direction and under the management of the Director of Finance.

SECTION 7.02. **Investment of Funds and Accounts.** All moneys deposited in any fund or account established hereunder or under any Supplemental Ordinance may be invested by the Fiscal Agent, at the oral or written direction of the Director of Finance, in any investments then permitted by law; provided that any investments with respect to amounts on deposit in the funds and accounts established hereunder shall mature or shall be subject to redemption by the holder thereof upon demand at par no later than the date when such amounts are needed for the purposes of such funds or accounts.

SECTION 7.03. **Valuation of Funds and Accounts.** In computing the assets of any fund or account established hereunder, investments and accrued interest therein shall be deemed a part thereof. Such investments shall be valued on June 30 of each Fiscal Year at the current market value thereof, valuing any Credit Facility held for the Sinking Fund Reserve at the amount which can then be drawn thereunder; provided that any fund or account created by a Supplemental Ordinance may be valued as provided in such Supplemental Ordinance. The annual valuation shall apply for all purposes of this Ordinance except if Bonds are issued or a deficit in the Sinking Fund Reserve occurs, in which cases a valuation shall be made on the date Bonds are issued or the deficit is eliminated, as the case may be. Investment earnings shall be included in Gas Works Revenues and, to the extent not required to be retained in the fund or account to which such earnings relate, shall be transferred to the operating accounts of the Gas Works.

ARTICLE VIII

DEFAULTS AND REMEDIES

SECTION 8.01. **Defaults and Statutory Remedies.** If the City shall fail or neglect to pay or to cause to be paid the principal of, or the redemption premium, if any, or the interest on, any Bond, whether at stated maturity or upon call for prior redemption, or if the City, after written notice to it, shall fail or neglect to make any payment owed by it to the provider of a Credit Facility, a Qualified Swap or an Exchange Agreement provided with respect to the Bonds and such provider gives the Fiscal Agent written notice of such failure or neglect, or if the City shall fail to comply with any provision of the Bonds or with any covenant of the City contained in this Ordinance or an applicable Supplemental Ordinance, then, under and subject to the terms and conditions stated in the Act, the Holder or Holders of any Bond or Bonds shall be entitled to all of the rights and remedies provided in the Act, including the appointment of a trustee; provided, however, that the remedy provided in Section 20(b)(4) of the Act may be exercised only upon the failure of the City to pay, when due, principal and redemption price of (including principal due as a result of a scheduled mandatory redemption) and interest on a Series of Bonds.

Upon the occurrence of an event of default specified in this Section 8.01, the Fiscal Agent shall, within thirty (30) days, give written notice thereof by first-class mail to all Bondholders.

SECTION 8.02. **Remedies Not Exclusive; Effect of Delay In Exercise of Remedies.** No remedy herein or in the Act conferred upon or reserved to the trustee, if one be appointed, or to the Holder of any Bond is intended to be exclusive (except as specifically provided in the Act) of any other remedy or remedies, and each and every such remedy shall be cumulative, and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute.

No delay or omission of the trustee, if one be appointed, or of any Holder of any Bond to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default, or an acquiescence therein; and every power and remedy given by this Article VIII, by the Act or otherwise may be exercised from time to time and as often as may be deemed expedient.

SECTION 8.03. **Remedies to be Enforced Only Against Pledged Revenues.** Any decree or judgment for the payment

of money against the City by reason of default hereunder shall be enforceable only against the Gas Works Revenues, amounts in the Sinking Fund Reserve and other amounts which may be specifically pledged therefor and the investments thereof and no decree or judgment against the City upon an action brought hereunder shall order or be construed to permit the occupation, attachment, seizure, or sale upon execution of any other property of the City.

ARTICLE IX

AMENDMENTS AND MODIFICATIONS

SECTION 9.01. In addition to the adoption of Supplemental Ordinances supplementing or amending this Ordinance as provided in Section 4.06 in connection with the issuance of successive Series of Bonds, this Ordinance and any Supplemental Ordinance may be further supplemented, modified or amended: (a) to cure any ambiguity, formal defect or omission herein or therein; (b) to make such provisions in regard to matters or questions arising hereunder or thereunder which shall not be inconsistent with the provisions hereof or thereof and which shall not adversely affect the interests of Bondholders; (c) to grant to or confer upon Bondholders or a trustee, if any, for the benefit of Bondholders any additional rights, remedies, powers, authority or security that may be lawfully granted or conferred; (d) to incorporate modifications requested by any Rating Agency to obtain or maintain a credit rating on any Series of Bonds; (e) to comply with any mandatory provision of state or federal law or with any permissive provision of such law or regulation which does not substantially impair the security or right to payment of the Bonds, but no amendment or modification shall be made with respect to any Outstanding Bonds to alter the amount, rate or time of payment, respectively, of the principal thereof or the interest thereon or to alter the redemption provisions thereof without the written consent of the Holders of all affected Outstanding Bonds; and (f) except as aforesaid, in such other respect as may be authorized in writing by the Holders of a majority in principal amount (using Accreted Value in the case of Capital Appreciation Bonds) of the Bonds Outstanding and affected. The written authorization of Bondholders of any supplement to or modification or amendment of this Ordinance or any Supplemental Ordinance need not approve the particular form of any proposed supplement, modification or amendment but only the substance thereof.

ARTICLE X

CLOSURE OF 1975 ORDINANCE

SECTION 10.01. **Limits on Issuances Under 1975 Ordinance.** After the adoption of this Ordinance, the City shall not issue any bonds under the 1975 Ordinance except to refund bonds issued under the 1975 Ordinance or to replace bonds issued thereunder which have been mutilated, destroyed, lost or stolen as provided therein or in substitution for bonds issued thereunder upon transfer or exchange as provided therein.

SECTION 10.02. **Designation of Refunding Bonds Under 1975 Ordinance.** Any refunding bonds issued under the 1975 Ordinance shall include in the title of such bonds a designation indicating that such bonds relate to the 1975 Ordinance in order to distinguish such bonds from Bonds issued under this Ordinance.

ARTICLE XI

MISCELLANEOUS

SECTION 11.01. **Deposit of Funds for Payment of Bonds.** When interest on, and principal or redemption price (as the case may be) of, all Bonds issued hereunder, and all amounts owed under any Credit Facility, Qualified Swap and Exchange Agreement entered into hereunder (other than termination payments), have been paid, or there shall have been deposited with the Fiscal Agent an amount, evidenced by moneys or Qualified Escrow Securities the principal of and interest on which, when due, will provide sufficient moneys to fully pay the Bonds at the maturity date or date fixed for redemption thereof, and all amounts owed under any Credit Facility, Qualified Swap and Exchange Agreement entered into hereunder (other than termination payments), the pledge and grant of security interest in the Gas Works Revenues made hereunder shall cease and terminate, and the Fiscal Agent and any other depository of funds and accounts established hereunder shall turn over to the City or to such person, body or authority as may be entitled to receive the same all balances remaining in any funds and accounts established hereunder.

If the City deposits with the Fiscal Agent moneys or Qualified Escrow Securities sufficient to pay the principal or redemption price of any particular Bond or Bonds becoming due, either at maturity or by call for redemption or otherwise, together with all interest accruing thereon to the due date, interest on such Bond or Bonds shall cease to accrue on the due date and all liability of the City with respect to such Bond or Bonds shall likewise cease, except as provided in the following paragraph. From and after such deposit, such Bond or Bonds shall be deemed not to be Outstanding hereunder and the Holder or Holders thereof shall have recourse solely and exclusively to the funds so deposited for any claims of whatsoever nature with respect to such Bond or Bonds, and the Fiscal Agent shall hold such funds in trust for the Holder or Holders of such Bond or Bonds.

Moneys deposited with the Fiscal Agent pursuant to the preceding paragraphs which remain unclaimed two (2) years after the date payment thereof becomes due shall, upon written request of the City, if the City is not at the time to the knowledge of the Fiscal Agent (the Fiscal Agent having no responsibility to independently investigate) in default with respect to any covenant in this Ordinance or the Bonds, be paid to the City, and the Holders of the Bond for which the deposit was made shall thereafter be limited to a claim against the City; provided, however, that before making any such payment to the City, the Fiscal Agent shall, at the expense of the City, publish in a newspaper of general circulation published in the City, a notice that said moneys remain unclaimed and that, after a date named in said notice, which date shall not be less than thirty (30) days after the date of publication of such notice, the balance of such moneys then unclaimed will be paid to the City.

SECTION 11.02. **Ordinances are Contracts With Bondholders.** This Ordinance and Supplemental Ordinances adopted pursuant hereto are contracts with the Holders of all Bonds from time to time Outstanding hereunder and thereunder and shall be enforceable in accordance with the provisions of Article VIII and the laws of the Commonwealth of Pennsylvania.

SECTION 11.03. **Parties Interested Herein.** Nothing in this Ordinance expressed or implied is intended or shall be construed to confer upon, or to give to, any person or entity, other than the City, the Holders of Bonds, the Fiscal Agent, and each provider of a Credit Facility, Qualified Swap or

Exchange Agreement, any right, remedy or claim under or by reason of this Ordinance or any covenants, condition or stipulation therefor; and all the covenants, stipulations, promises and agreements in this Ordinance by and on behalf of the City shall be for the sole and exclusive benefit of the City, the Fiscal Agent, the Holders of Bonds and each provider of a Credit Facility, Qualified Swap or Exchange Agreement.

SECTION 11.04. **Repeals.** All ordinances and parts of ordinances heretofore adopted to the extent that the same are inconsistent herewith are hereby repealed.

City of Philadelphia

Bill No. 980232 Certified Copy

CERTIFICATION: This is a true and correct copy of the original Bill, Passed by the City Council on April 30, 1998 The Bill was Signed by the Mayor on May 8, 1998

Marie B. Hauser

Marie B. Hauser
Chief Clerk of the City Council

City of Philadelphia

(Bill No. 051138)

AN ORDINANCE

Authorizing, generally, the continued issuance and sale by the City of Philadelphia of Gas Works Revenue Notes of the City, prescribing the forms of notes and providing for their execution and payment, pledging certain revenues of the Gas Works as security, adopting a rate covenant and directing the imposition and collection of rates and charges sufficient to comply therewith, prescribing the conditions precedent to the issuance of specific series of notes, including a resolution passed by the Bond Committee providing for establishment of credit support for notes, providing for designation of a fiscal agent and sinking fund depositary, providing for establishment of a sinking fund and its management, providing remedies upon default, and providing for amendments and modifications.

THE COUNCIL OF THE CITY OF PHILADELPHIA HEREBY ORDAINS:

ARTICLE I

AUTHORIZATION, SCOPE AND PURPOSE - SHORT TITLE

This Ordinance is enacted pursuant to the provisions of The City of Philadelphia Municipal Utility Inventory and Receivables Financing Act (Act No. 231, approved December 7, 1982) (the "Act") for the purpose of authorizing the issuance from time to time of Gas Works Revenue Notes of the City to be secured by a pledge of certain revenues of the Gas Works as security, in an aggregate principal amount not exceeding one hundred fifty million dollars ($150,000,000) at any one time outstanding, as shall from time to time be authorized by resolution of the Bond Committee (or any two of them as provided by the Act) as more particularly hereinafter set forth. This Ordinance is intended to continue the authority for issuance of Gas Works Revenue Notes contained in the General Inventory and Receivables Gas Works Revenue Note Ordinance of 2002, Bill No. 020245, approved May 29, 2002 (the "2002 Ordinance"), subject to the terms and conditions hereof. At such time as Gas Works Revenue Notes are issued pursuant to the authority contained in this Ordinance, no additional Gas Works Revenue Notes shall be issued under the 2002 Ordinance. For so long as any Gas Works Revenue Notes are outstanding under the 2002 Ordinance, the principal amount thereof shall be included for purposes of calculating the maximum principal amount of Gas Works Revenue Notes that may be issued and outstanding under this Ordinance. This Ordinance shall be known as the General Inventory and Receivables Gas Works Revenue Note Ordinance of 2005.

ARTICLE II

DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION

Section 2.01. **Definitions**

For all purposes of this Ordinance and any ordinance supplemental hereto, except as otherwise expressly provided or unless the context otherwise requires:

Act means the act of December 7, 1982 (P.L. 827, No. 231) known as The City of Philadelphia Municipal Utility Inventory and Receivables Financing Act (53 P.S. 1699.1 to 1699.21), as amended from time to time.

Bond Committee means the Mayor, the City Controller and the City Solicitor, or any two of them, being the bond committee referred to in the Act.

Chief Fiscal Officer means the person appointed by the Manager as chief fiscal officer of PGW or, in the absence of such an appointed person, the person acting as chief fiscal officer of PGW.

City means The City of Philadelphia.

City Charges means the proportionate charges, if any, for services performed for PGW by all officers, departments, boards or commissions of the City which are contained in the computation of operating expenses of PGW, including, without limitation, the expenses of the Gas Commission, and also means the base payments to the City contained in the Management Agreement and all other payments made to the City from Gas Works Revenues.

City Controller means the controller of the City, including a person acting as controller under applicable law.

City Solicitor means the solicitor of the City, including a person acting as solicitor under applicable law.

Code means the Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder and applicable thereto.

CP Notes means the City of Philadelphia Gas Works Revenue Notes, CP Series, authorized to be issued hereunder, as more particularly described in Sections 3.01(b) and 3.02(b) hereof.

Credit Support Entity means any bank, insurance company or other appropriate entity providing a Credit Support Instrument with respect to any Notes.

Credit Support Instrument means a letter of credit, line of credit, standby purchase agreement, policy of insurance or other mechanism for providing funds to be drawn upon by the City or by the Fiscal Agent on behalf of or as trustee for the Noteholders to pay the principal of or interest on any Notes or to make a deposit in the Sinking Fund.

Dealer means any securities dealer, broker or other entity acting as purchaser of, or broker for, the Notes pursuant to an agreement with the City.

Director of Finance means the chief financial, accounting and budget officer of the City as established by the Philadelphia Home Rule Charter, including a person acting as director of finance under applicable law.

Final Maturity means, as to a series of CP Notes, the date stated in the Resolution authorizing such series as the final maturity date of such series, which shall be not later than August 31, 2010.

Fiscal Agent means any bank, bank and trust company or trust company named as such pursuant to Section 5.02 hereof or its successor.

Fiscal Year means each fiscal year of PGW.

Gas Commission means the Gas Commission provided for by the Philadelphia Home Rule Charter as presently constituted or hereafter reconstituted in accordance with law.

Gas Works or PGW means all property, real and personal, owned by the City and used in the acquisition or manufacture, storage and distribution of natural, liquefied, synthetic or manufactured gas or in the maintenance, management or administration thereof and all activities ancillary and related thereto, and also, as the context may require, means the business entity managed by the Manager.

Gas Works Revenue Bonds means Gas Works revenue bonds of the City presently or hereafter issued pursuant to the Act of October 18, 1972 (P.L. 955, No. 234) known as The First Class City Revenue Bond Act (53 P.S. 15901 to 15924), or other applicable statute, the General Gas Works Revenue Bond Ordinance of 1975 (Bill No. 1871, approved May 30, 1975, as amended and supplemented), the General Gas Works Revenue Bond Ordinance of 1998 (Bill No. 980232, approved April 30, 1998, as amended and supplemented, and as the same may be further amended) and any other ordinance enacted pursuant to The First Class City Revenue Bond Act.

Gas Works Revenues means all operating and nonoperating revenues of the Gas Works derived from its activities and assets involved in the supply, manufacture, storage and distribution of gas, including all rents, rates and charges imposed or charged by the City upon the owners or occupants of properties connected to, and upon all users of, gas distributed by the Gas Works and all other revenues derived therefrom and all other income derived by the City from the Gas Works. Revenues derived from activities unrelated to the supply, manufacture, storage and distribution of gas or assets related thereto shall not be included in Gas Works Revenues, provided that the Gas Works receives fair payment for the use of gas related assets and personnel of the Gas Works used in such activities, which payments shall be included in Gas Works Revenues. In particular, Gas Works Revenues shall not include revenues from enterprises or functions not related to gas activities (e.g. activities involving the supply, generation or distribution of electricity). Gas Works Revenues shall not include those portions of the Gas Works' rents, rates and charges which are securitized and sold pursuant to Section 4.03(b) of the General Gas Works Revenue Bond Ordinance of 1998 (Bill No. 980232) or any similar provision in any successor to such ordinance.

Installment means any issuance of CP Notes intended to be treated as part of a single issue under Section 1.150-1 (c)(4)(ii) of the Treasury Regulations promulgated under the Code.

Inventory means any fuel, materials or supplies acquired by PGW, used directly or indirectly to provide service to the public, and which would be shown as a current asset on a balance sheet of PGW prepared in accordance with generally accepted accounting principles.

Management Agreement means the Agreement dated December 29, 1972 between the City and the Manager for the management and operation of PGW, as presently or hereafter amended, or any subsequent agreement which may be entered into by the City pertaining to the management of PGW.

Manager means Philadelphia Facilities Management Corporation currently managing PGW pursuant to the Management Agreement, or its successor or such other person, corporation, commission or department of the City that may be designated by the City to manage PGW.

Mayor means the Mayor of the City, including a person acting as mayor under applicable law.

Natural Gas Choice and Competition Act means the Act of June 22, 1999, P.L. 122, No. 21, as amended from time to time.

Net Operating Expenses means Operating Expenses exclusive of City Charges.

Note or Notes means any Gas Works revenue note or notes of the City, issued and outstanding pursuant to the Act and this Ordinance, including Refunding Notes, CP Notes and Revenue Notes.

Noteholder or Holder means the holder of any Note.

Operating Expenses means all costs and expenses of PGW necessary and appropriate to operate and maintain the Gas Works in good operable condition during each Fiscal Year, and shall include, without limitation, the Manager's fee, salaries and wages, purchases of service by contract, costs of materials, supplies and expendable equipment, maintenance costs, costs of any property or the replacement therefor for any work or project related to the Gas Works which does not have a probable useful life of at least five (5) years, pension and welfare plan and workmen's compensation requirements, provision for claims, refunds and uncollectible receivables and for City Charges, all in accordance with generally accepted accounting principles consistently applied, but shall exclude depreciation, interest and sinking fund charges. Operating Expenses shall not include Unrelated Expenses.

Outstanding means, when used with reference to the Notes, as of any particular date, the aggregate of all Notes authenticated and delivered under this Ordinance, except:

(a) Notes cancelled by the Fiscal Agent or delivered to the Fiscal Agent for cancellation;

(b) Notes for the payment of which payments in the necessary amount have been theretofore deposited in an account in the Sinking Fund for the holders such Notes; and

(c) Notes in lieu of or in substitution for which other Notes shall have been authenticated and delivered pursuant to Section 3.08 hereof.

Project means the Inventory or Receivables, or both, or any part thereof.

Project Costs means all costs of acquisition or funding of a Project including, but not limited to, costs, fees and expenses of financial advisors, attorneys and other experts engaged in connection with the Project, fees and expenses of the Fiscal Agent and rating agencies, financing costs including bond discount, additional security costs including fees and expenses related to a Credit Support Instrument, interest on money borrowed to finance the Project if capitalized, the repayment of temporary loans made in connection with the Project and reimbursement for any of the foregoing costs incurred or paid prior to or after the issuance of Notes.

Public Utility Commission means the Pennsylvania Public Utility Commission as presently constituted or hereafter reconstituted in accordance with law.

Rate Covenant means the rate covenant contained in Section 4.03(b) hereof.

Receivables means accounts receivable billed to customers of PGW, but not yet paid, as would be shown as a current asset on a balance sheet of PGW prepared in accordance with generally accepted accounting principles.

Refunding Notes means Notes issued to provide funds to pay the principal of and interest on Notes or 2002 Notes previously issued, including prior issues of Refunding Notes; Refunding Notes may be issued as Notes or Revenue Notes.

Reimbursement Agreement means any agreement between the City and a Credit Support Entity governing the terms and conditions upon which a Credit Support Instrument will be provided and the terms and conditions of the Reimbursement Obligation.

Reimbursement Obligation means the obligation of the City to repay to a Credit Support Entity amounts provided under a Credit Support Instrument, together with premium, if any, and interest thereon; the Reimbursement Obligation may be evidenced by a promissory note or notes of the City.

Resolution means a resolution duly passed by the Bond Committee authorizing the issuance of the Notes hereunder or taking any other action required or permitted hereunder.

Revenue Notes means the City of Philadelphia Gas Works Revenue Notes, authorized to be issued hereunder, as more particularly described in Section 3.01(c) and 3.02(c) hereof.

Sinking Fund means a sinking fund established pursuant to Section 5.01 hereof.

Sinking Fund Depositary means the Fiscal Agent named pursuant to Section 5.02 hereof or its successor.

Stated Maturity means, as to a particular CP Note, the maturity date of such CP Note, which shall be not less than one (1) day after the issue date of such CP Note and not later than two hundred seventy (270) days from the date of issuance of the particular CP Note; provided, however, that the Stated Maturity shall not be later than the earlier of 13 months following the date of initial issuance of any Installment of CP Notes or the Final Maturity.

2002 Notes means any gas works revenue note or notes of the City issued and outstanding pursuant to the Act and the 2002 Ordinance.

Unrelated Expenses means expenses unrelated to the supply, manufacture, storage and distribution of gas or assets related thereto.

Section 2.02. **Interpretation.** All references in this Ordinance to articles, sections and other subdivisions of this Ordinance are to the designated articles, sections or other subdivisions of this Ordinance as originally enacted. The words "herein," "hereof," "hereby" and "hereunder" and other words of similar import refer to this Ordinance as a whole and not to any particular article, section or other subdivision, except as otherwise specifically provided.

Section 2.03. **Descriptive Headings.** The descriptive headings of the several articles and sections of this Ordinance are inserted for convenience only and shall not control or affect the meaning or construction of any of its provisions.

Section 2.04. **Severability.** In case any one or more of the provisions contained in this Ordinance or in any Note issued pursuant hereto or the application thereof to any person or circumstance shall for any reason be held to be invalid, the remainder of this Ordinance or such Note and the application of such provision to other persons or circumstances, shall not be affected thereby, unless the court finds that the valid provisions are so essentially and inseparably connected with, and so dependent upon, the void provision or application, that it cannot be presumed that City Council would have enacted or provided for the remaining valid provisions without the void provision; or unless the court finds that the remaining valid provisions, standing alone, are incomplete and are incapable of being executed in accordance with the intent of City Council.

Section 2.05. **Powers Preserved.** Nothing in this Ordinance is intended to or shall be construed to affect the authority of the Gas Commission under Section 5-902 of the Philadelphia Home Rule Charter or the Management Agreement, to the extent consistent with the Natural Gas Choice and Competition Act.

ARTICLE III

CONCERNING THE NOTES

Section 3.01. **Forms of Notes.**

(a) All Notes shall be in substantially the forms set forth in this Article III, with such appropriate insertions, omissions, substitutions and other variations, including variations deemed necessary to issue the Notes in book-entry form, as may, consistently with this Ordinance and the Act, be determined by or in the manner specified by the Bond Committee in a Resolution. The Notes may be printed, lithographed or typewritten with or without steel engraved borders. The Notes may also have printed thereon or on the reverse thereof the text of an approving legal opinion with respect thereto and an appropriate certificate as to its correspondence with an executed counterpart may be included on the face or on the reverse of the Notes. The Notes may also have printed thereon or on the reverse thereof or attached thereto a Credit Support Instrument or the text thereof. Any portion of the text of any Note may be set forth on the reverse thereof with an appropriate reference on the face of the Note.

(b) CP Notes shall be in substantially the following form:

(Form of CP Note)

THE CITY OF PHILADELPHIA, PENNSYLVANIA
GAS WORKS REVENUE NOTE
CP Series [Letter Designation]

Principal Sum __________________ Issue Date ____________________

Interest on Stated Maturity ________ Stated Maturity _________________

Due at Stated Maturity ___________ Number of Days _______________

Interest Rate ___________________

The City of Philadelphia (the "City"), for value received, hereby promises to pay in lawful money of the United States of America to the bearer hereof, on the Stated Maturity set forth above, the Principal Sum set forth above and to pay interest on said Principal Sum for each day from the Issue Date set forth above until payment of said Principal Sum has been made or duly provided for at the Interest Rate per annum set forth above, calculated on the basis of a three hundred sixty-five (365) day year or three hundred sixty-six (366) day year, as applicable, payable on the Stated Maturity set forth above. The principal of and interest on this Note are payable in immediately available funds at the office of Fiscal Agent of the City, at _______________.

This Note is one of a duly authorized issue of Notes of the City designated as its Gas Works Revenue Notes of the Series designated hereon (the "CP Notes"), issued pursuant to the General Inventory and Receivables Gas Works Revenue Note Ordinance of 2005 (Bill No. ________ approved ______________, 2005) of the City (the "General Ordinance") and a Resolution dated ______________ of the Bond Committee referred to in the General Ordinance. The City covenants to pay the CP Notes and interest thereon when due and such payments shall be made out of the Gas Works Revenues (as defined in the General Ordinance), except to the extent paid from the proceeds of Refunding Notes issued under the General Ordinance or funds provided by a Credit Support Instrument (as defined in the General Ordinance). All notes issued under the General Ordinance (the "Notes"), including the CP Notes, are secured equally and ratably by the pledge of and grant of a security interest in the Gas Works Revenues.

This Note is a special obligation which the City is obligated to pay solely from the Gas Works Revenues and from the proceeds of Refunding Notes. The CP Notes are not general obligations of the City and do not pledge its general credit or taxing power or create any debt or charge against the general revenues of the City. As defined in the General Ordinance, Gas Works Revenues include all operating and nonoperating revenues of the Philadelphia Gas Works (the "Gas Works") derived from its activities and assets involved in the supply, manufacture, storage and distribution of gas, including all rents, rates and charges imposed or charged by the City upon the owners or occupants of properties connected to, and upon all users of, gas distributed by the Gas Works and all other revenues derived therefrom and all other income derived by the City from the Gas Works. The General Ordinance requires the Gas Works Revenues to be applied to net operating expenses of the Gas Works and the payment of debt service on certain Gas Works Revenue Bonds and certain other obligations of the Gas Works payable from Gas Works Revenues prior to payment of the principal of and interest on the Notes.

[Any Credit Support Instrument for the benefit of the Noteholders may be described here.]

IN WITNESS WHEREOF, the City has caused this Note to be duly signed in its name by the manual or facsimile signatures of the Mayor, City Controller and City Solicitor and the seal of the City or a facsimile thereof to be affixed or imprinted hereon, and has caused this Note to be countersigned by two (2) duly authorized officers of ________________, the duly authorized Fiscal Agent of the City.

THE CITY OF PHILADELPHIA

By: ______________________
Mayor

[Seal]

By: ______________________
City Controller

By: ______________________
City Solicitor

COUNTERSIGNED: [FISCAL AGENT]

Fiscal Agent

By :__________________

By :__________________
Authorized Officers

(c) Revenue Notes shall be in substantially the following form:

(Form of Revenue Note)

THE CITY OF PHILADELPHIA, PENNSYLVANIA
GAS WORKS REVENUE NOTE
Series [Letter Designation]

No.____________________
Principal Sum_______________

Issue Date __________
Stated Maturity ___________
Interest Rate ___________

The City of Philadelphia, Pennsylvania (the "City"), for value received, hereby promises to pay in lawful money of the United States of America to the bearer hereof, on the Maturity Date set forth above, the Principal Sum set forth above and to pay interest on said Principal Sum for each day from the Issue Date set forth above until payment of said Principal Sum has been made or duly provided for at the Interest Rate per annum set forth above, calculated on the basis of a three hundred sixty-five (365) day year or three hundred sixty-six (366) day year, as applicable, payable on the Maturity Date set forth above. The principal of and interest on this Note are payable in immediately available funds at the office of Fiscal Agent of the City, at ___________.

This Note is one of a duly authorized issue of Notes of the City designated as its Gas Works Revenue Notes of the Series designated hereon (the "Revenue Notes"), issued pursuant to the General Inventory and Receivables Gas Works Revenue Note Ordinance of 2005 (Bill No.___________ approved, __________, 2005) of the City (the "General Ordinance") and a Resolution dated _____________ of the Bond Committee referred to in the General Ordinance. The City covenants to pay the Revenue Notes and interest thereon when due and such payments shall be made out of the Gas Works Revenues (as defined in the General Ordinance), except to the extent paid from the proceeds of Refunding Notes issued under the General Ordinance or funds provided by a Credit Support Instrument (as defined in the General Ordinance). All notes issued under the General Ordinance (the "Notes"), including the Revenue Notes, are secured equally and ratably by the pledge of and grant of a security interest in the Gas Works Revenues.

This Note is a special obligation which the City is obligated to pay solely from the Gas Works Revenues and from the proceeds of Refunding Notes. The Revenue Notes are not general obligations of the City and do not pledge its general credit or taxing power or create any debt or charge against the general revenues of the City. As defined in the General Ordinance, Gas Works Revenues include all operating and nonoperating revenues of the Philadelphia Gas Works (the "Gas Works") derived from its activities and assets involved in the supply, manufacture, storage and distribution of gas, including all rents, rates and charges imposed or charged by the City upon the owners or occupants of properties connected to, and upon all users of, gas distributed by the Gas Works and all other revenues derived therefrom and all other income derived by the City from the Gas Works. The General Ordinance requires the Gas Works Revenues to be applied to net operating expenses of the Gas Works and the payment of debt service on certain Gas Works Revenue Bonds and certain other obligations of the Gas Works payable from Gas Works Revenues prior to payment of the principal of and interest on the Notes.

[Any Credit Support Instrument for the benefit of the Noteholders may be described here.]

IN WITNESS WHEREOF, the City has caused this Note to be duly signed in its name by the manual or facsimile signatures of the Mayor, City Controller and City Solicitor and the seal of the City or a facsimile thereof to be affixed or imprinted hereon, and has caused this Note to be countersigned by two (2) duly authorized officers of ____________________, the duly authorized Fiscal Agent of the City.

THE CITY OF PHILADELPHIA

By: ________________________
Mayor

[Seal]

By: ________________________
City Controller

By: ________________________
City Solicitor

COUNTERSIGNED: [FISCAL AGENT]

Fiscal Agent

By :____________________

By :____________________
Authorized Officers

Section 3.02. **General Form and Content of Notes.**

(a) Notes shall be generally designated as Gas Works Revenue Notes of the City and shall be issued in such series and within such series in such sub-series as may from time to time be determined by or in the manner prescribed by a Resolution. The aggregate principal amount of Notes which may be issued, authenticated and delivered under this Ordinance may not exceed one hundred fifty million dollars ($150,000,000) at any one time Outstanding, and prior to issuance of each series of Notes, the Bond Committee shall adopt a Resolution authorizing such series. For the purpose of calculating the maximum principal amount of Notes which may be issued and Outstanding hereunder, the aggregate principal amount of any outstanding 2002 Notes shall be deemed to be Outstanding hereunder.

Subject to the provisions of this Ordinance, Notes may be issued in such denominations in bearer or in fully registered form; may be issued in Installments; shall bear such identifying designation or title; shall be dated; shall be payable at such rate or rates of interest, including supplemental, contingent or variable interest, payable on such dates; may be subject to such provisions for redemption in whole or in part or both, at such prices, at such times and places; shall be stated to mature on such date or dates, not later than August 31, 2010; shall be payable as to principal or interest, or both, at such places by the City or by such paying agent or Fiscal Agent of the City as the City appoints; may provide for the payment by the City of such tax or taxes on the Notes; and may contain such other terms, provisions, statements or covenants, not inconsistent with the Act or this Ordinance as may be determined in or in the manner specified in a Resolution.

(b) Each series of CP Notes shall be issued from time to time, subject to the limitations set forth in this Ordinance, in such principal amounts as from time to time shall be determined by the Bond Committee. The CP Notes of a series shall be (i) dated as of their respective dates of issuance, (ii) numbered serially in consecutive numerical order from 1 upwards, (iii) issued in minimum denominations of one hundred thousand dollars ($100,000) or any integral multiples of one thousand dollars ($1,000) in excess thereof, (iv) issued without coupons and payable to bearer or such other person or entity designated by the City, including a depository or person designated by a depository if the CP Notes are issued in book-entry form, (v) issued as interest-bearing CP Notes (provided that interest shall accrue thereon from and including the date of issuance thereof to, but not including or after, the stated maturity thereof), (vi) have interest payable and principal amounts maturing at such times as are stated therein, but in no event later than the Final Maturity of such series of CP Notes, (vii) payable as to principal and interest at Stated Maturity in immediately available funds in lawful money of the United States of America upon presentation and surrender at the principal corporate trust office of the Fiscal Agent, and (viii) authenticated by the Fiscal Agent and delivered by the Fiscal Agent to, or as directed by, the Dealer, from time to time in the manner provided for and subject to the conditions specified herein and in any agreement hereafter entered into by the City and the Dealer or Fiscal Agent, promptly upon receipt by the Fiscal Agent of a request specifying, as to each of the CP Notes then being issued, (A) the date of issue, Stated Maturity, serial number and principal amount, (B) the rate of interest to be carried thereby, (C) the total of principal and interest to be due thereon at the Stated Maturity thereof, (D) the name of the payee, if other than bearer, and (E) the aggregate purchase price to be paid therefor by the Dealer or such other person or entity as such request shall specify. Delivery of the CP Notes by the Fiscal Agent to, or as directed by, the Dealer shall be against payment made in the manner specified herein.

(c) Each series of Revenue Notes shall be issued from time to time, subject to the limitations set forth in this Ordinance, in such principal amounts as from time to time shall be determined by the Bond Committee. The Revenue Notes of a series shall be (i) dated as of their respective dates of issuance, (ii) numbered serially in consecutive numerical order from 1 upwards, (iii) issued in minimum denominations of five thousand dollars ($5,000), or any integral multiples thereof, (iv) issued without coupons and payable to bearer or such other person or entity designated by the City, (v) issued as interest-bearing Revenue Notes (provided that interest shall accrue thereon from and including the date of issuance thereof to, but not including or after, the stated maturity thereof), (vi) have interest payable and principal amounts maturing at such times as are stated therein, but in no event later than August 31, 2010, (vii) payable as to principal and interest at maturity in immediately available funds in lawful money of the United States of America upon presentation and surrender at the principal corporate trust office of the Fiscal Agent, and (viii) authenticated by the Fiscal Agent and delivered by the Fiscal Agent to the Dealer from time to time in the manner provided for an subject to the conditions specified herein and in any agreement hereafter entered into by the City and the Dealer or Fiscal Agent, promptly upon receipt by the Fiscal Agent of a request specifying, (A) as to the series of Revenue Notes then being issued, (i) the date of issue, (ii) maturity date, (iii) rate of interest to be carried thereby, and (B) as to each Revenue Note within such series, (i) the serial number and principal amount, (ii) the name of the payee, other than the bearer, and (iii) the aggregate purchase price to be paid therefor by the Dealer or such other person or entity as such request shall specify. Delivery of the Revenue Notes by the Fiscal Agent to the Dealer shall be against payment made in the manner specified herein.

The foregoing provisions of this Section 3.02, any other provisions in this Ordinance to the contrary notwithstanding, are subject to the express understanding that the City shall have no obligation to pay the Notes except from the Gas Works Revenues and from the proceeds of Refunding Notes. The Notes shall be limited obligations of the City payable solely from Gas Works Revenues and from proceeds of Refunding Notes and shall not pledge the City's general credit or taxing power or create any debt or charge against the general revenues of the City.

Section 3.03. **Payment of Notes at Maturity**. The Notes and any interest thereon shall be payable in lawful money of the United States of America at the office of the Fiscal Agent, or at the principal office of a paying agent designated in such Notes, but only upon presentation and surrender of such Notes, except as otherwise herein provided with respect to mutilated, destroyed, lost or stolen Notes.

Section 3.04. **Notes are Negotiable Instruments.** The Notes shall have the qualities of negotiable instruments under the laws pertaining to negotiable instruments of the Commonwealth of Pennsylvania.

Section 3.05. **Transfer of Notes.** All Notes shall be negotiable and title thereto shall pass by delivery.

Section 3.06. **Ownership of Notes.** The City, the Fiscal Agent and any paying agent designated in any Note may treat the bearer of any Note as the absolute owner of such Note for all purposes whether or not such Note shall be overdue, and neither the City, the Fiscal Agent nor any paying agent shall be affected by any notice to the contrary. Any consent, waiver or other action taken by the bearer of any Note pursuant to the provisions of this Ordinance shall be conclusive and binding upon such holder, his heirs, successor or assigns, and upon all transferees of such Note whether or not notation of such consent, waiver or other action shall have been made on such Note or on any Note issued in exchange therefor.

Section 3.07. **Execution of Notes.** The Notes shall be executed on behalf of the City by the manual or facsimile signatures of the Mayor, City Solicitor, and City Controller under the seal of the City, which shall be either affixed or reproduced thereon in facsimile and shall be countersigned and attested by the manual signatures of two duly authorized officers of the Fiscal Agent, or in such other manner as shall be authorized by law and prescribed by a Resolution. Any such Notes may be executed, issued and delivered notwithstanding that one or more of the officers signing such Notes or whose facsimile signature shall be upon such Notes or any thereof, shall have ceased to be such officer or officers at the time when such Notes shall actually be delivered, and although at the nominal date of the Note, any such person shall not have been such officer.

Section 3.08. **Mutilated, Destroyed, Lost or Stolen Notes.** Upon receipt by the Fiscal Agent and the City of evidence satisfactory to both of them that any Outstanding Note has been destroyed, lost, or stolen, and of indemnity satisfactory to both of them, then, in the absence of notice to the City or to the Fiscal Agent that such Note, if alleged to have been lost or stolen, has been acquired by a bona fide purchaser, or if a Note has been mutilated, the City in its discretion may execute and deliver a new Note of the same series and same maturity and of like tenor in exchange and substitution for, and upon surrender and cancellation of, the mutilated Note or in lieu of and in substitution for the Note so destroyed, lost or stolen.

The City may, for each new Note authenticated and delivered under the provisions of this Section 3.08, require the payment of the expenses, including counsel fees, which may be incurred by the City and the Fiscal Agent in the premises. In case any such mutilated, lost or stolen Note has become, or is about to become, due and payable, the City, in its discretion, may, instead of issuing a new Note, direct the payment thereof at maturity and the Fiscal Agent shall thereupon pay the same.

Any Note issued under the provisions of this Section 3.08 in lieu of any Note alleged to be destroyed, lost or stolen shall constitute an original additional contractual obligation on the part of the City whether or not the Note so alleged to be destroyed, lost or stolen be at any time enforceable by anyone, and shall be equally and proportionately entitled to the benefits of this Ordinance with all other Notes under this Ordinance.

ARTICLE IV

ISSUANCE OF NOTES

Section 4.01. **Purpose of Notes.** The Notes issued under this Ordinance shall be issued for the purpose of financing or refunding the Project Costs of a Project or any part thereof, to refund Notes previously issued hereunder or to refund 2002 Notes issued under the 2002 Ordinance.

Section 4.02. **Pledge of Gas Works Revenues; Grant of Security Interest; Application of Gas Works Revenues.** The City hereby pledges for the security and payment of all Notes issued under this Ordinance, and hereby grants a security interest in the Gas Works Revenues, including all accounts, general intangibles, cash proceeds, non-cash proceeds, chattel paper, whether tangible or electronic, and supporting obligations, as each term is defined in the Pennsylvania Uniform Commercial Code and all Proceeds, as such term is defined in the Pennsylvania Uniform Commercial Code.

For the purpose of the financing statements to be filed under the Uniform Commercial Code, the Fiscal Agent shall be deemed to be, and the City hereby recognizes the Fiscal Agent as, the representative of the Noteholders.

All Gas Works Revenues as and when collected in each Fiscal Year shall be applied in order of priority, to the extent then payable, to (1) Net Operating Expenses then payable, (2) debt service on bonds issued under the General Gas Works Revenue Bond Ordinance of 1975, as amended (the "1975 Ordinance") and amounts required to be paid into the sinking fund reserve under the 1975 Ordinance, (3) debt service on Senior Bonds issued under and as defined in the General Gas Works Revenue Bond Ordinance of 1998, as amended and as may be further amended (the "1998 Ordinance"), payments (other than termination payments) due to the issuers of Qualified Swaps and Exchange Agreements (as each such term is defined in the 1998 Ordinance) related to Senior Bonds and payments due in respect of obligations of the Gas Works to The Philadelphia Municipal Authority existing on the date of adoption of the 1998 Ordinance, (4) payments due to issuers of Credit Facilities (as defined in the 1998 Ordinance) related to Senior Bonds, (5) debt service on Subordinate Bonds (as defined in the 1998 Ordinance) and payments due in respect of obligations of the Gas Works on a parity with Subordinate Bonds (including the Notes issued under this Ordinance and notes issued under any similar ordinance, and amounts payable to the provider of a Credit Facility in respect of such notes) and payments (other than termination payments) due to the issuers of Qualified Swaps and Exchange Agreements related to Subordinate Bonds, (6) payments due to issuers of Credit Facilities related to Subordinate Bonds and payments (other than termination payments) due to the issuers of Qualified Swaps and Exchange Agreements with respect to bonds issued under the 1975 Ordinance to the extent that the 1998 Ordinance is hereafter amended to provide for the Qualified Swaps and Exchange

Agreements with respect to such bonds, (7) required payments of the Rebate Amount (as defined in the 1998 Ordinance) to the United States, (8) replenishment of any deficiency in the Sinking Fund Reserve (as defined in the 1998 Ordinance), (9) payment of general obligation bonds of the City adjudged to be self-liquidating from Gas Works Revenues, (10) debt service on other general obligation bonds issued for the Gas Works, and (11) City Charges and any other proper purpose of the Gas Works (including any termination payments to issuers of Qualified Swaps and Exchange Agreements), except Unrelated Expenses. The foregoing provisions shall not be construed to require the segregation of revenues upon collection.

The security interest granted in this Section 4.02 shall be subject and subordinate in all respects to the security interests granted in the 1975 Ordinance and the 1998 Ordinance and any financing statement filed to evidence the security interest granted in this Section 4.02 shall contain a statement to that effect.

Section 4.03. **Particular Covenants**. The City covenants with the holders of all Notes front time to time outstanding under this Ordinance that, so long as any such Notes shall remain Outstanding:

(a) No Notes will be initially issued by the City hereunder unless there is first filed with the Bond Committee:

(i) the financial report of the Chief Fiscal Officer required by Section 8(1) of the Act containing the statements and opinion required thereby; and

(ii) the legal opinion of the City Solicitor required by Section 8(2) of the Act.

(b) It will, at a minimum, impose, charge and collect in each Fiscal Year such rates and charges as shall, together with all other Gas Works Revenues to be received in such Fiscal Year, produce funds sufficient to pay the Notes and any interest thereon after all other applications of Gas Works Revenues which are prior to the Notes in right of payment; provided that for so long as the Notes are secured by a Credit Support Instrument and the Credit Support Entity is obligated thereon to provide funds sufficient to pay the Notes and is not in default under such Credit Support Instrument, the City may treat the Notes as payable over the period of time during which the City is required to pay the Credit Support Entity pursuant to its Reimbursement Obligation.

The Manager is hereby authorized and directed, without further authorization, to impose and charge and to collect, or cause to be collected, rents, rates and charges which shall be sufficient in each Fiscal Year to comply with the foregoing Rate Covenant and, as provided in the Natural Gas Choice and Competition Act, the Public Utility Commission shall approve rates and charges sufficient to comply with the foregoing Rate Covenant, all in accordance with the Natural Gas Choice and Competition Act.

(c) In addition to the limitations contained in Section 3.01 hereof, the aggregate principal amount of Notes and 2002 Notes Outstanding shall not exceed Project Costs on the date of issuance of the Notes.

(d) It will pay or cause the Fiscal Agent or paying agent to pay the Notes when due from the Gas Works Revenues deposited in the Sinking Fund (except to the extent paid from the proceeds of Refunding Notes or funds provided by a Credit Support Instrument).

(e) It will continuously maintain in good condition and continuously operate the Gas Works.

(f) It will not pay from the Gas Works Revenues any City Charges unless there is then existing no default in payment of the Notes.

(g) It has, in Section 4.03(b) hereof, authorized the imposition, charging and collection of rates and charges sufficient from time to time to comply with the Rate Covenant set forth in Section 4.03(b) hereof and it will not repeal or materially adversely dilute such authorization.

Section 4.04. **Tax Covenants of the City.** The City hereby covenants that it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the holders of the Notes of the interest on the Notes under Section 103 of the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder ("Code"). The City hereby further covenants that it will not directly or indirectly use or permit the use of any proceeds of the Notes or any other funds of the City, or take or omit to take any action that would cause the Notes to be "arbitrage bonds" within the meaning of Section 148(a) of the Code and that it will comply with all requirements of Section 148 of the Code to the extent applicable to the Notes. In the event that at any time the City is of the opinion that for purposes of this covenant it is necessary to restrict or limit the yield on the investment of any money held by the Fiscal Agent, the City shall so instruct the Fiscal Agent in writing, and the Fiscal Agent shall take such action as may be necessary to comply with such instructions.

Without limiting the generality of the foregoing, the City shall pay or cause to be paid from time to time all amounts required to be rebated to the United States of America pursuant to Section 148(f) of the Code and any temporary, proposed or final Treasury Regulations as may be applicable to the Notes from time to time. This rebate obligation shall survive payment in full of the Notes.

The Chief Fiscal Officer is hereby authorized and directed to make any elections on behalf of the City permitted by the Code or any Treasury Regulations he deems necessary or appropriate to enable the City to comply with the requirements of this covenant.

The foregoing covenant shall not apply to any series of Notes, the interest on which is not intended to be excludable from gross income of the holders thereof for federal income tax purposes.

Section 4.05. **Notes to be Parity Instruments.** All Notes issued hereunder shall be equally and ratably secured by the pledge of and grant of a security interest in the Gas Works Revenues created in Section 4.02 hereof without preference, priority or distinction as to lien or otherwise, except as otherwise hereinafter provided, of any one Note over any other Note.

Section 4.06. **Sale of Notes; Terms and Provisions.** All Notes shall be sold at public or private sale on such terms and at such prices as may be determined by or in the manner prescribed in the Resolution.

Section 4.07. **Conditions of Issuing Notes; Filing of Transcript; Further Action.** Prior to the issuance of the first Notes of any series of Notes, the Bond Committee shall adopt a Resolution specifying the aggregate principal amount, and authorizing the issuance of such series of Notes; stating that such Notes are issued for the purposes specified in Section 4.01 hereof; and making a finding based on the report of the Chief Fiscal Officer required by Section 8 of the Act that the Gas Works Revenues pledged hereunder will be sufficient to comply with the Rate Covenant and also to pay all costs, expenses and payments required to be paid therefrom and in the order and priority stated in Section 4.02 hereof; and containing the covenant as to the payment of debt service required by Article IX, Section 10 of the Pennsylvania Constitution.

Except to the extent specified herein, the Resolution shall specify the terms and provisions of the Notes to be issued thereunder, a particular method of sale, the terms upon which, or the prices for which, the Notes are to be sold or exchanged, including, if applicable, competitive bidding specifications and an agreement with any Dealer appointed for the Notes; may contain or authorize such further covenants and agreements, including such additional covenants as may be appropriate under existing regulations so that the Notes may not be deemed to be "arbitrage bonds" as such term is defined in the Code; may specify the agreement with the Fiscal Agent and provisions governing the execution and delivery of Notes and the deposit and payment of moneys and other appropriate matters; may specify the Reimbursement Agreement with any Credit Support Entity providing a Credit Support Instrument, including the maturity, interest rate, terms and conditions of the City's Reimbursement Obligation and provisions for a security interest in the Gas Works Revenues and the proceeds from the sale of the Notes to the same extent as granted in this Ordinance with respect to the Notes; shall specify provisions for a Sinking Fund pursuant to Article V hereof; and may contain such other provisions as the Bond Committee may deem appropriate and proper and as shall be authorized and permitted by the Act.

Prior to the issuance of the first Notes of any series, the Director of Finance shall comply with the transcript filing provisions of the Act, and such Notes will not be issued until the approval of the Court of Common Pleas of Philadelphia County has been obtained in the manner prescribed by the Act.

The Director of Finance, the City Controller, the City Solicitor and such other officers of the City as may be appropriate are authorized in connection with the issuance of any series of Notes hereunder, to prepare, execute and file on behalf of the City such statements, documents or other material as may accurately and properly reflect the financial condition of the City or other matters relevant to the issuance or payment of such Notes and as may be required or appropriate to comply with applicable state or federal laws or regulations.

In addition, the Director of Finance is authorized to make such elections under the Code with respect to the Notes as he or she deems advisable, and to take such action on behalf of the City with respect to the investment of the proceeds of the Notes, and the Director of Finance and any member of the Bond Committee are authorized to make such covenants and certifications as may be necessary or advisable in order to further implement the tax covenant set forth in Section 4.04 hereof.

Section 4.08. **Credit Support.** In the event that any Notes are to be further secured by a Credit Support Instrument, the Bond Committee may enter into a Reimbursement Agreement with the Credit Support Entity. The Reimbursement Agreement may contain such terms and provisions as may be approved in a Resolution, including the maturity, rate of interest and other terms of the Reimbursement Obligation, provisions pledging and granting a security interest in the Gas Works Revenues and the proceeds of the Notes in order to secure the City's obligations under the Reimbursement Agreement to the same extent as granted by this Ordinance with respect to the Notes, and representations, covenants, indemnification provisions and other terms not inconsistent with this Ordinance and the Act; provided, however, that the Reimbursement Obligation with respect to any funds advanced by the Credit Support Entity shall not be later than August 31, 2010 and the City shall not have any obligation to pay any liability arising out of the Reimbursement Agreement except from the Gas Works Revenues or the proceeds of Refunding Notes. Any Reimbursement Obligation shall not be a general obligation of the City and shall not pledge its general credit or taxing power or create any debt or charge against the general revenues of the City.

ARTICLE V

SINKING FUND

Section 5.01. **Establishment of Sinking Fund.** Each Resolution shall establish a Sinking Fund for the benefit and security of the holders of the Notes of a particular series.

The City covenants to deposit in the Sinking Fund from the Gas Works Revenues, such amounts as will, together with interest and profits earned and to be earned on investments held therein, be sufficient to pay, on or before each payment date of the Notes, the amounts required, after taking into account any amounts paid from the proceeds of Refunding Notes or pursuant to a Credit Support Instrument, to pay the Notes then becoming due and payable.

Section 5.02. **Fiscal Agent.** Such state or federally chartered bank, bank and trust company or trust company as may from time to time be appointed by the Bond Committee in a Resolution, shall act as Fiscal Agent in respect of one or more series of Notes issued under this Ordinance. The Fiscal Agent shall also act as Sinking Fund Depositary of the Sinking Fund, and as authenticating agent and paying agent of the Notes in respect of which it is the Fiscal Agent. A Credit Support Entity may also act as Fiscal Agent. Nothing in this Ordinance shall be construed to prevent the City from engaging other or additional Fiscal Agents from time to time or from engaging other or additional Sinking Fund Depositaries, authenticating agents or paying agents of the Notes or any series thereof, but there shall be only one Fiscal Agent at a particular time for a series of Notes.

Subject to the foregoing, the proper officers of the City are authorized to enter into contracts or to confirm existing agreements governing the maintenance of accounts and records, the authentication of Notes, the disposal of canceled Notes, the rights, duties, privileges and immunities of the Fiscal Agent, and such other matters as are authorized by the Act and as are customary and appropriate and to confirm the agreement of the Fiscal Agent, in its several capacities, to comply with the provisions of the Act and of this Ordinance.

Section 5.03. **Payments from the Sinking Fund.** The Fiscal Agent shall liquidate investments on direction of the Director of Finance, or, if for any reason he or she should fail to give such direction, as necessary so as to have available in cash not later than the due date thereof, an amount required to pay the Notes.

Except as otherwise provided in a Resolution, any excess moneys in the Sinking Fund and moneys for the payment of the Notes unclaimed after the due date for two (2) years, shall be repaid to the City but such repayment shall not discharge the obligation, if any, for which such moneys were previously held in the Sinking Fund.

Section 5.04. **Management of the Sinking Fund.** Except as otherwise provided in a Resolution, all moneys deposited by the City held in the Sinking Fund, to the extent not currently required, shall be invested as authorized by the Act, or deposited in interest-bearing accounts authorized by the Act, all at the direction of the Director of Finance. All deposits, including interest-bearing deposits, of moneys deposited by the City in the Sinking Fund, to the extent not insured as provided in the Act, shall be secured as required by the Act. Interest and profits from such investments shall be added to the Sinking Fund and credited in reduction of or to complete required deposits by the City into the Sinking Fund.

ARTICLE VI

DEFAULTS AND REMEDIES

Section 6.01. **Defaults and Statutory Remedies.** If the City shall fail or neglect to pay or to cause to be paid any Note when due, or if the City shall fail to comply with any provision of the Notes or with any covenant of the City contained in this Ordinance or a Resolution then, under and subject to the terms and conditions stated in the Act, the holder or holders of any Note or Notes shall be entitled to all of the rights and remedies, including the appointment of a trustee, provided in the Act.

Section 6.02. **Remedies Not Exclusive; Effect of Delay in Exercise of Remedies.** No remedy herein or in the Act conferred upon or reserved to the trustee, if any, or to the holder of any Note is intended to be exclusive (except as specifically provided in the Act) of any other remedy or remedies, and each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute.

No delay or omission of the trustee, if one be appointed, or of any Noteholder to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default, or an acquiescence therein; and every power and remedy given by this Article VI, by the Act or otherwise may be exercised from time to time, and as often as may be deemed expedient.

Section 6.03. **Remedies to be Enforced Only Against Gas Works Revenues.** Any decree or judgment for the payment of money against the City by reason of default hereunder shall be enforceable only against the Gas Works Revenues and no decree or judgment against the City upon an action brought hereunder shall order or be construed to permit the occupation, attachment, seizure, or sale upon execution of any other property of the City.

ARTICLE VII

AMENDMENTS AND MODIFICATIONS

Section 7.01. **Amendments and Modifications.** This Ordinance may be supplemented, modified or amended:

(a) to cure any ambiguity or defective or inconsistent provision, omission or mistake, or manifest error herein or therein;

(b) to grant to or confer upon Noteholders, or a trustee, if any, for the benefit of Noteholders any additional rights, remedies, powers, authority, or security that may be lawfully granted or conferred;

(c) to add to, modify or delete any of the provisions hereof in a manner which will affect only Notes issued after the amendment or modification becomes effective; and

(d) to comply with any mandatory provision of state or federal law or with any permissive provision of such law or regulation which does not substantially impair the security or right to payment of the Notes, but no amendment or modification shall be made with respect to any outstanding Notes to alter the amount, rate or time of payment, respectively, of the principal thereof or the interest thereon without the written consent of the holders of all affected Outstanding Notes;

(e) except as aforesaid, in such other respect as may be authorized in writing by the holders of a majority in principal amount of the Notes Outstanding and affected.

ARTICLE VIII

MISCELLANEOUS

Section 8.01. **Ordinance and Resolutions are Contracts with Noteholders.** This Ordinance and Resolutions adopted pursuant hereto are contracts with the holders of all Notes from time to time Outstanding hereunder and thereunder and shall be enforceable in accordance with the provisions of Article VI hereof and the laws of the Commonwealth of Pennsylvania.

Section 8.02. **Repeals.** All ordinances and parts of ordinances heretofore adopted pursuant to the Act to the extent that the same are inconsistent herewith are hereby repealed.

Section 8.03. Amendment of Management Agreement. City Council hereby authorizes the amendment of that certain Agreement Between The City of Philadelphia and the Philadelphia Facilities Management Corporation for the Management and Operation of the Philadelphia Gas Works, originally dated December 29, 1972, authorized pursuant to an Ordinance of City Council, approved December 29, 1972 (Bill No. 455), as further amended as authorized by Ordinance on numerous other occasions, as follows:

To revise Paragraph 3 of Sections IV (Accounting Methods) to read as follows, with new text *double-underlined in italics* and deleted text with ~~double strikethrough:~~

3. Temporary Financing

Short-term loans not exceeding twenty million dollars in amount or twelve months in duration may be negotiated in anticipation of revenues, except that short-term loans exceeding twenty million dollars but not exceeding forty-five million dollars in amount may be negotiated in anticipation of revenues for Fiscal Year 1982 of the Gas Works and may be outstanding during the period July 1, 1981 through June 30, 1982. If such loans are required, plans therefor shall be submitted to the Gas Commission and the Director of Finance for approval of amount of loan. The amount of any such loan shall also be subject to the approval by resolution or by ordinance of City Council.

The Gas Works; may also receive temporary advances from the City in anticipation of revenues which are anticipated to be received by the Gas Works provided that such advances do not exceed twenty million dollars in amount or twenty-four months in duration; provided further, however, that during the period June 30, 1981 through June 30, 1983 and the period September 1, 2000 through August 31, 2002, such advances may exceed twenty million dollars but shall not exceed forty-five million dollars in amount and may exceed twenty-four months but not exceed seventy-two months in duration. The amount of each such advance shall be subject to the prior approval of the Director of Finance and the Gas Commission and to the approval by resolution or by ordinance of City Council.

In addition to the foregoing authorized borrowings, loans not exceeding ~~one hundred million dollars~~ *one hundred fifty million dollars* in aggregate principal amount at any time outstanding may be incurred for financing accounts receivable and the purchase of inventory for the Gas Works, as authorized by applicable law. If such loans are required, plans therefor shall be submitted to the Gas Commission and the Director of Finance for approval of the aggregate principal amount of such loans which may be outstanding at any single time. Such aggregate principal amount shall also be subject to approval by resolution or by ordinance of City Council.

CERTIFICATION: This is a true and correct copy of the original Bill, Passed by the City Council on December 15, 2005. The Bill was Signed by the Mayor on December 22, 2005.

Patricia Rafferty

Patricia Rafferty
Chief Clerk of the City Council

II. RATE OF RETURN

II.A.13. Attach copies of the summaries of the projected 2 year's Company's budgets (revenue, expense and capital).

RESPONSE:

Philadelphia Gas Works' Fiscal Year 2009-2010 Operating Budget is attached. PGW's Five Year Forecast for Fiscal Years 2011 through 2015 is not completed.

In The Matter Of:

PHILADELPHIA GAS WORKS'
FISCAL YEAR 2009-2010
OPERATING BUDGET FILING

Filed: June 16, 2009

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PHILADELPHIA GAS WORKS
STATEMENT OF INCOME
(Dollars in Thousands)

Line No.		Actual 2007-08	Budget 2008-09	Estimate 2008-09	Budget 2009-10
	OPERATING REVENUES				
1.	Non-Heating	$78,687	$84,369	$66,596	$50,190
2.	Gas Transportation Service	18,900	27,510	25,358	30,084
3.	Heating	723,534	969,765	828,245	742,086
4.	Weather Normalization Adjustment	12,238	-	-	-
5.	Unbilled Gas Adjustment	(1,931)	1,580	596	(1,037)
6.	Total Gas Revenues	831,428	1,083,224	920,795	821,323
7.	Appliance Repair & Other Service Revenues	8,607	9,029	8,745	8,708
8.	Other Operating Revenues	9,592	12,268	10,553	9,114
9.	Total Other Revenues	18,199	21,297	19,298	17,822
10.	Total Operating Revenues	$849,627	$1,104,521	$940,093	$839,145
	OPERATING EXPENSES				
11.	Natural Gas	$511,938	$732,322	$546,951	$420,056
12.	Other Raw Material	38	5	20	20
13.	Sub-Total Fuel	511,976	732,327	546,971	420,076
14.	Contribution Margins	$337,651	$372,194	$393,122	$419,069
15.	Labor & Fringe Benefits	$140,908	$145,530	$149,835	$159,438
16.	Bad Debt Expense	37,000	44,011	47,111	44,757
17.	Other Expenses & Depreciation	104,362	108,360	110,641	94,794
18.	Sub-Total Other O&M & Depreciation	282,270	297,901	307,587	298,989
19.	Total Operating Expenses	$794,246	$1,030,228	$854,558	$719,065
20.	**Operating Income**	$55,381	$74,293	$85,535	$120,080
21.	Other Income	$15,732	$11,526	$9,785	$10,778
22.	Income Before Interest	$71,113	$85,819	$95,320	$130,858
	INTEREST				
23.	Long Term Debt	$56,075	$54,968	$62,449	$59,132
24.	Other Interest	6,812	8,017	6,401	12,480
25.	AFUDC	(338)	(873)	(399)	(865)
26.	Loss from Extinguishment of Debt	5,457	5,102	5,202	5,392
27.	Total Interest Expense	$68,006	$67,214	$73,653	$76,139
28.	Net Earnings	$3,107	$18,605	$21,667	$54,719

Exhibit A-1-1

PHILADELPHIA GAS WORKS
STATEMENT OF INCOME
(Dollars in Thousands)

Line No.		Actual 2007-08	Budget 2008-09	Estimate 2008-09	Budget 2009-10
	OPERATING REVENUES				
1.	Non-Heating	$78,687	$84,369	$66,596	$50,190
2.	Gas Transportation Service	18,900	27,510	25,358	30,084
3.	Heating	723,534	969,765	828,245	742,086
4.	Weather Normalization Adjustment	12,238	-	-	-
6.	Unbilled Gas Adjustment	(1,931)	1,580	596	(1,037)
7.	Total Gas Revenues	831,428	1,083,224	920,795	821,323
8.	Appliance Repair & Bill Paid Turn-Ons	8,607	9,029	8,745	8,708
9.	Other Operating Revenues	9,592	12,268	10,553	9,114
10.	Total Other Operating Revenues	18,199	21,297	19,298	17,822
11.	**Total Operating Revenues**	$849,627	$1,104,521	$940,093	$839,145
	OPERATING EXPENSES				
12.	Natural Gas	$511,938	732,322	546,951	420,056
13.	Other Raw Material	38	5	20	20
14.	Sub-Total Fuel	511,976	732,327	546,971	420,076
15.	**CONTRIBUTION MARGINS**	$337,651	$372,194	$393,122	$419,069
16.	Gas Processing	14,436	16,265	16,584	14,297
17.	Field Services	37,126	38,375	36,121	34,682
18.	Distribution	17,319	17,982	20,779	19,889
19.	Collection	8,441	9,450	9,122	9,446
20.	Customer Service	12,305	13,510	13,470	14,410
21.	Account Management	7,006	7,548	7,480	7,879
22.	Bad Debt Expense	37,000	44,011	47,111	44,757
23.	Marketing	2,628	4,064	3,652	5,526
24.	Administrative & General	44,001	48,011	44,773	52,745
25.	Health Insurance	34,226	36,551	37,300	39,977
26.	Capitalized Fringe Benefits	(10,331)	(10,592)	(9,214)	(10,528)
27.	Capitalized Administrative Charges	(7,180)	(7,473)	(6,731)	(7,181)
28.	Pensions	14,258	14,419	15,531	21,063
29.	Taxes	5,677	6,799	6,609	6,955
30.	Other Post Employement Benefits	25,834	25,558	25,558	24,615
31.	BT Costs/(Benefits)	-	(1,670)	3,000	(16,700)
32.	Labor/Cost Savings	-	(2,156)	(1,419)	(1,450)
33.	Sub-Total Other Oper.& Maintenance	242,746	260,652	269,726	260,382
34.	Depreciation	40,021	39,408	39,280	40,409
35.	Cost of Removal	2,847	3,000	3,000	3,000
36.	To Clearing Accounts	(3,344)	(5,159)	(4,419)	(4,802)
37.		39,524	37,249	37,861	38,607
38.	Sub-Total Other Oper.& Maint. & Depreciation	282,270	297,901	307,587	298,989
39.	**TOTAL OPERATING EXPENSES**	$794,246	$1,030,228	$854,558	$719,065
40.	**OPERATING INCOME**	55,381	74,293	85,535	120,080
41.	Other Income	15,732	11,526	9,785	10,778
42.	INCOME BEFORE INTEREST	$71,113	$85,819	$95,320	$130,858
	INTEREST				
43.	Long-Term Debt	$56,075	$54,968	$62,449	$59,132
44.	Other	6,812	8,017	6,401	12,480
45.	AFUDC	(338)	(873)	(399)	(865)
46.	Loss From Extinguishment of Debt	5,457	5,102	5,202	5,392
47.	Total Interest	68,006	67,214	73,653	76,139
48.	**NET EARNINGS**	$3,107	$18,605	$21,667	$54,719

Exhibit A-2

PHILADELPHIA GAS WORKS
CASH FLOW STATEMENT
(Dollars in Thousands)

Line No.	SOURCES	Actual 2007-08	Budget 2008-09	Estimate 2008-09	Budget 2009-10
1.	Net Earnings	$3,107	$18,605	$21,667	$54,719
2.	Depreciation & Amortization	46,660	45,626	45,470	46,146
3.	Earnings on Restricted Funds	(11,851)	(4,775)	(5,177)	(5,846)
4.	Elimination of Accrued Interest on Refunded Debt	-	-	-	-
5.	Increased/(Decreased) Other Assets\Liabilities	25,403	(3,928)	28,255	21,444
6.	Available From Operations	63,319	55,528	90,215	116,463
7.	Funds Required for Capital	70,000	70,000	45,000	50,000
8.	Grant Income	18,000	18,000	18,000	18,000
9.	Release of Sinking Fund Asset	-	4,000	-	-
10.	Temporary Financing	38,400	22,000	-	-
11.	**TOTAL SOURCES**	$189,719	$169,528	$153,215	$184,463
	USES				
12.	Net Capital Expenditures	$61,742	$72,745	$55,591	$72,120
	Funded Debt Reduction:				
13.	Revenue Bonds	40,400	43,125	43,125	46,640
14.	Subordinate Revenue Bonds	1,430	1,500	1,500	1,565
15.	Temporary Financing Repayment	-	-	24,000	37,000
16.	City LoanRepayment/Status	43,000	-	-	-
17.	Distribution of Earnings	18,000	18,000	18,000	18,000
	Additions to (Reductions of)				
18.	Non-Cash Working Capital	27,507	34,344	9,645	9,278
19.	Cash Needs	192,079	169,714	151,861	184,603
20.	Cash Surplus (Shortfall)	(2,360)	(186)	1,354	(140)
21.	**TOTAL USES**	$189,719	$169,528	$153,215	$184,463
22.	Cash - Beginning of Period	$51,698	$50,217	$49,338	$50,692
23.	Cash - Surplus (Shortfall)	(2,360)	(186)	1,354	(140)
24.	**Ending Cash**	$49,338	$50,031	$50,692	$50,552
25.	Outstanding Commercial Paper	$90,000	$90,000	$66,000	29,000
26.	City Loan Outstanding	-	-	-	-

Exhibit A-3

PHILADELPHIA GAS WORKS
DEBT SERVICE COVERAGE
(Dollars in Thousands)

Line No.		Actual 2007-08	Budget 2008-09	Estimate 2008-09	Budget 2009-10
	FUNDS PROVIDED				
1.	Total Gas Revenues	$831,428	$1,083,224	$920,795	$821,323
2.	Other Operating Revenues	18,199	21,297	19,298	17,822
3.	Total Operating Revenues	849,627	1,104,521	940,093	839,145
4.	Other Income Less Restricted Funds	3,881	6,751	4,608	4,932
5.	Grant Income	18,000	18,000	18,000	18,000
6.	AFUDC (Interest)	338	873	399	865
7.	**TOTAL FUNDS PROVIDED**	$871,846	$1,130,145	$963,100	$862,942
	FUNDS APPLIED				
8.	Fuel Costs	$511,976	$732,327	$546,971	$420,076
9.	Other Operating Costs	282,270	297,901	307,587	298,989
10.	Total Operating Expenses	794,246	1,030,228	854,558	719,065
11.	Less: Non-Cash Expenses	68,898	68,106	67,883	68,210
12.	**TOTAL FUNDS APPLIED**	$725,348	$962,122	$786,675	$650,855
13.	Funds Available to Cover Debt Service	146,498	168,023	176,425	212,087
14.	1975 Ordinance Bonds Debt Service	$34,225	$32,313	$32,313	$30,101
15.	**Debt Service Coverage 1975 Revenue Bonds**	**4.28**	**5.20**	**5.46**	**7.05**
16.	Net Available After Prior Debt Service	$112,273	$135,710	$144,112	$181,986
17.	1998 Ordinance Bonds Debt Service	$59,695	$64,151	$68,601	$73,261
18.	**Debt Service Coverage 1998 Revenue Bonds**	**1.88**	**2.12**	**2.10**	**2.48**
19.	Net Available After 1998 Debt Service	$52,578	$71,559	$75,511	$108,725
20.	1998 Ordinance Subordinate Bond Debt Service	1,986	1,990	1,990	1,986
21.	**Debt Service Coverage Subordinate Bond**	**26.47**	**35.96**	**37.95**	**54.75**
22.	**Net Available To Service Aggregate Debt Service**	$136,809	$149,499	$159,138	$194,945
23.	**Aggregate Debt Service**	$100,005	$98,454	$105,907	$107,965
24.	**Fixed Coverage Charge on Long Term Debt**	**1.37**	**1.52**	**1.50**	**1.81**
25.	**Fixed Coverage Charge Including $18.0 M City Fee**	**1.16**	**1.28**	**1.28**	**1.55**

Exhibit A-4

PHILADELPHIA GAS WORKS
BALANCE SHEET
(Dollars in Thousands)

Line No.		Actual 8/31/2008	Budget 8/31/2009	Estimate 8/31/2009	Budget 8/31/2010
	ASSETS				
1.	Utility Plant Net	$1,062,095	$1,101,872	$1,078,406	$1,110,117
2.	Sinking Fund Reserve	106,198	104,097	109,285	123,004
3.	Capital Improvement Fund	111,207	41,769	68,326	158,102
4.	Restricted Investment Worker Comp Fund	2,383	2,383	2,594	2,634
5.	Cash	49,338	50,031	50,692	50,552
	Accounts Receivable:				
6.	Gas Receivable	222,880	181,238	235,582	229,280
7.	Other	8,714	250	9,150	9,425
8.	Accrued Gas Revenues	8,145	11,142	8,741	7,704
9.	Reserve for Uncollectible	(140,435)	(126,302)	(137,820)	(134,977)
10.	**Accounts Receivable Net**	**99,304**	**66,328**	**115,653**	**111,432**
11.	Materials & Supplies	187,539	194,743	134,922	127,758
12.	Other Current Assets	2,317	2,505	5,989	6,296
13.	Deferred Debits	3,309	1,479	7,317	8,190
14.	Unamortized Bond Issuance Expense	38,738	35,534	25,842	23,937
15.	Unamortized Extraordinary Loss	47,902	42,800	53,897	48,505
16.	Other Assets	12,650	2,326	12,961	12,961
17.	Deferred Environmental	6,685	2,674	3,828	2,163
18.	**TOTAL ASSETS**	**$1,729,665**	**$1,648,541**	**$1,669,712**	**$1,785,651**
	EQUITY & LIABILITIES				
19.	City Equity	$226,408	$254,833	$248,075	$302,794
	Long Term Debt:				
20.	Revenue Bonds	1,162,455	1,117,830	1,119,785	1,221,580
21.	TECA Accretions	15,314	16,818	16,818	18,434
22.	Unamortized Discount	(4,951)	(4,469)	(5,914)	(6,827)
23.	Unamortized Premium	30,375	27,804	29,875	27,278
24.	Notes Payable	90,000	90,000	66,000	29,000
25.	City Loan	0	-	-	-
	Accounts Payable:				
26.	Natural Gas	67,508	47,529	38,645	37,250
27.	General		14,124		
28.	Customer Deposits	7,325	9,250	3,250	3,350
29.	Other Current Liabilities	8,264	9,100	1,145	1,174
30.	Deferred Credits	24,317	8,406	23,883	4,997
	Accrued Credits:				
31.	Interest	12,391	13,087	15,057	15,432
32.	Taxes & Wages	3,430	5,139	3,021	3,315
33.	Distribution to City	3,000	3,000	3,000	3,000
34.	Other Liabilities	83,829	36,090	107,072	124,874
35.	**TOTAL EQUITY & LIABILITIES**	**$1,729,665**	**$1,648,541**	**$1,669,712**	**$1,785,651**
36.	**Debt to Equity**	**84.2%**	**82.0%**	**82.4%**	**80.6%**

PHILADELPHIA GAS WORKS
OPERATING REVENUES
(Dollars in Thousands)

Line No.		Actual 2007-08	Estimate 2008-09	Budget 2009-10
1.	Non-Heating	$78,687	$66,596	$50,190
2.	Gas Transportation Service	18,900	25,358	30,084
3.	Heating	723,534	828,245	742,086
4.	Weather Normalization Adjustment	12,238	-	-
5.	Unbilled Gas Adjustment	(1,931)	596	(1,037)
6.	Sub-Total Gas Revenues	831,428	920,795	821,323
7.	Appliance Repair & Other Service Revenues	8,607	8,745	8,708
8.	Other Operating Revenues	9,592	10,553	9,114
9.	Sub-Total Other Revenues	18,199	19,298	17,822
10.	Total Operating Revenues	$849,627	$940,093	$839,145

Exhibit B-1

PHILADELPHIA GAS WORKS
RECONCILIATION OF BILLED REVENUES
(Dollars in Thousands)

Line No.	2007-08 ACTUAL	Billed Revenues	2006-07 GCR Over Recovery	2007-08 GCR Over Recovery	Total Revenues
1.	Firm Non-Heating	$52,529	$443	($964)	$52,008
2.	Interruptible	26,679			26,679
3.	Total Non Heating	79,208	443	(964)	78,687
4.	Gas Transportation Service	18,900			18,900
5.	Heating *	744,179	6,123	(14,530)	735,772
6.	Total Revenues	$842,287	$6,566	($15,494)	$833,359

	2008-09 ESTIMATE	Billed Revenues	2007-08 GCR Over Recovery	2008-09 GCR Over Recovery	Total Revenues
7.	Firm Non-Heating	$50,980	$964	($1,497)	$50,447
8.	Interruptible	16,149			16,149
9.	Total Non Heating	67,129	964	(1,497)	66,596
10.	Gas Transportation Service	25,358			25,358
11.	Heating	834,230	14,530	($20,515)	828,245
12.	Total Revenues	$926,717	$15,494	($22,012)	$920,199

	2009-10 BUDGET	Billed Revenues	2008-09 GCR Over Recovery	2009-10 GCR Over/Under Recovery	Total Revenues
13.	Firm Non-Heating	$40,678	$1,497	-	$42,175
14.	Interruptible	8,015			8,015
15.	Total Non Heating	48,693	1,497	-	50,190
16.	Gas Transportation Service	30,084			30,084
17.	Heating	721,571	20,515	-	742,086
18.	Total Revenues	$800,348	$22,012	-	$822,360

* The 2007-2008 fiscal period reflects a $12.2 million WNA charge to customers reflecting the impact of the warmer winter heating season.

Exhibit B-1-1

PHILADELPHIA GAS WORKS
GAS REVENUES
(Dollars in Thousands)

Line No.	NON HEATING	Actual 2007-08	Estimate 2008-09	Budget 2009-10
1.	Residential	$20,165	$18,538	$14,633
2.	CRP Residential	-	921	764
3.	CRP Shortfall	(125)	(459)	(340)
4.	Commercial	25,794	25,422	20,372
5.	Industrial	4,265	4,279	3,282
6.	Municipal	2,424	2,273	1,963
7.	NGV	6	6	4
8.	Total Firm Non-Heating	$52,529	$50,980	$40,678
9.	BPS - Small	$2,642	$2,213	$1,093
10.	BPS - Large	15,493	11,800	5,698
11.	BPS - A/C	-	49	75
12	BPS - H Indirect	-	-	-
13.	LBS-L Direct	-	-	-
14.	LBS-L Indirect	(14)	161	101
15.	LBS-S Indirect	6,605	1,216	733
16.	LBS-XL Direct	264	-	-
17.	LBS-XL Indirect	331	351	243
18.	Co-Generation - Indirect	171	129	72
19.	GTS - Sales	1,187	230	-
20.	Total Interruptibles	26,679	16,149	8,015
21.	Total Non Heating	$79,208	$67,129	$48,693
	HEATING			
22.	Residential	$666,375	$569,149	$488,995
23.	CRP Residential	-	197,104	172,910
24.	CRP Shortfall	(87,603)	(98,211)	(77,028)
25.	Commercial	125,399	134,212	109,902
26.	Industrial	7,609	8,271	6,969
27.	Municipal	9,167	8,936	7,644
28.	Housing Authority	10,994	14,769	12,179
29.	WNA	12,238	-	-
30.	Total Heating	744,179	834,230	721,571
31.	Net Billed Revenues	823,387	901,359	770,264
32.	GTS Revenues	18,900	25,358	30,084
33.	Total Billed Revenues	$842,287	$926,717	$800,348
34.	Degree Days	3,746	4,181	4,412

Exhibit B-2

PHILADELPHIA GAS WORKS
GAS SALES
(MCF's)

Line No.	NON HEATING	Actual 2007-08	Estimated 2008-09	Budget 2009-10
1.	Residential	802	718	653
2.	CRP Residential	-	41	40
3.	Commercial	1,395	1,352	1,315
4.	Industrial	235	228	215
5.	Municipal	153	134	147
6.	Housing Authority	-	-	-
7.	Total Firm Non-Heating	2,585	2,473	2,370
8.	BPS - Small	141	133	94
9.	BPS - Large	923	836	563
10.	BPS - A/C	-	6	10
11.	LBS - L Direct	-	-	-
12.	LBS - L Indirect	1	14	9
13.	LBS - S Indirect	535	101	63
14.	LBS - XL Direct	22	30	-
15.	LBS - XL Indirect	25	-	22
16.	Co-Generation - Indirect	14	13	9
17.	GTS - Sales	130	12	-
18.	Total Interruptibles	1,791	1,145	770
19.	Total Non Heating	4,376	3,618	3,140
	HEATING			
20.	Residential	34,347	27,927	28,794
21.	CRP Residential	-	9,756	10,354
22.	Commercial	6,984	7,141	7,233
23.	Industrial	421	436	455
24.	Municipal	566	515	572
25.	Housing Authority	622	782	803
26.	Total Heating	42,940	46,557	48,211
27.	Net Billed Sales	47,316	50,175	51,351
28.	GTS Volumes	19,032	21,731	22,353
29.	Total Billed Sales	66,348	71,906	73,704
30.	Firm Sales	45,525	49,030	50,581
31.	Residential Sales	35,149	38,442	39,841

Exhibit C-1-1

PHILADELPHIA GAS WORKS
NATURAL GAS EXPENSE
2007-08 ACTUAL
(Dollars in Thousands)

Line No.		Billed	(To) Inventory	From Inventory	Refunds	Seasonal Adjustment	Total
1.	September	$ 32,292	$ (14,786)	$ 554	$ -	$ (4,412)	$ 13,648
2.	October	31,566	(13,925)	751	-	(2,184)	16,208
3.	November	54,048	(7,476)	6,971	-	975	54,518
4.	December	64,694	(2,333)	19,360	-	6,088	87,809
5.	January	56,478	(2,112)	32,860	-	8,545	95,771
6.	February	57,267	(3,278)	25,922	-	6,342	86,253
7.	March	52,224	(2,611)	16,544	-	3,123	69,280
8.	April	37,298	(9,538)	7,802	-	(1,114)	34,448
9.	May	50,294	(21,350)	713	(466)	(3,567)	25,624
10.	June	44,548	(25,373)	564	(3,333)	(4,629)	11,777
11.	July	48,141	(28,603)	607	(3,254)	(4,582)	12,309
12.	August	41,112	(22,304)	(6,323)	(3,607)	(4,585)	4,293
13.	Total	$ 569,962	$ (153,689)	$ 106,325	$ (10,660)	$ -	$ 511,938

Exhibit C-1-2

PHILADELPHIA GAS WORKS
NATURAL GAS EXPENSE
2008-09 ESTIMATE
(Dollars in Thousands)

Line No.		Billed	(To) Inventory	From Inventory	Refunds	Seasonal Adjustment	Total
1.	September	$ 37,041	$ (21,062)	$ 1,640	$ (31)	$ (4,441)	$ 13,147
2.	October	40,736	(13,315)	5,826		(2,076)	31,171
3.	November	53,398	(6,404)	7,335	-	1,077	55,406
4.	December	65,685	(2,847)	33,526	-	6,151	102,515
5.	January	69,058	156	49,018	-	8,157	126,389
6.	February	54,663	(955)	27,950		6,134	87,792
7.	March	52,299	(2,991)	18,759	-	3,646	71,713
8.	April	29,252	(5,923)	2,566	-	(745)	25,150
9.	May	23,904	(8,579)	655	-	(3,523)	12,457
10.	June	19,950	(8,589)	608	-	(4,829)	7,140
11.	July	22,505	(10,875)	629	-	(4,773)	7,486
12.	August	21,540	(10,806)	629	-	(4,778)	6,585
13.	Total	$ 490,031	$ (92,190)	$ 149,141	$ (31)	$ -	$ 546,951

PHILADELPHIA GAS WORKS
NATURAL GAS EXPENSE
2009-10 BUDGET
(Dollars in Thousands)

Line No.		Billed	(To) Inventory	From Inventory	Refunds	Seasonal Adjustment	Total
1.	September	$ 26,011	$ (14,220)	$ 606	$ -	$ (4,123)	$ 8,274
2.	October	32,384	(13,272)	713	-	(1,972)	17,853
3.	November	37,601	(4,599)	4,952	-	1,151	39,105
4.	December	48,266	(1,761)	18,988	-	5,577	71,070
5.	January	52,834	-	26,094	-	7,401	86,329
6.	February	47,438	-	19,803	-	5,388	72,629
7.	March	46,490	(3,443)	11,881	-	3,256	58,184
8.	April	33,993	(8,019)	3,966	-	(669)	29,271
9.	May	28,186	(10,250)	592	-	(3,099)	15,429
10.	June	20,924	(8,499)	560	-	(4,361)	8,624
11.	July	20,599	(7,875)	576	-	(4,269)	9,031
12.	August	19,833	(11,872)	576	-	(4,280)	4,257
13.	Total	$ 414,559	$ (83,810)	$ 89,307	$ -	$ -	$ 420,056

Exhibit C-3

PHILADELPHIA GAS WORKS
LABOR & FRINGE BENEFITS
(Dollars in Thousands)

Line No.		Actual 2007-08	Estimate 2008-09	Budget 2009-10
	OPERATING LABOR			
1.	Payroll	$ 105,887	$ 108,962	$ 111,764
2.	To Capital & Clearing Accounts	(20,726)	(20,567)	(22,221)
3.	Total Operating Labor	85,161	88,395	89,543
	PENSIONS			
4.	Beneficiaries	32,839	33,866	35,128
5.	Payments to (Withdrawals from) Fund	(18,581)	(18,335)	(14,065)
6.	Total Pensions	14,258	15,531	21,063
	INSURANCE			
7.	Group Life	1,586	2,000	1,900
8.	Health	34,226	37,300	39,977
9.	Total Insurance	35,812	39,300	41,877
	TAXES			
10.	FICA - OASI	6,484	6,645	6,832
11.	FICA - Medical	1,532	1,578	1,615
12.	State Unemployment	132	175	140
13.	Federal Unemployment	-	-	-
14.	Tax Rebate/Settlements	(903)	(214)	-
15.	Allocated to Capital Projects	(1,568)	(1,575)	(1,632)
16.	Total Taxes	5,677	6,609	6,955
17.	**Total Labor & Fringe Benefits**	$ 140,908	$ 149,835	$ 159,438

Exhibit C-3-1

PHILADELPHIA GAS WORKS
DETAIL OF DIRECT LABOR EXPENSES
(Dollars in Thousands)

Line No.		Actual 2007-08 Average Personnel	Actual 2007-08 Payroll	Estimate 2008-09 Average Personnel	Estimate 2008-09 Payroll	Budget 2009-10 Average Personnel	Budget 2009-10 Payroll
1.	Administration	55	$ 6,120	59	$ 6,070	59	$ 6,067
2.	Finance	43	2,384	43	2,548	43	2,599
3.	Customer Activities	377	19,854	368	20,866	368	21,405
4.	Marketing & Planning	72	4,509	76	4,775	76	5,648
5.	Operations	933	58,390	942	60,319	937	62,000
6.	Systems & Services	231	14,335	234	15,507	239	15,105
7.	Labor Cost Savings	-	-	(22)	(1,419)	(22)	(1,450)
8.	Philadelphia Gas Commission	4	295	5	296	5	390
9.	Total Personnel & Payroll	1,715	$ 105,887	1,705	$ 108,962	1,705	$ 111,764
10.	Allocated to Capital & Clearing Accounts		(20,726)		(20,567)		(22,221)
11.	Net Operating Labor	1,715	$ 85,161	1,705	$ 88,395	1,705	$ 89,543

Exhibit C-4

PHILADELPHIA GAS WORKS
DETAIL OF OTHER EXPENSES
(Dollars in Thousands)

LINE NO.	OTHER EXPENSES	Actual 2007-08	Estimate 2008-09	Budget 2009-10
1.	Appropriation for Reserves and Other Losses	$5,485	$4,559	$3,564
2.	Advertising	$1,638	1,325	2,246
3.	General Material	$7,700	5,074	6,058
4.	Insurance	$3,228	3,350	4,520
5.	Contracted Maintenance	$4,043	5,810	5,911
6.	Utilities	$3,689	3,771	3,845
7.	Rentals	$787	1,472	1,488
8.	Purchased Services	$20,421	22,580	27,083
9.	Postage	$2,313	2,395	2,538
10.	Promotion	$20	50	255
11.	Non-Utility Revenues	($154)	(165)	(165)
12.	Labor Related Fringe Benefits and A&G Charged to Capital	($17,512)	(15,945)	(17,709)
13.	Depreciation	$42,868	42,280	43,409
14.	Less: Cleared to Capital	($583)	(919)	(1,107)
15.	Miscellaneous	$30,418	35,004	12,858
16.	Total Other Expenses	$104,362	$110,641	$94,794

DETAIL OF OTHER OPERATING EXPENSES C-4

APPROPRIATION FOR RESERVE AND OTHER LOSSES	Actual 2007-08	Estimate 2008-09	Budget 2009-10
Risk Management	$4,791	$4,265	$3,460
Compensated Absences	633	(409)	44
Corporate Settlements	61	703	60
Grand Total	$5,485	$4,559	$3,564

ADVERTISING	Actual 2007-08	Estimate 2008-09	Budget 2009-10
Field Services	$136	$154	$167
Collection	352	200	350
Marketing	17	368	670
Corporate Communications	744	150	400
VP Customer Affairs	268	308	503
PUC	3	25	25
Organizational Development	78	76	85
Gas Commission	9	9	10
Information Services	-	1	1
Telecommunications	8	11	12
Materials Management	23	23	23
Grand Total	$1,638	$1,325	$2,246

DETAIL OF OTHER OPERATING EXPENSES C-4

GENERAL MATERIAL	Actual 2007-08	Estimate 2008-09	Budget 2009-10
Gas Processing	$3,122	$1,201	$1,241
Distribution	1,707	1,453	1,483
Field Services	8,704	8,685	6,016
Collection	236	257	265
Commercial Resource Center	-	1	1
Customer Service	75	89	88
Account Management	315	429	458
Marketing	34	30	47
Corporate Communications	20	23	20
Gas Control & Acquisition	8	4	3
Human Resources	39	32	30
Risk Management	1	2	2
Accounting & Reporting	8	8	8
Treasury	14	12	11
President & CEO	2	3	3
Legal	22	24	24
VP Customer Affairs	31	22	24
COO	4	5	5
Security	4	6	7
VP Reg & External Affairs	2	2	2
Sr VP Finance	4	5	5
Strategic Development	2	-	-
Rates & Gas Planning	4	5	5
Customer Review	5	6	6
Business Transformation	4	4	4
VP Gas Management	1	1	1
VP Corporate Preparedness	18	34	48
Internal Auditing	-	2	2
Sr VP Operations	-	1	1
VP Marketing	1	1	1
VP Supply Chain	1	1	1
VP Technical Compliance	8	26	6
Policies & Compliance	2	1	2
Chemical Laboratory Services	10	10	15
Organization Development	25	30	28
Gas Commission	4	5	5
Utility Gas Use	(6,388)	(6,825)	(3,940)
Emergency Operations	-	-	1,000
Pandemic Disease	-	25	25
Facilities Management	527	581	465
Engineering Services	14	18	13
Information Services	192	198	186
Telecommunications	23	24	26
Fleet Operations	1,616	1,609	1,439
Materials Management	(2,721)	(2,976)	(3,024)
Grand Total	$7,700	$5,074	$6,058

DETAIL OF OTHER OPERATING EXPENSES C-4

INSURANCE	Actual 2007-08	Estimate 2008-09	Budget 2009-10
Human Resources	35,812	$39,300	$41,877
Risk Management	3,188	3,305	4,470
Gas Commission	40	45	50
Sub-Total	39,040	42,650	46,397
Less Group Life & Health	35,812	39,300	41,877
Grand Total	$3,228	$3,350	$4,520

CONTRACTED MAINTENANCE	Actual 2007-08	Estimate 2008-09	Budget 2009-10
Maintenance Contractors	1,967	$2,981	$3,028
Maintenance Software	1,560	2,096	2,175
Maintenance - Capital	11	45	45
Maintenance Office Equipment	505	688	663
Grand Total	$4,043	$5,810	$5,911

UTILITIES	Actual 2007-08	Estimate 2008-09	Budget 2009-10
Electric	$2,120	$2,300	$2,341
Purchased Telephone	1,087	1,080	1,113
Water	482	391	391
Grand Total	$3,689	$3,771	$3,845

RENTALS	Actual 2007-08	Estimate 2008-09	Budget 2009-10
Other Rents	$295	$594	$622
Equipment Rentals & Leasing	492	878	866
Grand Total	$787	$1,472	$1,488

DETAIL OF OTHER OPERATING EXPENSES C-4

MAINTENANCE CONTRACTORS	Actual 2007-08	Estimate 2008-09	Budget 2009-10
Gas Processing	$618	$1,720	$1,640
Distribution	778	593	690
Human Resources	3	1	1
Chemical Laboratory Services	10	5	5
Facilities Management	386	452	454
Engineering Services	5	8	7
Information Services	55	63	64
Telecommunications	4	5	5
Fleet Operations	87	109	135
Materials Management	21	25	27
Grand Total	$1,967	$2,981	$3,028

MAINTENANCE - CAPITAL	Actual 2007-08	Estimate 2008-09	Budget 2009-10
Gas Processing	11	45	45
Grand Total	$11	$45	$45

MAINTENANCE SOFTWARE	Actual 2007-08	Estimate 2008-09	Budget 2009-10
Distribution	$14	56	$54
Field Services	67	59	60
Customer Service	110	54	55
Gas Control & Acquisition	42	87	87
Risk Management	-	20	31
Rates & Gas Planning	27	26	27
Chemical Laboratory Services	1	-	-
Facilities Management	8	14	16
Engineering Services	7	13	12
Information Services	1,239	1,708	1,758
Telecommunications	12	14	28
Fleet Operations	12	15	16
Materials Management	21	30	31
Grand Total	$1,560	$2,096	$2,175

MAINTENANCE OFFICE EQUIP	Actual 2007-08	Estimate 2008-09	Budget 2009-10
Account Management	-	-	-
Corporate Communications	-	1	1
Legal	-	5	5
Gas Commission	2	2	1
Maintenance Office Equip	-	-	-
Facilities Management	7	9	8
Engineering Services	3	4	3
Information Services	110	252	238
Telecommunications	325	313	306
Fleet Operations	4	6	6
Materials Management	54	96	95
Grand Total	$505	$688	$663

DETAIL OF OTHER OPERATING EXPENSES C-4

ELECTRIC	Actual 2007-08	Estimate 2008-09	Budget 2009-10
Gas Processing	$1,010	$1,030	$1,050
Distribution	37	32	34
Facilities Management	855	996	1,009
Engineering Services	12	16	15
Information Services	123	139	143
Telecommunications	10	11	11
Fleet Operations	41	40	42
Materials Management	32	36	37
Grand Total	$2,120	$2,300	$2,341

PURCHASED TELEPHONE	Actual 2007-08	Estimate 2008-09	Budget 2009-10
Facilities Management	$18	$21	$22
Engineering Services	6	6	5
Information Services	57	74	73
Telecommunications	975	943	981
Fleet Operations	10	12	11
Materials Management	21	24	21
Grand Total	$1,087	$1,080	$1,113

WATER	Actual 2007-08	Estimate 2008-09	Budget 2009-10
Gas Processing	$230	$250	$250
Facilities Management	201	113	114
Engineering Services	3	2	1
Information Services	29	16	16
Telecommunications	2	1	1
Fleet Operations	10	5	5
Materials Management	7	4	4
	$482	$391	$391

DETAIL OF OTHER OPERATING EXPENSES C-4

OTHER RENTS	Actual 2007-08	Estimate 2008-09	Budget 2009-10
Distribution	$5	$7	$8
Customer Service	236	277	290
Gas Commission	48	48	50
Facilities Management	5	211	220
Engineering	-	4	3
Information Services	1	29	31
Telecommunications	-	3	3
Fleet Operations	-	8	9
Material Management	-	7	8
Grand Total	$295	$594	$622

EQUIPMENT RENTALS & LEASING	Actual 2007-08	Estimate 2008-09	Budget 2009-10
Gas Processing	$62	$125	$125
Distribution	90	84	84
Field Services	21	17	16
Collection	10	33	41
Customer Service	25	27	74
Account Management	9	9	11
Marketing	17	15	15
Gas Control & Acquisition	-	1	1
Human Resources	31	24	25
Risk Management	7	8	8
Accounting & Reporting	10	8	8
President & CEO	15	15	14
Legal	8	14	14
VP Customer Affairs	5	19	19
Security	6	1	-
VP Reg & External Affairs	-	1	1
Strategic Development	1	-	-
Customer Review	1	4	4
Business Transformation	-	1	1
VP Gas Management	-	1	1
VP Corporate Preparedness	6	6	6
VP Technical Compliance	6	7	7
Chemical Laboratory Services	1	6	6
Gas Commission	1	3	6
Facilities Management	6	10	8
Engineering Services	-	2	3
Information Services	25	24	169
Fleet Operations	91	352	158
Materials Management	38	61	41
Grand Total	$492	$878	$866

DETAIL OF OTHER OPERATING EXPENSES C-4

PURCHASE SERVICES	Actual 2007-08	Estimate 2008-09	Budget 2009-10
Gas Processing	$624	$692	$575
Distribution	714	556	547
Field Services	621	422	583
Collection	563	425	684
Commercial Resource Center	1	2	1
Customer Service	331	988	887
Account Management	1,501	1,619	1,760
Marketing	97	320	525
Corporate Communications	227	255	300
Gas Control & Acquisition	55	70	70
Human Resources	725	969	960
Risk Management	546	877	877
Accounting & Reporting	10	17	72
Treasury	267	354	426
President & CEO	2	5	5
Legal	183	175	175
VP Customer Affairs	2,808	2,905	3,957
COO	-	1	1
Security	2,222	2,487	2,900
VP Reg & External Affairs	145	200	230
Sr VP Finance	3	5	5
Public Utility Commission	342	288	322
Strategic Development	27	-	-
Rates & Gas Planning	123	121	121
Customer Review	115	121	86
Business Transformation	1,483	620	1,725
VP Gas Management	5	1	1
VP Corporate Preparedness	55	61	101
Internal Auditing	52	349	325
VP Marketing	1	3	4
Operation System Support	-	-	4
VP Supply Chain	1	7	10
VP Technical Compliance	41	45	70
Policies & Compliance	82	35	55
Chemical Laboratory Services	49	67	111
Organization Development	673	642	691
Gas Commission	349	317	385
FERC Matters	124	210	210
Special Legal	235	480	600
Administrative Consultants	1,490	1,163	1,392
LNG Terminal Project	12	-	-
Utility Merger	10	-	-
Facilities Management	454	887	1,270
Engineering Services	340	467	371
Information Services	2,497	3,008	3,293
Telecommunications	13	18	22
Fleet Operations	94	151	183
Materials Management	109	175	191
Grand Total	$20,421	$22,580	$27,083

DETAIL OF OTHER OPERATING EXPENSES C-4

POSTAGE	Actual 2007-08	Estimate 2008-09	Budget 2009-10
Distribution	7	4	4
Field Services	136	160	200
Collection	34	133	183
Customer Resource Center	-	7	8
Customer Service	19	32	33
Account Management	1,814	1,813	1,826
Marketing	2	25	40
Corporate Communications	2	2	2
Human Resources	19	20	20
Risk Management	-	1	1
Treasury	14	14	14
President & CEO	-	-	1
Legal	4	5	5
VP Customer Affairs	259	168	190
Customer Review	-	1	1
VP Gas Management	-	1	1
VP Corporate Preparedness	-	1	1
Gas Commission	1	1	1
Metered Mail	-	5	5
Materials Management	2	2	2
Grand Total	$2,313	$2,395	$2,538

PROMOTION	Actual 2007-08	Estimate 2008-09	Budget 2009-10
Marketing	20	50	255
Grand Total	$20	$50	$255

NON-UTILITY REVENUE	Actual 2007-08	Estimate 2008-09	Budget 2009-10
Customer Service	(66)	(74)	(74)
Account Management	(66)	(74)	(74)
Treasury	(16)	-	-
Facilities Management	-	-	-
Engineering Services	-	-	-
Information Services	-	(1)	(1)
Telecommunications	-	(13)	(13)
Fleet Operations	(6)	(3)	(3)
Material Management	-	-	-
Grand Total	($154)	($165)	($165)

DETAIL OF OTHER OPERATING EXPENSES C-4

LABOR RELATED FRINGE BENEFITS & A&G CHARGED TO CAPITAL	Actual 2007-08	Estimate 2008-09	Budget 2009-10
Construction Additive	(10,332)	(9,214)	(10,528)
A & G Overhead	(7,180)	(6,731)	(7,181)
Grand Total	($17,512)	($15,945)	($17,709)

MISCELLANEOUS	Actual 2007-08	Estimate 2008-09	Budget 2009-10
Expense of Employees	$678	$747	$1,116
Dues & Subscriptions	3,667	3,847	4,022
Taxes	21	21	30
PFMC - Management Fee	381	359	360
Deferred Compensation	361	337	344
BT Projects Cost/(Benefits)	-	3,000	(16,700)
Post Retirement Benefits	25,834	25,558	24,615
LNG Inventory	(901)	925	(1,245)
Amortization	377	210	316
Grand Total	$30,418	$35,004	$12,858

DETAIL OF OTHER OPERATING EXPENSES C-4

EXPENSE OF EMPLOYEES	Actual 2007-08	Estimate 2008-09	Budget 2009-10
Gas Processing	$28	$44	$48
Distribution	59	63	63
Field Services	54	34	49
Collection	9	11	14
Commercial Resource Center	-	2	4
Customer Service	7	45	34
Account Management	-	-	2
Marketing	54	104	251
Corporate Communications	8	10	10
Gas Control & Acquisition	14	42	42
Human Resources	4	15	30
Risk Management	2	4	4
Accounting & Reporting	7	15	18
Treasury	6	10	10
President & CEO	11	9	10
Legal	17	22	22
VP Customer Affairs	36	22	34
COO	13	10	10
Security	5	6	10
VP Reg & External Affairs	2	3	5
Sr VP Finance	12	15	24
Rates & Gas Planning	6	2	10
Customer Review	-	1	1
Business Transformation	6	18	26
VP Gas Management	3	3	3
VP Corporate Preparedness	4	8	11
Internal Auditing	1	4	4
Sr VP Operations	-	-	8
VP Marketing	9	10	12
VP Supply Chain	1	4	7
VP Technical Compliance	10	14	18
Policies & Compliance	12	3	13
Chemical Laboratory Services	2	5	5
Organization Development	11	15	20
Gas Commission	1	2	2
Relocation Expense	17	15	25
Facilities Management	8	14	11
Engineering Services	5	12	11
Information Services	194	97	198
Telecommunications	27	10	7
Fleet Operations	5	9	10
Materials Management	8	15	20
Grand Total	$678	$747	$1,116

DETAIL OF OTHER OPERATING EXPENSES C-4

DUES & SUBSCRIPTIONS	Actual 2007-08	Estimate 2008-09	Budget 2009-10
Gas Processing	$1	$2	$2
Distribution	3	3	3
Field Services	-	1	1
Customer Service	-	1	1
Marketing	30	36	66
Corporate Communications	4	1	1
Gas Control & Acquisition	8	35	35
Human Resources	3	3	3
Risk Management	2	2	2
Accounting & Reporting	1	1	1
Treasury	2	2	2
President & CEO	-	1	1
Legal	32	18	18
VP Customer Affairs	-	1	1
COO	2	2	2
Security	-	2	2
VP Reg & External Affairs	-	1	1
Sr VP Finance	1	3	4
PUC	2,539	2,475	2,601
Strategic Development	1	-	-
Rates & Gas Planning	24	26	27
Business Transformation	1	2	2
VP Gas Management	-	1	1
VP Corporate Preparedness	1	3	4
Internal Auditing	27	31	31
VP Marketing	1	1	1
VP Supply Chain	4	2	2
VP Technical Compliance	8	9	9
Policies & Compliance	-	1	1
Organization Development	272	426	426
Gas Commission	3	4	4
Company Dues & Subscriptions	681	716	731
Facilities Management	1	1	2
Engineering Services	2	5	4
Information Services	3	10	11
Fleet Operations	7	9	9
Materials Management	3	10	10
Grand Total	$3,667	$3,847	$4,022

TAXES	Actual 2007-08	Estimate 2008-09	Budget 2009-10
Gas Commission	$21	$21	$30
Grand Total	$21	$21	$30

DETAIL OF OTHER OPERATING EXPENSES C-4

AMORTIZATION	Actual 2007-08	Estimate 2008-09	Budget 2009-10
Human Resources	$10	-	$29
Accounting & Reporting	68	-	-
Treasury	85	-	29
Public Utility Commission	108	210	258
VP Labor, Safety, Preparedness	10	-	-
Policies & Compliance	31	-	-
Information Services	40	-	-
Materials Management	24	-	-
Grand Total	$377	$210	$316

Exhibit D

PHILADELPHIA GAS WORKS
OTHER INCOME
(Dollars in Thousands)

Line No.		Actual 2007-08	Estimate 2008-09	Budget 2009-10
	Interest Earnings On:			
1.	Capital Improvement Fund	$ 8,089	$ 2,206	$ 2,302
2.	Revenue Bond Sinking Fund	3,587	3,087	3,504
3.	Temporary Investments	1,809	400	700
4.	Natural Gas Refunds	296	-	-
5.	Gain/Loss on Investments	171	-	-
6.	Notes Receivable - Intl House	1		-
	Total Interest Earnings	$ 13,953	$ 5,693	$ 6,506
7.	Miscellaneous Income	$ 877	$ 510	$ 439
8.	Rental Income	57	57	58
9.	Penalties Suppliers Gas Choice	220	400	400
10.	Penalties Regulatory	-	-	-
11.	Guaranteed Investment Contract Proceeds	625	625	625
12.	Capacity Release Sharing	-	2,500	2,750
	Total Other Income	$ 15,732	$ 9,785	$ 10,778

PHILADELPHIA GAS WORKS
REVENUE BOND DEBT SERVICE
(Dollars in Thousands)

Line No.	Year Issued	Series	Actual 2007-08	Estimate 2008-09	Budget 2009-10
	Interest Payments				
1.	1989	11th C TECA	-	-	-
2.	1990	12th A TECA	-	-	-
3.	1994	15th	-	-	-
4.	1999	16th	1,872	1,402	930
5.	2003	17th	8,302	7,816	7,384
6.	2004	18th	2,707	2,622	2,534
7.	2007	19th	634	723	723
8.	1998	1st A	5,572	4,969	4,374
9.	1999	2nd	665	550	429
10.	2001	3rd	680	551	441
11.	2003	4th	4,908	4,805	4,678
12.	2004	5th	6,000	6,000	5,938
13.	2004	5th Variable	824	766	766
14.	2006	6th	11,336	16,231	-
15.	2007	7th Refunding	1,356	1,545	1,545
16.	2007	7th New	8,664	9,809	9,685
17.	2009	8th Refunding	-	-	3,849
18.	2010	9th New	-	-	13,445
19.		Total Interest Payments	$53,520	$57,789	$56,721
	Interest Accruals				
20.	1989	11th C TECA	$1,401	$1,504	$1,615
21.	1990	12th A TECA	-	-	-
22.	1994	15th	-	-	-
23.	1999	16th	1,794	1,324	930
24.	2003	17th	8,221	7,744	7,322
25.	2004	18th	2,700	2,615	2,488
26.	2007	19th	722	722	723
27.	1998	1st A	5,471	4,870	4,281
28.	1999	2nd	646	530	407
29.	2001	3rd	669	542	429
30.	2003	4th	4,900	4,794	4,666
31.	2004	5th	6,000	6,000	5,876
32.	2004	5th Variable	766	766	766
33.	2006	6th	10,824	17,015	-
34.	2006	7th Refunding	1,545	1,545	1,545
35.	2006	7th New	9,871	9,759	9,632
36.	2009	8th Refunding	-	2,241	13,557
37.	2010	9th New	-	-	4,487
38.		Total Interest Accruals	$55,530	$61,971	$58,724

Exhibit E-2

PHILADELPHIA GAS WORKS
OTHER LONG TERM DEBT SERVICE
(Dollars in Thousands)

Line No.	Year Issued	Series	Actual 2007-08	Estimate 2008-09	Budget 2009-10
Interest Payments					
1.	1998	1st C Subordinate	$556	$490	$421
2.	Total Interest Payments		$556	$490	$421
Interest Accruals					
3.	1998	1st C Subordinate	$545	$478	$408
4.	Total Interest Accruals		$545	$478	$408

Exhibit E-3

PHILADELPHIA GAS WORKS
OTHER INTEREST
(Dollars in Thousands)

Line No.	Other Interest	Actual 2007-08	Estimate 2008-09	Budget 2009-10
1.	Tax-Exempt Commercial Paper	$3,993	$3,002	$2,618
2.	Variable Rate - 5th Series A-2	331	331	552
3	Variable Rate - 6th Series	834	679	-
4	LOC (Letter of Credit) Fees	-	847	8,413
5	Bond Discount, Issuance & Premium Expense	1,183	987	345
6.	Customer Deposits	471	555	552
7.	Miscellaneous Interest Expense	-	-	-
	Total Other Interest	$6,812	$6,401	$12,480
8.	Extraordinary Loss	$5,457	$5,202	$5,392
9.	AFUDC *	($338)	($399)	($865)
10.	* Total AFUDC	($338)	($399)	($865)

Exhibit F

PHILADELPHIA GAS WORKS
CAPITAL FUNDING & EXPENDITURES
(Dollars In Thousands)

Line No.		Actual 2007-08	Estimate 2008-09	Budget 2009-10
	SOURCES:			
1.	Capital Improvement Fund	$70,000	$45,000	$50,000
2.	Other Funding Sources	(8,258)	10,951	22,120
3.	**Total Sources**	$61,742	$55,951	$72,120
	USES:			
	Capital Expenditures:			
4.	Gas Processing	$2,515	$2,816	$4,992
5.	Distribution	47,748	40,208	51,684
6.	Field Services	5,813	5,633	4,654
7.	Information Technology	1,139	599	2,383
8.	Transportation	2,128	3,184	1,327
9.	Field Operations Initiative	-	-	
10.	Other Departments	2,399	3,511	7,080
11.	**Total Uses**	$61,742	$55,951	$72,120

Exhibit G-1

PHILADELPHIA GAS WORKS
REVENUE BOND DEBT SERVICE
(Dollars in Thousands)

Line No.	Year Issued	Series	Actual 2006-07	Estimate 2007-08	Budget 2008-09
Principal Payments					
1.	1999	16th	$ 8,945	$ 8,990	$ -
2.	2003	17th	9,710	8,650	7,550
3.	2004	18th	2,055	2,110	10,980
4.	1998	1st A	10,955	10,820	10,680
5.	1999	2nd	2,420	2,535	2,655
6.	2001	3rd	2,465	2,590	2,700
7.	2003	4th	2,075	2,540	2,670
8.	2,004	5th	-	-	2,480
9.	2003	6th	1,775	1,845	-
10.	2007	7th	-	3,045	3,170
11.	2009	8th Refund	-	-	2,500
12.	2010	9th New	-	-	1,255
	Total Principal Payments		$ 40,400	$ 43,125	$ 46,640

Exhibit G-2

PHILADELPHIA GAS WORKS
OTHER LONG TERM DEBT SERVICE
(Dollars in Thousands)

Line No.	Year Issued	Series	Actual 2006-07	Estimate 2007-08	Budget 2008-09
	Principal Payments				
1.	1998	1st C Subordinate	$ 1,430	$ 1,500	$ 1,565
2.		Total Principal Payments	$ 1,430	$ 1,500	$ 1,565

Exhibit H-1

PHILADELPHIA GAS WORKS
WORKING CAPITAL DETAIL
(Dollars in Thousands)

Line No.		Actual Balance 8/31/08	Estimate Balance 8/31/09	Budget Balance 8/31/10
	ASSETS			
1.	Accounts Receivable	$231,595	$244,732	$238,705
2.	Accrued Gas Revenues	8,145	8,741	7,704
3.	Uncollectible Reserve	(140,435)	(137,820)	(134,977)
4.	Net Accounts Receivable	99,305	115,653	111,432
5.	Materials & Supplies	187,539	134,922	127,758
6.	Other Current Assets	5,626	13,306	14,486
7.	Total Assets	$292,470	$263,881	$253,676
	LIABILITIES			
	Accounts Payable:			
8.	Natural Gas	$41,300	$21,540	$19,833
9.	General	26,208	17,105	17,417
10.	Total Accounts Payable	67,508	38,645	37,250
11.	Other Current Liabilities	55,727	46,356	28,268
12.	Total Liabilities	$123,235	$85,001	$65,518
13.	Total Working Capital	$169,235	$178,880	$188,158
14.	Net Increase/(Decrease)	($8,968)	$9,645	$9,278

PHILADELPHIA GAS WORKS
WORKING CAPITAL CHANGES
(Dollars in Thousands)

Line No.		Actual Change 8/31/08	Estimate Change 8/31/09	Budget Change 8/31/10
	ASSETS			
1.	Accounts Receivable	$2,821	$13,137	($6,027)
2.	Accrued Gas Revenues	(1,930)	596	(1,037)
3.	Uncollectible Reserve	9,796	2,615	2,843
4.	Net Accounts Receivable	10,687	16,348	($4,221)
5.	Materials & Supplies	39,769	(52,617)	($7,164)
6.	Other Current Assets	11	7,680	$1,180
7.	Total Assets	$50,467	($28,589)	($10,205)
	LIABILITIES			
	Accounts Payable:			
8.	Natural Gas	$9,475	($19,760)	($1,707)
9.	General	(2,582)	(9,103)	312
10.	Total Accounts Payable	6,893	(28,863)	($1,395)
11.	Other Current Liabilities	16,066	(9,371)	($18,088)
12.	Total Liabilities	$22,959	($38,234)	($19,483)
13.	Total Working Capital	$27,508	$9,645	$9,278

PHILADELPHIA GAS WORKS
MATERIALS & SUPPLIES BALANCE @ 8/31

Non-Gas Inventory	Estimate 2008-09 Dollars	Budget 2009-10 Dollars
Storerooms:		
Belfield	$ 80,000	$ 79,000
Castor	60,000	59,000
Field Operations / Tioga	2,444,000	2,423,845
Meter Shop	571,000	564,900
Montgomery	927,000	917,900
Passyunk Mini	36,000	36,000
Passyunk Plant	1,061,000	1,050,005
Porter	74,000	73,000
Richmond Plant	2,297,000	2,284,350
Stationery	62,000	61,000
Transportation	388,000	384,000
Other Miscellaneous	12,000	12,000
Sub Total	$ 8,012,000	$ 7,945,000

	Estimate 2008-09			Budget 2009-10		
Natural Gas Storages	**Volume (Mcf)**	**Dollars**	**Avg. Price**	**Volume (Mcf)**	**Dollars**	**Avg. Price**
GSS - Transco	2,905,943	$ 21,805,896	$ 7.50	2,916,982	$ 19,660,725	$ 6.74
WSS	2,420,772	22,453,418	9.28	2,359,703	18,613,117	7.89
SS 1A	1,859,625	14,785,855	7.95	1,821,150	12,517,644	6.87
GSS - Tetco	2,743,796	17,559,271	6.40	2,772,140	17,384,057	6.27
Equitrans - Keystone	367,200	1,924,384	5.24	364,535	2,136,483	5.86
S-2	240,448	1,729,172	7.19	239,606	1,533,384	6.40
SS 1B	1,729,687	14,548,559	8.41	1,693,900	11,900,127	7.03
Eminence 1	300,575	2,775,736	9.23	294,728	1,973,289	6.70
Eminence 2	408,419	3,312,695	8.11	400,473	2,610,239	6.52
Sub Total	**12,976,465**	**$100,894,986**	**$ 7.78**	**12,863,217**	**$ 88,329,065**	**$ 6.87**
Richmond LNG	2,439,268	22,033,879	9.03	3,114,932	25,696,365	8.25
Passyunk LNG	134,699	1,287,439	9.56	204,779	1,849,699	9.03
Processing Costs	-	2,693,696		-	3,937,871	
Sub Total	**2,573,967**	**26,015,014**		**3,319,711**	**31,483,935**	
Total Gas Storage	**15,550,432**	**$126,910,000**	**$ 8.16**	**16,182,928**	**$ 119,813,000**	**$ 7.40**
Total Material & Supplies		**$134,922,000**			**$ 127,758,000**	

PHILADELPHIA GAS WORKS
DETAIL OF NON-CASH EXPENSES
(Dollars in Thousands)

Line No.		Actual 2007-08	Estimate 2008-09	Budget 2009-10
	DEPRECIATION			
1.	Depreciation on Historical	$42,868	$42,280	$43,409
2.	Less to Capital	(583)	(769)	(836)
		42,285	41,511	42,573
	SUBORDINATE PAYMENTS			
3.	Gas Commission	788	777	958
4.	City Payments	616	662	688
5.	Other Post Employment Benefits	25,834	25,558	24,615
6.	Swap Option Proceeds	(625)	(625)	(625)
		26,613	26,372	25,637
7.	Total Non-Cash Expenses	$68,898	$67,883	$68,210

	DETAIL OF DEPRECIATION & AMORTIZATION	Actual 2007-08	Estimate 2008-09	Budget 2009-10
8.	Depreciation Excluding Cost of Removal	40,021	39,280	40,409
9.	Discount, Premium & Issuance Expense	1,182	988	345
10.	Extraordinary Loss	5,457	5,202	5,392
11.	Total	$46,660	$45,470	$46,146

	NET CHANGE OTHER LONG TERM	Actual 2007-08	Estimate 2008-09	Budget 2009-10
12.	(Increase)/Decrease Other Assets	(11,851)	2,334	1,625
13.	Increase/(Decrease) Other Liabilities	35,853	24,417	18,204
14.	TECA Accretions	1,401	1,504	1,615
15.	Total	$25,403	$28,255	$21,444

PHILADELPHIA GAS WORKS
INSURANCE EXPENSE
(Dollars in Thousands)

Line No.	Insurance Type	Actual 2007-08	Estimate 2008-09	Budget 2009-10
1.	Property	$1,014	$1,070	$1,231
2.	Public Liability	1,802	1,865	2,832
3.	Workers' Compensation	372	370	407
4	Miscellaneous	40	45	50
5	Sub-Total	$3,228	$3,350	$4,520
6	Employees' Health	34,226	37,300	39,977
7	Employees' Group Life	1,586	2,000	1,900
8	Sub-Total	$35,812	$39,300	$41,877
9.	Total Insurance	$39,040	$42,650	$46,397

PHILADELPHIA GAS WORKS
PERSONNEL & PAYROLL DETAIL
(Dollars in Thousands)

DEPARTMENTS	Actual 2007-08 Average Personnel	Actual 2007-08 Payroll	Estimate 2008-09 Average Personnel	Estimate 2008-09 Payroll	Budget 2009-10 Average Personnel	Budget 2009-10 Payroll
ADMINISTRATION						
Officer's Salaries	-	$ 2,902	-	$ 2,675	-	$ 2,675
Incentive Bonus	-	-	-	-	-	-
President & Chief Executive Officer	2	67	2	67	2	67
Internal Auditing	2	178	2	178	2	178
Legal	14	904	14	889	14	911
Human Resources	15	820	17	949	17	949
VP Corporate Preparedness	5	201	5	202	5	204
Organizational Development	7	378	9	481	9	487
Policies & Compliance	4	281	4	282	4	284
Corporate Communications	6	389	6	347	6	312
Total	55	6,120	59	6,070	59	6,067
FINANCE						
Chief Financial Officer	-	-	-	-	-	-
Accounting & Reporting	18	915	17	908	17	944
SR VP Finance	7	384	8	497	8	497
Risk Management	7	409	7	409	7	412
Treasury	11	676	11	734	11	746
Total	43	2,384	43	2,548	43	2,599
CUSTOMER ACTIVITIES						
VP Customer Affairs	38	2,360	41	2,509	36	2,232
Collections	101	5,577	92	6,295	91	6,128
Bonus Awards	-	103	-	95	-	100
Commercial Resource Center	14	790	13	820	15	942
Account Management	35	1,851	34	2,012	34	2,087
Customer Review Unit	13	681	12	641	12	660
Customer Service	176	8,492	176	8,494	180	9,256
PMO	-	-	-	-	-	-
Total	377	19,854	368	20,866	368	21,405
MARKETING & PLANNING						
VP Marketing	2	51	2	51	2	51
Marketing	29	1,793	32	1,974	32	2,920
Strategic Planning	3	168	-	-	-	-
VP Regualtory & External Affairs	2	36	2	52	2	52
Gas Control & Acquisitions	22	1,493	24	1,568	24	1,535
Senior VP Business Transformation	8	566	9	637	9	597
Rates & Gas Planning	6	402	7	493	7	493
Total	72	4,509	76	4,775	76	5,648
OPERATIONS						
Chief Operating Officer	2	65	2	62	2	62
Senior VP Operations	1	-	2	33	2	44
VP Gas Management	2	42	2	42	2	42
Field Services	339	21,487	341	21,739	341	22,607
Distribution	464	28,056	472	29,627	467	30,254
Gas Processing	121	8,489	119	8,553	119	8,728
Operations Systems Support	4	251	4	263	4	263
Total	933	58,390	942	60,319	937	62,000
SYSTEMS & SERVICES						
Information Services	57	3,895	61	4,053	67	4,350
VP Technical Compliance	7	427	8	506	8	506
VP Supply Chain	4	194	4	195	4	195
Procurement	9	511	8	613	12	682
Engineering Services	9	571	9	620	9	622
Facilities Management	40	2,283	42	2,837	37	2,021
Telecommunications	3	1	3	210	3	210
Security	2	131	2	131	2	131
Materials Management	57	3,503	55	3,539	55	3,562
Chemical Services	4	254	4	283	4	261
Fleet Operations	39	2,565	38	2,520	38	2,565
Total	231	14,335	234	15,507	239	15,105
SUB-TOTAL	1,711	105,592	1,722	110,085	1,722	112,824
Labor Savings	-	-	(22)	(1,419)	(22)	(1,450)
SUB-TOTAL	1,711	105,592	1,700	108,666	1,700	111,374
Philadelphia Gas Commission	4	295	5	296	5	390
GRAND TOTAL PAYROLL	1,715	$ 105,887	1,705	$ 108,962	1,705	$ 111,764
Capitalized Full Time Equivalents	336	20,726	322	20,567	339	22,221

PHILADELPHIA GAS WORKS
REMAINING NORMALIZED EXPENSES

Line No.	Description	Department	Act/Est 2008-09	Budget 2009-10	Forecast 20010-11	Forecast 2011-12	Forecast 2012-13	Forecast 2013-14	Forecast 2014-15
1.	Base Rate Case	PUC	107,932	107,932	107,932	-	-	-	-
2.	Base Rate Case	PUC	39,231	39,231	39,231	-	-	-	-
3.	Management Audit	PUC	62,471	62,471	62,471	62,471	62,471	62,471	-
4.	Base Rate Case	PUC	-	48,000	48,000	48,000	48,000	-	-
5.	Workforce - Labor	Human Resources	-	29,000	29,000	29,000	29,000	-	-
6.	Workforce - Labor	Treasury	-	29,000	29,000	29,000	29,000	-	-
7.	Base Rate Case	PUC	-	-	122,000	122,000	122,000	122,000	-
8.	**Total**		**209,634**	**315,634**	**437,634**	**290,471**	**290,471**	**184,471**	**-**

PHILADELPHIA GAS WORKS
ENVIRONMENTAL EXPENSES

Environmental	Actual FY 2007	Actual FY 2008	Estimate FY 2009	Budget FY 2010	Forecast FY 2011	Forecast FY 2012	Forecast FY 2013	Forecast FY 2014	Forecast FY 2015	Forecast FY 2016		
Cost of Removal (Net)	$ -	$ -	$ -	$ 1,500,000	$ -	$ 500,000	$ -	$ -	$ -	$ -	$ 2,000,000	
Labor & Other												
Technical Support		-	187,806	268,877	277,290	334,793	292,079	300,123	306,125	7,653,125		
Other		-	-	-	-	-	-	-	-	-		
Total	-	-	187,806	268,877	277,290	334,793	292,079	300,123	306,125	7,653,125	9,620,218	
Purchased Service												
Purchased Service		-	853,000	465,000	2,029,750	150,750	73,750	73,750	73,750	1,531,250		
Assessment Study	-	-	-	-	-							
Total	-	-	853,000	465,000	2,029,750	150,750	73,750	73,750	73,750	1,531,250	5,251,000	
Maint. Contractors												
Misc. Contractors	-	-	11,500	117,500	1,765,000	1,237,500	245,000	145,000	145,000	3,505,000		
Total	-	-	11,500	117,500	1,765,000	1,237,500	245,000	145,000	145,000	3,505,000	7,171,500	
Total	-	-	1,052,306	851,377	4,072,040	1,723,043	610,829	518,873	524,875	12,689,375	22,042,718	
Cumulative	-	-	1,052,306	1,903,683	5,975,722	7,698,766	8,309,594	8,828,467	9,353,343	22,042,718	Total	$ 24,042,718

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Expense										
Labor	-	-	-	-	-	-	-	-	-	-
Purchased Service	-	-	-	-	-	-	-	-	-	-
Maint. Contractors	-	-	-	-	-	-	-	-	-	-
Amortization	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-	-	-
Cumulative	-	-	-	-	-	-	-	-	-	-
5 Year Amortization										
Cash	-	-	-	-	-	-	-	-	-	-
Expense	-	-	-	-	-		-	-	-	-
Deferred	-	-	-	-	-	-	-	-	-	-
Cumulative L-T Deferred	-	-	-	-	-	-	-	-	-	-
Less Current Amortized.	-	-	-	-	-	-	-	-	-	-
Remaining L-T Deferred	-	-	-	-	-	-	-	-	-	-
Deferred Costs	-	-	-	-	-	-	-	-	-	-
Current Costs	-	-	1,052,306	851,377	4,072,040	1,723,043	610,829	518,873	524,875	12,689,375
Cost of Removal	-	-	-	1,500,000	-	500,000	-	-	-	-
Total	-	-	1,052,306	2,351,377	4,072,040	2,223,043	610,829	518,873	524,875	12,689,375
Cumulative	-	-	1,052,306	3,403,683	7,475,722	9,698,766	10,309,594	10,828,467	11,353,343	24,042,718

	08/31/2007	08/31/2008	08/31/2009	08/31/2010	08/31/2011	08/31/2012	08/31/2013	08/31/2014	08/31/2015	08/31/2016		
Environmental Expenses - IS	-	-	-	-	-	-	-	-	(271,585)	(12,689,375)	Environmental $	(12,960,960)
Settlement Proceeds	2,936,666	1,100,000	131,750	-	-	-	-	-	-	-		
Expenses / Amortization	(1,091,478)	(652,179)	(1,052,306)	(851,377)	(4,072,040)	(1,723,043)	(610,829)	(518,873)	(253,290)	-	Expensed $	(10,825,415)
Settlement Balance	8,502,187	8,950,008	8,029,452	7,178,075	3,106,035	1,382,992	772,163	253,290	0	0	Proceeds	10,825,416
											Total $	0
Total Liabilities	13,349,014	21,600,256	20,990,412	20,139,035	16,066,995	14,343,952	13,733,123	13,214,250	12,689,375	-		
Current Liabilities	(3,336,643)	(3,910,474)	(851,377)	(4,072,040)	(1,723,043)	(610,829)	(518,873)	(524,875)	(12,689,375)	(12,689,375)		
Non-current Liabilities	10,012,371	17,689,782	20,139,035	16,066,995	14,343,952	13,733,123	13,214,250	12,689,375	-	(12,689,375)		
Deferred Liability	4,846,827	12,650,248	12,960,960	12,960,960	12,960,960	12,960,960	12,960,960	12,960,960	12,689,375	-		

PHILADELPHIA GAS WORKS
ACCOUNTS RECEIVABLE & BAD DEBT EXPENSE

Accounts Receivable	Actual 2007-08	Estimate 2008-09	Budget 2009-10
Beginning Receivable Balance	**$ 228,774**	**$ 231,594**	**$ 244,732**
Billed Gas Revenues	842,287	926,717	800,348
Proposed Rate Increase	-		-
Other Operating Revenues/Adjustments	31,137	33,533	30,116
Total Revenues	873,424	960,250	830,464
	95.48%	94.00%	95.00%
Collections Current Revenues	(833,960)	(902,635)	(788,941)
Adjustments	10,153	5,650	50
Net Write-Offs	(46,797)	(50,127)	(47,600)
Total Credit / Reductions	(870,604)	(947,112)	(836,491)
Ending Receivable Balance	231,594	244,732	238,705
Bad Debt Expense			
Current Year Net Receivable	231,594	244,732	238,705
Prior Period Adjustments	-	-	-
Adjusted Net Receivable	231,594	244,732	238,705
Reserve Factor	15.98%	19.25%	18.75%
Total Bad Debt Expense	37,000	47,111	44,757
Write Off Gas Accounts	(46,248)	(50,000)	(47,500)
Write Off Other	(549)	(127)	(100)
Reserve Balance			
Beginning Reserve Balance - Gas	149,207	139,959	137,070
Net Write-Off - Gas	(46,248)	(50,000)	(47,500)
Appropriation to Reserve - Gas	37,000	47,111	44,757
Ending Reserve Balance Gas	139,959	137,070	134,327
OAR Reserve	877	750	650
M & J Reserve	(401)	-	-
Total Reserve Balance	$ 140,435	$ 137,820	$ 134,977

PHILADELPHIA GAS WORKS
COLLECTIBILITY STUDY - May 2009

Classification		Balance Per Study Receivable	Collectible	Reserve % Uncollectible	$ Uncollectible
Defaulted Non-Budget Agreement					
	Commercial	-	-		
	Residential	3,525.73	3,458.70		
	Total	**3,525.73**	**3,458.70**	**1.90%**	**67.03**
Active Non-budget Agreement					
	Commercial	729,754.88	451,683.21	38.10%	278,071.67
	Residential	19,254,457.62	16,100,481.94	16.38%	3,153,975.68
	Total	**19,984,212.50**	**16,552,165.15**	**17.17%**	**3,432,047.35**
Off - Curb & Dig					
	Commercial	124,137.39	-	100.00%	124,137.39
	Residential	3,400,400.76	970,634.43	71.46%	2,429,766.33
	Total	**3,524,538.15**	**970,634.43**	**72.46%**	**2,553,903.72**
Finals					
	Commercial	9,352,264.04	1,259,244.51	86.54%	8,093,019.53
	Residential	49,327,517.88	8,391,797.43	82.99%	40,935,720.45
	Total	**58,679,781.92**	**9,651,041.94**	**83.55%**	**49,028,739.98**
Non-Budget Non-Agreement					
	Commercial	24,959,082.07	16,933,754.38	32.15%	8,025,327.69
	Residential	90,862,424.41	59,856,359.35	34.12%	31,006,065.06
	Total	**115,821,506.48**	**76,790,113.73**	**33.70%**	**39,031,392.75**
Not Classified		186,458.93	141,600.07	24.06%	44,858.86
	Total	**186,458.93**	**141,600.07**	**24.06%**	**44,858.86**
EMPP		**139.40**	**139.40**		
Active Budget Agreements					
Sub-Total Before CRP		**198,200,163.11**	**104,109,153.42**	**47.47%**	**94,091,009.69**
CRP AGREEMENTS					
CRP Current Program		10,946,150.54	6,097,710.53	44.29%	4,848,440.01
CRP Program *		829,570.07	416,256.00	49.82%	413,314.07
CRP Arrears		68,387,599.54	34,315,062.37	49.82%	34,072,537.17
CRP Regulatory Asset		-	-		-
Total CRP		**80,163,320.15**	**40,829,028.91**	**49.07%**	**39,334,291.24**
Inactive Accounts		**2,831,557.21**	**167,309.90**	**94.09%**	**2,664,247.31**
Credit Balances		**(13,626,603.90)**			
Grand Total *		**267,568,436.57**	**145,105,492.23**		**136,089,548.24**
Cycle 22, 23 GTS & Unfrozen Pay.		**2,865,287.24**			
Firm Transportation Charges					
Total AR		**270,433,723.81**			

*** CRP Program includes CRP Liheap Make-Up (CRP-LL), CRP Relief Loan (CRP-RL), Non-Gas Charges Billed (CRP-LN) and Non-Gas Charges from Current year not billed (CRP-LD)**

NATURAL GAS
PRICE - VOLUME ANALYSIS

	Budget 2009-2010	Estimate 2008-2009	Budget 2010 Over(Under) Estimate 2009
N.G. Utilization (Mcf)	54,606,318	55,048,317	(441,999)
COMMODITY	$347,433,115	$472,184,139	($124,751,024)
Average Price	6.3625	8.5776	(2.2151)
DEMAND	$72,622,725	$74,797,384	($2,174,659)
Total Demand & Commodity	$420,055,840	$546,981,523	($126,925,683)
Average Price	7.6924	9.9364	(2.2439)
REFUNDS	-	(30,893)	30,893
TOTAL	$420,055,840	$546,950,630	($126,894,790)

CHANGE DUE TO:			
Commodity Price	($120,959,720)	(2.2151)	-25.82%
Volume	(3,791,304)	(441,999)	-0.80%
Demand	(2,174,659)		
Total Demand & Commodity	(126,925,683)	(2.2439)	-22.58%
Refunds	30,893		
TOTAL CHANGE	$ (126,894,790)		

Actual Weather 4,181 degree days (6.3%) Decline
TXCP $150.0 MM with $66.0 MM Outstanding @ 8/31/09
Collection Factor 94.0% & Additional $2.0M Pension Exp.
$18.0 MM City Payment Made and Granted Back to PGW
No Swap Payment 7/09

BUDGET OF CASH RECEIPTS AND DISBURSEMENTS
FISCAL YEAR ENDING AUGUST 31, 2009
(Millions of Dollars)

	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ESTIMATE	ESTIMATE	ESTIMATE	
06/16/09	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	TOTAL
OPENING BALANCE - CASH INCLUDES $90.0 TXCP	49.3	9.1	54.0	44.7	27.3	36.9	53.4	100.0	115.4	8.1	46.4	31.4	49.3
RECEIPTS													
Gas	41.0	44.9	51.9	65.7	109.5	118.4	128.3	104.5	75.3	53.0	47.0	43.0	882.5
Other	2.1	0.7	0.4	0.7	0.3	0.3	1.4	0.7	0.8	0.3	0.5	0.9	9.2
Drawn from Capital Funds - Principal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	10.3	21.0	13.7	0.0	45.0
Drawn from Capital Funds - Interest	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4
Drawn from Lease Funds - Principal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Drawn from Lease Funds - Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Advance (Repayment) of Capital Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pension Draw	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	18.3	18.3
City Loan	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
City Fee	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	18.0	0.0	0.0	18.0
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL RECEIPTS	43.1	45.6	52.7	66.4	109.8	118.7	129.7	105.2	86.4	92.3	61.2	62.2	973.4
TOTAL	92.4	54.7	106.7	111.1	137.1	155.6	183.1	205.2	201.8	100.4	107.6	93.7	1,022.7
DISBURSEMENTS													
Labor	10.8	11.3	11.6	12.6	13.0	11.8	11.3	12.0	10.8	12.7	13.3	12.5	143.7
Natural Gas	41.3	36.5	38.8	56.8	66.3	68.5	54.3	51.5	21.4	26.0	25.0	24.0	510.4
Debt Service	3.6	10.2	1.4	1.0	8.6	7.3	3.8	6.9	1.7	1.1	43.6	16.7	105.9
TXCP: Interest & Variable Rate Debt Fees	0.0	0.0	0.3	0.0	0.0	0.8	0.2	0.2	0.2	0.3	0.3	0.6	2.9
Repayment of City Loan	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
City Fee	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	18.0	0.0	0.0	18.0
Other Disbursements	10.6	17.7	9.9	13.4	12.3	13.8	13.5	19.2	11.6	15.9	14.0	15.2	167.1
TOTAL DISBURSEMENTS	66.3	75.7	62.0	83.8	100.2	102.2	83.1	89.8	45.7	74.0	96.2	69.0	948.0
MONTHLY CASH FLOW	(23.2)	(30.1)	(9.3)	(17.4)	9.6	16.5	46.6	15.4	40.7	18.3	(35.0)	(6.8)	25.4
CUMULATIVE CASH FLOW	(23.2)	(53.3)	(62.6)	(80.0)	(70.4)	(53.9)	(7.3)	8.1	48.8	67.1	32.1	25.4	
OPENING TXCP 90.0	90.0	73.0	148.0	148.0	148.0	148.0	148.0	148.0	148.0	0.0	20.0	40.0	90.0
TXCP ISSUED DURING MONTH	0.0	75.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	20.0	20.0	26.0	141.0
TXCP PAID DOWN DURING MONTH	17.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	148.0	0.0	0.0	0.0	165.0
ENDING TXCP	73.0	148.0	148.0	148.0	148.0	148.0	148.0	148.0	0.0	20.0	40.0	66.0	66.0
OPENING BALANCE - CASH	49.3	9.1	54.0	44.7	27.3	36.9	53.4	100.0	115.4	8.1	46.4	31.4	49.3
MONTHLY CASH FLOW	(23.2)	(30.1)	(9.3)	(17.4)	9.6	16.5	46.6	15.4	40.7	18.3	(35.0)	(6.8)	25.4
NET TXCP ACTIVITY MONTHLY	(17.0)	75.0	0.0	0.0	0.0	0.0	0.0	0.0	(148.0)	20.0	20.0	26.0	(24.0)
ENDING BALANCE - CASH	9.1	54.0	44.7	27.3	36.9	53.4	100.0	115.4	8.1	46.4	31.4	50.7	50.7
CITY LOAN AVAILABLE - END OF MONTH	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CITY LOAN UTILIZED - END OF MONTH	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CASH POSITION NET OF TXCP AND CITY LOAN	(63.9)	(94.0)	(103.3)	(120.7)	(111.1)	(94.6)	(48.0)	(32.6)	8.1	26.4	(8.6)	(15.3)	

Budgeted Weather 4,412 degree days
TXCP $150.0M with $29.0M Outstanding @ 8/31/10
Collection Factor 95.0%
$18.0M City Payment Made and Granted Back to PGW

BUDGET OF CASH RECEIPTS AND DISBURSEMENTS
FISCAL YEAR ENDING AUGUST 31, 2010
(Millions of Dollars)

		BUDGET	BUDGET	BUDGET	BUDGET	BUDGET	BUDGET	BUDGET	BUDGET	BUDGET	BUDGET	BUDGET	BUDGET	
6/16/09		Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	TOTAL
OPENING BALANCE - CASH INCLUDES $66.0 TXCP		50.7	36.5	25.3	19.4	30.9	33.2	48.5	84.1	99.6	40.1	67.4	30.3	50.7
RECEIPTS														
Gas		38.8	45.0	47.4	66.0	81.6	95.9	107.8	89.6	74.1	55.8	45.4	42.5	789.9
Other		1.2	0.2	0.2	0.2	0.2	4.2	0.2	0.1	0.2	0.2	0.2	6.2	13.3
Drawn from Capital Funds - Principal		4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.5	4.5	4.5	4.5	50.0
Drawn from Capital Funds - Interest		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Drawn from Lease Funds - Principal		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Drawn from Lease Funds - Interest		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Advance (Repayment) of Capital Fund		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pension Draw		1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.2	1.2	1.2	1.2	1.6	14.1
City Loan		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
City Fee		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	18.0	0.0	0.0	18.0
		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL RECEIPTS		45.1	50.3	52.7	71.3	86.9	105.2	113.1	94.9	80.0	79.7	51.3	54.8	885.3
TOTAL		95.7	86.8	78.0	90.7	117.8	138.4	161.6	179.0	179.6	119.8	118.7	85.2	936.0
DISBURSEMENTS														
Labor		12.8	13.6	12.8	14.0	13.3	12.6	13.0	13.1	12.7	13.1	13.7	12.9	157.6
Natural Gas		21.5	26.0	32.4	37.6	48.3	52.8	47.4	46.5	34.0	28.2	20.9	20.7	416.3
Debt Service		4.0	10.2	1.1	1.0	8.8	5.1	4.0	7.2	1.1	1.1	41.6	14.4	99.6
TXCP: Interest & Variable Rate Debt Fees		0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	1.1
Repayment of City Loan		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Swap Termination Payment		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
City Fee		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	18.0	0.0	0.0	18.0
Other Disbursements		20.8	11.6	12.1	7.1	14.1	19.3	13.0	12.5	11.7	12.0	12.1	9.6	155.9
TOTAL DISBURSEMENTS		59.2	61.5	58.5	59.8	84.6	89.9	77.5	79.4	59.5	72.4	88.3	57.7	848.5
MONTHLY CASH FLOW		(14.2)	(11.2)	(5.9)	11.5	2.3	15.3	35.5	15.5	20.5	7.3	(37.0)	(2.9)	36.8
CUMULATIVE CASH FLOW		(14.2)	(25.4)	(31.2)	(19.7)	(17.4)	(2.1)	33.4	48.9	69.4	76.7	39.7	36.8	
OPENING TXCP	66.0	66.0	66.0	66.0	66.0	66.0	66.0	66.0	66.0	66.0	(14.0)	6.0	6.0	66.0
TXCP ISSUED DURING MONTH		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	20.0	0.0	23.0	43.0
TXCP PAID DOWN DURING MONTH		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	80.0	0.0	0.0	0.0	80.0
ENDING TXCP		66.0	66.0	66.0	66.0	66.0	66.0	66.0	66.0	(14.0)	6.0	6.0	29.0	29.0
OPENING BALANCE - CASH		50.7	36.5	25.3	19.4	30.9	33.2	48.5	84.1	99.6	40.1	67.4	30.3	50.7
MONTHLY CASH FLOW		(14.2)	(11.2)	(5.9)	11.5	2.3	15.3	35.5	15.5	20.5	7.3	(37.0)	(2.9)	36.8
NET TXCP ACTIVITY MONTHLY		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(80.0)	20.0	0.0	23.0	(37.0)
ENDING BALANCE - CASH		36.5	25.3	19.4	30.9	33.2	48.5	84.1	99.6	40.1	67.4	30.3	50.5	50.5
CITY LOAN AVAILABLE - END OF MONTH	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CITY LOAN UTILIZED - END OF MONTH	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CASH POSITION NET OF TXCP AND CITY LOAN		(29.5)	(40.7)	(46.6)	(35.1)	(32.8)	(17.5)	18.1	33.6	54.1	61.4	24.3	21.5	

PREPARED DIRECT TESTIMONY

OF

JOSEPH R. BOGDONAVAGE

ON BEHALF OF

PHILADELPHIA GAS WORKS

Q. Please state your name and business address.

A. My name is Joseph R. Bogdonavage. My business address is 800 West Montgomery Avenue, Philadelphia, PA 19122.

Q. By whom are you employed and in what capacity?

A. I am employed by the Philadelphia Gas Works in the capacity of Senior Vice President - Finance.

Q. What are your principal responsibilities as Senior Vice President - Finance?

A. My principal responsibilities include the oversight and direction of PGW's Accounting & Reporting, Budget & Financial Forecasting, and Treasury, Departments. I am currently responsible for the overall preparation of PGW's Operating and Capital Budgets, review of Operating Budgets prepared by the individual departments, and the coordination, analysis, issuance and overall control of the complete annual Operating Budget filing. These activities include the preparation of analyses for the purpose of generating financial data to support the company's financial planning and decision-making processes. In addition, documentation is prepared regarding financial initiatives; i.e., proposed revenue bonds, commercial paper program offerings, base rate case presentations and the monthly financial statements. Finally, in coordination with the Controller and Director of Fiscal Oversight, the Budget area acts as a liaison between all departmental budget representatives regarding budgeting and financial forecasting procedures and variance analysis reporting.

Q. Have you previously presented testimony before the Philadelphia Gas Commission?

A. Yes, on numerous occasions. I have most recently presented testimony before this Commission on matters associated with PGW's 2008-2009 Operating Budget proceedings and Five Year Forecast. Prior to the above occasion, I presented testimony on PGW's proposed annual Operating & Capital Budgets and base rate increase requests.

Q. What are your responsibilities in connection with PGW's filing that is the subject of these hearings?

A. I am responsible for the overall development and preparation of the financial documentation, exhibits, and part of the supporting documentation included in PGW's proposed 2009-2010 Operating Budget filing.

Q. Please describe the factors that impacted the current 2008-2009 Estimate and also went into the development of the 2009-2010 Operating Budget and your involvement.

A. My direct involvement has been to facilitate the departmental interaction associated with PGW's Operating Budget process. This includes the review of all Operating Budgets prepared by the individual departments, updates to that information and the coordination, analysis, control and issuance of the complete 2009-2010 Operating Budget document. I have interacted with the City Finance Director and City Treasurer, PGW's Senior Team, and, in particular, Mr. Joseph F. Golden, Jr., PGW's Controller, in developing PGW's financial plan. PGW has developed a financial plan for the 2009-2010 Operating Budget which takes into account the Pennsylvania Public Utility Commission (PaPUC) approved December 2008 $60.0 million base rate increase which was precipitated by the ongoing uncertainty in the financial markets. In Fiscal Year 2010, PGW anticipates that it will continue the process to transform its business operations for the future benefit of its customers and the City of Philadelphia. Also, the Fiscal Year 2010 Operating Budget provides funding for certain corporate initiatives and expense increases, including resources to further analyze a real estate (Facilities) optimization plan, an increase in the funding for PGW's actuarial pension liability and employee health insurance coverage. In addition, PGW expects increased banking fees for providing liquidity support for its 8th Series refunding bond issue and Commercial Paper Program. PGW continues its commitment to maintaining a safe and reliable distribution system, while keeping the enterprise in a position of financial stability and competitiveness. PGW along with many other municipal bond issuers experienced significant difficulties related to variable rate bond transactions. PGW was informed by the consortium of banks that provided liquidity support for the 6th Series variable rate bonds that the current agreement would not be renewed in January 2009. In addition, that transaction had an interest rate swap that could have resulted in a substantial termination payment. The City of Philadelphia and PGW embarked on a plan to remarket or refund the existing 6th Series variable rate bonds to minimize risk related to the interest rate swap and higher projected interest costs. The Fiscal Year 2010 Operating Budget includes projected interest costs and fees associated with a fixed rate and variable rate transaction. As of this date, the City and PGW are negotiating with four banks to provide letters of credit in support of a full variable rate transaction to refund the 6th Series outstanding bonds. This transaction is expected to close at the end of July 2009. Once interest rates and costs are identified, PGW plans to revise its Fiscal Year 2010 Operating Budget to include the most up to date data. During the 2008-2009 Fiscal Period, PGW's bond rating with Moody's Investors Services, Standard and Poor's (S&P) and Fitch Ratings remained above investment grade with S&P and Fitch Ratings assigning a stable outlook, while Moody's assigned a negative outlook reflecting the ongoing economic downturn and collection and liquidity issues. The rating agencies continue to look for a strengthening of PGW's liquidity position instead of relying on external borrowings from its commercial paper program. PGW's c ommercial paper program which is currently at $150.0 million continues to be available to meet working capital requirements, while the capital construction fund is anticipated to have $68.0 million and $158.0 million in proceeds available at August 2009 and August 2010, respectively, to fund ongoing capital requirements. The current plan of finance anticipates the issuance of $150.0 million of revenues bonds to support the capital construction program. PGW's overall liquidity position is adequate to meet the projected working capital requirements for the upcoming winter period which currently reflects substantially lower prices for natural gas. The company continues to strive to maintain as high a collection rate as possible considering the state of the United States economy and its impact on customers' ability to pay during Fiscal Year 2009. Currently, the collection rate stands at approximately 93.1% through May 2009, with an expected August 2009 year end level of 94.0%.

The 2008-2009 heating season reflected an approximately 6.3% warmer than normal winter. The 2008-2009 Fiscal Period reflected declining natural gas prices compared to original projections, however customer accounts receivable balances are expected to be higher due to the anticipated reduction in the collection rate. The impact of higher customer accounts receivable balances on bad debt expense, additional operating and maintenance costs reflecting the concerted effort to decrease capital expenditures, higher pension expenses and delayed benefits associated with business transformation initiatives, accounted for the $9.7 million or 3.2% increase in overall operating and maintenance costs in the 2008-2009 Estimate compared to the 2008-2009 Budget Year as detailed on Exhibit A-1, Line 18. Some of the underlying assumptions that present a risk in the 2009-2010 Operating Budget are PGW's ability to sustain or improve upon its recent collection factor of 94.0% in the face of the current economic climate, and the timely attainment of the savings anticipated in the business transformation project. These factors combined with the approved base rate increase will impact PGW's goals of reducing short term debt, providing internal funds for capital and the longer term objective of reducing PGW's debt to equity ratio.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to provide the documentation and supporting methodology for the schedules and exhibits, provide detailed information regarding certain income and expense items, and, where necessary, explain the reasons for variations between the fiscal periods.

Q. Please describe the financial statements which support the 2009-2010 Operating Budget submission.

A. The Operating Budget for the 2009-2010 Fiscal Year has been summarized to indicate the functional expenses similar to previous Gas Commission presentations for comparative purposes. To facilitate an understanding and to illustrate the trend and level of operating expenditures by key functionality, data is provided on the Statement of Income, Exhibit A-1, of the Operating Budget presentation for the 2007-2008 Actual, the 2008-2009 Budget and Estimate and the proposed 2009-2010 Budget periods. The Cash Flow Statement, Exhibit A-2, reflects the sources and uses of cash and is one of the basic documents for financial planning at PGW. The

Revenue Bond Debt Service Coverage Statement is prepared in accordance with the Rate Covenant of the 1975 General Ordinance, as amended, and the 1998 General Ordinance, authorizing the issuance of revenue bonds. In compliance with the provisions of the Ordinances, PGW prepares and forwards a report to the Director of Finance of the City of Philadelphia within 120 days of the conclusion of each fiscal year detailing compliance with the revenue bond debt service requirements for such fiscal year. A calculation for the 2008-2009 and 2009-2010 Fiscal Periods is included with the Company's filing on Exhibit A-3.

Q. Who will explain the details of these documents?

A. I will present a financial summary of the impacts of the revenue and fuel cost data, which were filed and subsequently revised as part of the on-going Gas Cost Rate (GCR) filings with the PaPUC, and will continue through the Statement of Income to explain the impacts of financing and other financial considerations on the Cash Flow Statement and Revenue Bond Debt Service Coverage schedule.

Q. Would you proceed with your explanation of the Statement of Income.

A. The Statement of Income, presented as Exhibit A-1, includes projected operating revenues for Fiscal Year 2009-2010 of $839.1 billion.

<u>Total Operating Revenues</u> (Line 10) are forecasted to decrease by $101.0 million to $839.1 million a 10.7% decline when compared to the 2008-2009 Estimate of $940.1 million. The major portion of the reduced revenues reflects the significantly lower projected cost of natural gas, offset in part by the return to a normal heating season with the commensurate increase in sales to firm heating customers and the full year impact of the $60.0 million base rate increase. The 2009-2010 Budget Year represents 4,412 degree days, which is PGW's new 30 year average level, while the Estimate for the 2007-2008 Fiscal Period reflected 4,181 degree days, 283 degree days or approximately 6.3% less than the current normal level of 4,464 degree days. The 2009-2010 Budget Year assumes that firm heating sales are expected to be 1.7 Bcf greater than the 2008-2009 Estimate reflecting a return to a normal heating season. These factors will result in an increase in the projected margin to cover fixed costs. The projected 2009-2010 GCR of $7.29 per Mcf is substantially less than the average rate in effect for the 2008-2009 Fiscal Period, while revenues from gas transportation are anticipated to increase reflecting customers transferring from firm gas supply categories.

Non-Heating Revenues (Line 1) for the 2009-2010 Budget Year are projected at $50.2 million, a decrease of $16.4 million or 24.6%, compared to the $66.6 million expected during the 2008-2009 period. A reduction in sales to interruptible customers totaling .4 Bcf, and a $3.69 decline in the average price per Mcf is anticipated to result in an $8.1 million reduction in revenues. A decrease in firm non-heating billed revenues of $10.3 million is mainly due to the projected lower GCR in effect combined with the slightly lower sales. The GCR, the Universal Service Charge (USC), and the Interruptible Revenue Credit (IRC) for Fiscal Year 2008-2009 are anticipated to be over recovered by $22.0 million with $1.5 million applicable to non-heating revenues. The impact on firm non-heating revenues of the applicable charges for the Fiscal Periods 2007-2008 and 2008-2009 is anticipated to increase reported revenues by $2.0 million.

Gas Transportation Service Revenues (Line 2) are anticipated to rise by $4.7 million, or 18.6%, to $30.1 million from the prior year's level of $25.4 million due primarily to an additional .6 Bcf rise in the projected volumes of gas being transported for customers.

Heating Revenues (Line 3) during the 2009-2010 Budget Year are projected to total $742.1 million, $86.2 million, or 10.4% below the $828.2

million expected in the 2008-2009 period. The major factors for the $112.7 million decrease in billed revenues in the 2009-2010 Budget Year reflect a lower GCR in effect and a 1.7 Bcf increase in usage due to the return to a new 30 year average 4,412 degree day heating season. The GCR, USC and the IRC are expected to be over recovered by $22.0 million with $20.5 million applicable to heating revenues. The impact on firm heating revenues of the applicable charges for the Fiscal Periods 2007-2008 and 2008-2009 is anticipated to increase reported revenues by $26.5 million.

The **Weather Normalization Adjustment** (Line 4) is not expected to result in any substantial impact on heating customers during the 2008-2009 Fiscal Period. The 2009-2010 Budget Year anticipates a normal winter heating season which would not result in a WNA adjustment.

The **Unbilled Gas Adjustment** (Line 5) is anticipated to decline by $1.0 million to a total of $7.7 million due mainly to a lower average price per Mcf of gas used but not yet billed at August 2010. At August 2009, unbilled gas revenues of $8.7 million are expected to be $.6 million above the prior period level reflecting a higher average price per Mcf of gas used but not yet billed.

Q. What are the major components of Appliance Repair & Other Service Revenues?

A. The major components of Appliance Repair & Other Service Revenues are as follows:

Appliance Repair and Other Service Revenues (Line 7) totaling $8.7 million in the 2009-2010 Budget Year are associated with the parts and labor plan contracts for house heaters, automatic water heaters and other appliances. Also included in this category are reconnection charges generated by customer bill paid turn-ons. The projected revenues for the 2009-2010 Budget Year are expected to approximate the current years' level. The 2009-2010 Budget Year projects approximately 59,000 Parts & Labor Plans to be in force, the same level as the previous year.

The following schedule details appliance repair and other service revenues for the three fiscal years:

Appliance Repair and Other Service Revenues

(Dollars in Thousands)

	Actual 2007-08	Estimate 2008-09	Budget 2009-10
Parts & Labor Plans	$6,826	$7,000	$7,000
Reconnection, Turn on Charges	1,781	1,745	1,708
TOTAL	**$8,607**	**$8,745**	**$8,708**

Other Operating Revenues (Line 8) principally reflects finance charges on delinquent customer account balances. The 2009-2010 Budget Year projects a decrease of $1.4 million to $9.1 million due to lower customer gas billings reflecting the projected declining fuel prices.

Q. Would you proceed with your explanation of the Statement of Income?

A. The Statement of Income includes projected **Total Operating Expenses** (Line 19) for the 2009-2010 Budget Year of $719.1 million, a $135.5 million or 15.9% decrease from the prior year. The major reasons for the variation in costs are explained below.

Natural Gas (Line 11) - Natural gas costs are forecasted to total $420.1 million in the 2009-2010 Budget Year, $126.9 million or 23.2% less than the $547.0 million level projected for the 2008-20098 Fiscal Period. The decrease from the 2008-2009 Estimate of natural gas costs primarily reflects lower commodity pipeline prices of $2.22 cents per Mcf totaling $120.9 million, while slightly lower supply requirements of .4 Bcf are expected to result in a $3.8 million decrease. Demand charges are forecasted to decline by $2.2 million. The 2008-2009 Fiscal Period reflected the receipt of natural gas refunds totaling $30,893. No natural gas refunds are projected to be received in the 2009-2010 Budget Year.

Contribution Margins (Line 14) - PGW forecasts that the margins to cover fixed overhead and other costs and interest expense are expected to total $419.1 million in the 2009-2010 Budget Year, a rise of $26.0 million from the $393.1 million level projected in the 2008-2009 Estimate. This margin represents the funds (total operating revenues less the cost of fuel) available to meet PGW's operational and financial requirements.

Labor and Fringe Benefits (Line 15) - This expense item, the second largest expense that PGW incurs, is budgeted to increase by $9.6 million or 6.4% to $159.4 million. The main factors that contribute to the added labor and benefits costs are as follows: (1) Operating labor costs in the 2009-2010 Budget Year are anticipated to increase by $1.1 million to $89.5 million from the current year level of $88.4 million. The 2009-2010 Budget Year reflects an average PGW personnel level of 1,700 employees. Currently, PGW has 1,706 employees as of May 2009. As shown on Exhibit A-1-1 (Line 32), PGW has projected labor cost reductions totaling $1.4 million in the 2009-2010 Fiscal Period. This decrease can be attributed, in part, to anticipated attrition in the workforce. During the 2008-2009 Fiscal Period the unionized workforce received a 3½% general wage increase effective May 15, 2009, the 2009-2010 Budget does not include funding for any future wage increases for unionized or non-union employees. PGW's collective bargaining agreement with unionized employees expires May 15, 2010. A rise in capitalized labor charges is anticipated for the 2009-2010 Budget Year lowering operating labor by $1.6 million, while overtime costs are projected to rise by $.8 million compared to the 2008-2009 estimated period. (2) Pension expenses are anticipated to rise significantly by $5.5 million to $21.1 million in the 2009-2010 Budget Year. (3) The $2.7 million rise in health insurance reflects premium increases for prescription drug and medical coverage for both active and retired employees. (4) Payroll taxes are expected to total $6.9 million in the 2009-2010 Budget Year, an increase of $.3 million from the prior year. The 2008-2009 estimated period reflects a $.2 million refund associated with prior period sales tax liability. A more detailed explanation of labor and fringe benefits (Exhibit C-3) will be provided later in my testimony.

Bad Debt Expense (Line 16) - PGW has provided separate supporting documentation for the Accounts Receivable and Bad Debt expense calculations (SD-5) and the most recent collectibility study as of May 2009 identifying the bad debt reserve requirement (SD-6). PGW anticipates a $44.8 million expense related to bad debt for the 2009-2010 Budget Year and $47.1 million for the current 2008-2009 Fiscal Period. The forecasted reduction in this expense reflects the lower customer billings associated with the decreasing fuel prices. PGW expects to attain a 94.0% collection rate for the 2008-2009 Fiscal Period, while a 95.0% collection rate target is reflected in the 2009-2010 Budget Year. PGW's focus on bill collection continues to remain at the forefront of all company activities as improvement in overall customer collections is paramount to improving cash flow and liquidity.

Other Expenses and Depreciation (Line 17) - The principal reasons for the $15.8 million decrease in these expense categories for the 2009-2010 Budget Year of $94.8 million resulted from reductions in the appropriation for losses, additional labor related charges to capital projects and projected benefits derived from business transformation initiatives. These decreases were partially offset by higher costs for advertising, general material, insurance, contracted maintenance, utilities, rentals, purchased services, postage, promotion, and depreciation expenses. A more detailed explanation of other expenses and depreciation (Exhibit C-4) will be presented later in my testimony.

Other Income (Line 21) - PGW expects a $1.0 million increase in other income during the 2009-2010 Budget Year primarily as a result of earnings on restricted funds (bond proceeds and sinking fund deposits) reflecting an increase in investable balances and higher interest rates.

Interest Expense (Line 27) - Total interest expense of $76.1 million in the 2009-2010 Budget Year represents an increase of $2.5 million from the 2008-2009 Fiscal Period. Long-term debt (Line 23) interest costs are budgeted to decrease by $3.3 million due mainly to the scheduled long-term debt maturities and reduced interest costs associated with PGW's interest rate swap agreement. Other interest (Line 24) expense is anticipated to rise by $6.1 million in the 2009-2010 Budget Year primarily as a result of costs associated with providing bank liquidity support for the planned 8th Series refunding bond issue and with PGW's commercial paper program which is expected to be maintained at the $150.0 million level in the 2009-2010 Fiscal Period. The Loss from the Extinguishment of Debt (Line 26) of $5.4 million in the 2009-2010 Budget Year is expected to be $.2 million higher than the prior period reflecting the continued expense amortization of prior bond refundings.

Net Earnings (Line 28) - The net earnings from Operations are forecasted at $54.7 million for the 2009-2010 Budget Year. This reflects a $33.0 million improvement from the 2008-2009 Fiscal Period projected earnings of $21.7 million.

Q. Proceeding to Exhibit A-2, the Cash Flow Statement, would you please identify the individual items which account for the total sources of $184.5 million for the 2009-2010 Budget Year shown on Line 11?

A. The Cash Flow Statement is one of PGW's primary financial planning and control documents. Through this format, the transition from an accrual accounting methodology applied in the Statement of Income is now presented on a cash basis. The principal sources of funds for PGW are net income, borrowings to support capital expenditures, and the commercial paper program.

Net Earnings (Line 1) totaling $54.7 million is a transfer from Line 28, Exhibit A-1, Statement of Income. It is the net result of PGW's operations after combining revenues and other income, less operating and interest expenses.

Depreciation and Amortization (Line 2) are sources of funds, as these items represent those (non-cash) costs chargeable to expense in the current period, although the actual cash payments were made primarily in prior periods. In the 2009-2010 Budget Year, this category is projected to rise by $.7 million to $46.1 million as a result of higher depreciation expense on utility plant.

Earnings on Restricted Funds (Line 3) represent cash withdrawals from restricted funds, principally the revenue bond sinking and capital improvement funds. In the 2008-2009 and 2009-2010 Fiscal Periods no cash withdrawals from these funds is expected. Earnings on these restricted accounts totaled $5.2 million and $5.8 million, in the 2008-2009 and 2009-2010 fiscal periods, respectively.

Increased/(Decreased) Other Assets/Liabilities (Line 5) reflects a change between the 2008-2009 and 2009-2010 Fiscal Years of $6.8 million. The main components that are reflected in this category are deferred operating expenses including environmental remediation, injury and damage reserves, interest accruals that continue to be made on the long term debt portion of Tax-Exempt Capital Appreciation (TECA) bonds.

Also, other post employment benefits that are now being reported are included in the liabilities.

The sum of net income and the previously mentioned adjustments is reported on (Exhibit A-2, Line 6) as available from operations and totals $116.5 million in the 2009-2010 Budget Year, $26.2 million greater than forecasted in the 2008-2009 Fiscal Year.

Funds Required for Capital (Line 7) represents one of the components of PGW's cash management process. The funds withdrawn from the capital improvement fund are utilized to fund PGW's capital expenditures. The 2008-2009 and 2009-2010 Fiscal Periods anticipate $45.0 million and $50.0 million, respectively, being withdrawn from the capital improvement fund to support capital spending.

Grant Income (Line 8) – The $18.0 million represents the grant back of the City payment to PGW to be used as project revenues available to cover debt service.

Temporary Financing (Line 10) - In the current 2008-2009 Fiscal Period, PGW's outstanding level of commercial paper notes is anticipated to be $66.0 million at August 31, 2009. During the 2008-2009 Fiscal Period, the full amount of commercial paper notes was repaid on May 15, 2009. PGW, for the remaining portion of the fiscal year, anticipates reissuing notes, as needed, to assist in meeting projected working capital requirements. The level of outstanding notes between August 2008 ($90.0 million) and August 2009 ($66.0 million) (Line 25) decreased by $24.0 million. The 2009-2010 Budget Year anticipates that commercial paper notes in varying levels will be outstanding to assist in meeting working capital requirements. The outstanding level of notes at August 2010 is forecasted to be $29.0 million. The overall impact of PGW's operations, including the approved $60.0 million base rate increase, improved customer collection levels, the forgiveness of the $18.0 million City payment, is projected to leave PGW with a cash balance of $50.6 million at August 2010, compared to the $50.7 million anticipated at the close of the 2008-2009 Fiscal Period.

The **Total Sources** (Line 11) of $184.5 million in the 2009-2010 Fiscal Year are expected to be $31.2 million higher than the level projected in Fiscal Year 2008-2009 mainly reflecting the additional net earnings from Operations.

Q. How are these Total Sources applied within PGW?

A. The Total Sources are utilized as detailed on the lower part of Exhibit A-2 under the category **Total Uses** (Line 21) of $184.5 million. The primary areas of expenditures are as follows:

Net Capital Expenditures (Line 12) represent expenses for approved capital budget projects. These costs totaling $72.1 million in the 2009-2010 Budget Year are projected to increase by $16.5 million from the 2008-2009 Fiscal Period level of $55.6 million. These expenditures include: (1) direct charges for labor, material, equipment, contractors and transportation services; (2) allocated expenses for fringe benefits and administrative and general expenses; and (3) an Allowance for Funds Used During Construction (AFUDC). The total costs are reported net of contributions, reimbursements and salvage.

Funded Debt Reduction (Lines 13 & 14) - This expense represents the payment of the principal portion of PGW's long-term debt under pre-determined debt amortization schedules. These payments include revenue bond debt service principal repayments. In the 2009-2010 Budget Year, these payments are expected to total $48.2 million, a rise of $3.6 million from the $44.6 million expected to be paid in the 2008-2009 Fiscal Period.

Temporary Financing Repayments (Line 15) - The 2008-2009 Fiscal Period anticipates that $24.0 million of outstanding commercial paper will be repaid leaving a balance of $66.0 million outstanding at August 2009, while the 2009-2010 Budget Year projects that an additional $37.0 million will be repaid by August 2010, resulting in an outstanding balance of $29.0 million.

Distribution of Earnings (Line 17) - This represents the annual $18.0 million payment made to the City of Philadelphia under the Philadelphia Facilities Management Corporation Agreement/Ordinance. This payment will be made to the City of Philadelphia and it will then be granted back to PGW to be utilized as project revenues.

Additions to (Reductions of) Non-Cash Working Capital (Line 18) - This category represents PGW's continuing effort to shift from the accrual method of accounting to a cash basis. The detail of working capital is presented on Exhibit H-1, and the annual changes in working capital, which specifically support Line 18 of Exhibit A-2 are detailed on Exhibit H-2.

Q. Would you please explain the major factors that resulted in the working capital requirements for the 2008-2009 F iscal Year and the continuing impact on the proposed 2009-2010 Budget Year?

A. The $9.6 million net increase in working capital requirements during the 2008-2009 Fiscal Period (Exhibit H-2, Line 13) reflects changes in both assets and liabilities. The 2008-2009 Fiscal Period anticipates an increase in accounts receivable (Exhibit H-2, Line 1) of $13.1 million and a change in the reserve for bad debt (Exhibit H-2, Line 3) of $2.6 million resulting in a net gas accounts receivable increase of $15.7 million. Unbilled gas revenues (Exhibit H-1, Line 2) of $8.7 million at August 2009 are projected to increase by $.6 million. The increase in accounts receivable mainly reflects the projected decline in the collection of customer billings. PGW will be consulting with its external auditors to ascertain the required reserve for uncollectible accounts and has presented separate supporting documentation, which details the accounts receivable balance, reserve for uncollectible accounts and bad debt expense. Materials and Supplies (Exhibit H-2, Line 5) are anticipated to decrease by $52.6 million principally due to a lower average price ($2.39 per Mcf, or 22.7%) and volume of natural gas in storage inventories (1.5 Bcf), while Other Current Assets (Exhibit H-2, Line 6) is expected to increase by $7.7 million due mainly to higher accrued capital related costs and reimbursable projects and increased prepaid insurance premiums for public liability and property coverage. Liabilities, namely accounts payables (Exhibit H-2, Line 10), are expected to decline by $28.9 million principally due to reduced prices for natural gas purchases, and general trade payables. In addition, Other Current Liabilities (Exhibit H-2, Line 11) are expected to decrease by $9.4 million mainly due to lower reserve requirements for the reserve for injuries and damages and a reduced level of customer deposits at year end. These decreases were partially offset by a net increase of $7.5 million in the liability for the projected $22.0 million over recovery of the 2008-2009 GCR, USC and IRC costs. The net impact of these working capital changes resulted in an increased working capital requirement for the 2008-2009 Fiscal Year.

The 2009-2010 Budget Year projects overall working capital requirements will raise by $9.3 million (Exhibit H-2, Line 13). Net Accounts Receivable (Exhibit H-2, Line 4) are anticipated to decline by $4.2 million mainly due to the projected lower GCR and its impact on lower customer receivable balances, while providing the necessary requirement for the reserve for bad debt and reduced accrued gas revenues as a result of the decreased price of natural gas. Materials and Supplies (Exhibit H-2, Line 5) are forecasted to decrease by $7.2 million principally due to lower average prices for natural gas in storage of nearly 76.0 cents per Mcf or

9.3%. This decrease was offset, in part, by a .6 Bcf rise in the volume of natural gas in storage at August 2010. Other Current Assets (Exhibit H-2, Line 6) are expected to increase by $1.1 million reflecting slightly higher accrued capital related costs and reimbursable projects. Accounts Payable (Exhibit H-2, line 10) are expected to decline by $1.4 million reflecting lower year end natural gas purchase costs. Other Current Liabilities (Exhibit H-2, Line 11) are anticipated to decrease by $18.1 million reflecting the return to customers of the $22.0 million 2008-2009 over recovery of GCR, USC and IRC costs, offset by higher environmental remediation costs. These asset and liability changes result in an increased net working capital requirement of $9.3 million for the 2009-2010 Budget Year (Exhibit H-2, Line 13).

PGW's ending **Cash Balance** (Exhibit A-2, Line 24) at August 2009 is expected to total $50.7 million, $15.3 million less than the outstanding level of $66.0 million of commercial paper notes. This year end cash balance is $1.4 million greater than the $49.3 million actual cash balance in 2007-2008 which was $40.7 million below the $90.0 million level of outstanding short term borrowings. The 2009-2010 Budget Year projects a cash balance at year end of $50.5 million, which is anticipated to be $21.5 million greater than the outstanding level of $29.0 million of commercial paper notes. The ultimate goal for PGW in the future is to improve on its recent collection rate and partially support the financing of its capital programs with internally generated funds and minimize the use of short term borrowings.

Q. Could you explain the income and expense components that are utilized when computing the Revenue Bond Debt Service Coverage Ratio for the 2009-2010 Budget Year on Exhibit A-3?

A. The coverage ratio is calculated based on the 1975 Ordinance and the

1998 Ordinance which sets the priority of payments of outstanding long-term debt. In deriving data for the coverage calculation, several non-cash adjustments are made to both revenue and expense items:

Total Funds Provided (Line 7) - The funds provided in the proposed 2009-2010 Operating Budget total $862.9 million and are comprised of: (1) total gas and other operating revenues, (2) other income adjusted to include actual cash withdrawals from both the Capital Improvement and Revenue Bond Sinking Funds (rather than only the interest earned in the fiscal period), the $18.0 million in Grant Income, and (3) AFUDC on borrowed funds for capital expenditures.

Total Funds Applied (Line 12) - The funds applied reflect operating expenses from Exhibit A-1, Line 19, totaling $719.0 million, less certain non-cash and subordinate expenses (Line 11) totaling $68.2 million. The components of the non-cash expenses include: (1) depreciation expense included in operating expenses, (2) payments to the City of Philadelphia for miscellaneous services rendered, including Philadelphia Gas Commission expenses, and (3) other post employment benefits.

Funds Available to Cover Revenue Bond Debt (Line 13) are projected to be $212.1 million for the 2009-2010 Budget Year.

Revenue Bond Debt Service (Line 14) - The total funds applied to 1975 Revenue Bond Debt Service are $30.1 million, representing the scheduled cash payments of principal which are due annually with interest paid semi-annually.

Debt Service Coverage Ratio 1975 Revenue Bonds (Line 15) - The debt service coverage ratio for 1975 Ordinance Revenue Bonds is obtained by dividing Funds Available to cover 1975 Debt Service ($212.1 million) by Funds Applied to 1975 Debt Service Revenue Bonds ($30.1 million). The result produces a coverage ratio of 7.05 times. The mandatory coverage ratio for 1975 Senior Debt Service is 1.5 times. The remaining coverage ratios, as set forth in the 1998 Ordinance, are now calculated. Net available after 1975 Debt Service (Line 16) totaling $182.0 million is utilized to calculate the coverage ratio on 1998 Ordinance Senior Debt Service (Line 17) of $73.3 million at a mandatory 1.5 times. The projected calculation for this ratio is shown at 2.48 times (Line 18). The final component of the coverage calculation under the 1998 Ordinance is shown on (Lines 19 through 21). Net available after the 1998 Debt Service (Line 19) of $108.7 million is used to calculate coverage on 1998 Subordinate Debt Service (Line 20) of $2.0 million. The result is shown on (Line 21) as Debt Service Coverage Subordinate Bonds of 54.75 times. The mandatory requirement is 1.0 times on subordinate debt service. The projected coverage ratios for the current 2008-2009 Fiscal Period are expected to be 5.46 times on 1975 Ordinance debt service and 2.10 times on 1998 Ordinance debt service, while the coverage ratio on 1998 Subordinate debt service is expected to be 37.95 times.

Q. Returning to the Statement of Income (Exhibit A-1), could you explain in detail the items that are included under the category Labor and Fringe Benefits on Exhibit A-1, Line 15?

A. This category includes payroll costs (excluding that portion chargeable to capital activities), payments made to beneficiaries of PGW's employee pension plan and corresponding withdrawals from the pension fund. This category also includes the cost of premiums paid for employees' (both active and retired) health and group life insurance coverage, payroll taxes associated with FICA and Medicare and State unemployment taxes (exclusive of those taxes chargeable to capital activities) as detailed on Exhibit C-3.

Q. Are contractual labor escalations included in the periods covered on

Exhibit A-1?

A. Yes, a contract is in effect with the Gas Works Employees' Union for the period from May 16, 2007 to May 15, 2010. A 2½% general wage increase was effective for unionized employees on May 15, 2008. The remaining general wage increase of 3½% was effective May 15, 2009. The 2009-2010 Budget does not provide funding for any wage increase for unionized or non-union employees.

Q. Could you explain the difference in labor and fringe benefit expenses (Exhibit C-3) between the 2008-2009 and 2009-2010 Fiscal Periods?

A. The 2009-2010 Budget Year reflects payroll costs of $111.8 million, an increase of $2.8 million from the 2008-2009 Fiscal Year level of $109.0 million (Line 1). Operating labor costs (Line 3) are projected to rise by $1.1 million to $89.5 million, while labor charged to capital projects and other activities rose by $1.7 million.

The 2009-2010 Budget Year projects pension beneficiary payments (Line 4) to total $35.1 million, with a $14.0 million (Line 5) withdrawal from the pension fund to meet the anticipated payments. This will result in an actuarial pension expense of $21.1 million. The 2008-2009 Estimate for pension beneficiary payments is expected to be $33.8 million, with an $18.3 million withdrawal from the pension fund to meet the scheduled payments. The actuarial pension expense for PGW in the 2008-2009 Fiscal Year is forecasted to total $15.5 million. The actuarially computed pension expense for the 2008-2009 and 2009-2010 Fiscal Periods was based on updated information based on PGW's existing pension study prepared by its actuarial consultant. Health insurance costs (Exhibit C-3, Line 8) are anticipated to be $37.3 million in the 2008-2009 Fiscal Period, while the 2009-2010 Budget Year expects a $2.7 million increase to $40.0 million. PGW continues exploring ways to reduce costs for all employees' health coverage with its primary health care providers. Payroll taxes (Line 16) are anticipated to be $6.9 million in the 2009-2010 Budget Year an increase of $.3 million, the 2008-2009 estimate of $6.6 million included a prior period sales tax refund of $.2 million. The following schedule details the major components of the Labor and Fringe Benefits expense:

Labor and Fringe Benefits

(Dollars in Thousands)

	Actual 2007-08	Estimate 2008-09	Budget 2009-10
Operating Labor	$85,161	$88,395	$89,543
Pension Payments	32,839	33,866	35,128
Pension Fund Withdrawals	(18,581)	(18,335)	(14,065)
Group Life Insurance	1,586	2,000	1,900
Health Insurance	34,226	37,300	39,977
Sales Tax Refund	(904)	(214)	-
Payroll Taxes	6,581	6,823	6,955
TOTAL	**$140,908**	**$149,835**	**$159,438**

Q. Could you explain the personnel levels included on Exhibit C-3-1, and why PGW feels that the 2009-2010 Budget Year level is reasonable?

A. PGW, in the 2009-2010 Budget Year, expects to attain an average level of 1,700 employees. PGW currently has 1,706 employees and as of May 2009 had an average personnel level of 1,716. The company will most likely be slightly above its goal of 1,700 employees during the 2008-2009 Fiscal Period. PGW recognizes that certain areas of the company that provide critical functions need additional staffing and continued training; the 2009-2010 Budget provides the necessary resources. PGW is committed to adhering to the highest level of safety in the work place, while at the same time reducing overall workers' compensation claims through continued training.

Q. Please detail the items included in Other Expenses and Depreciation on Exhibit A-1, Line 17.

A. The expenses of $94.8 million for the 2009-2010 Budget Year include an appropriation for reserves and other losses (excluding the appropriation for uncollectible gas accounts), advertising, general material, property and liability insurance, contracted maintenance, utilities, rentals, purchased services, postage, promotion, depreciation and miscellaneous expenses.

Also included in this category are credits to operating expenses for labor-related fringe benefits such as insurance, taxes, pension expenses, and administrative and general costs chargeable to capital projects. In addition, non-utility revenues are also contained in this category. The detail of these expenses can be found on Exhibit C-4, Detail of Other Expenses.

Q. Have any adjustments been made to the expense categories detailed on Exhibit C-4 to reflect past Regulatory Commission orders?

A. Yes, PGW has complied with Regulatory Commissions' past orders which amortized certain non-recurring costs and normalized other expense items for ratemaking and budgeting purposes. The purchased services category mainly reflects these adjustments. Schedule (SD-4) provides documentation of the accounting for the remaining non-recurring expenses and projected costs associated with PGW's base rate increase and management audit.

Q. Please explain what is included in the Appropriation for Reserves and Other Losses on Exhibit C-4, Line 1?

A. This expense category includes appropriations to the Injuries and Damages Reserve for PGW's estimate of outstanding suits and claims and workers' compensation settlements, corporate loss settlements, and a provision for employees' compensated absences. As stated previously, this item excludes the appropriation for uncollectible accounts.

Q. What factors contributed to the increase in settlements during the 2008-2009 Estimate compared to the 2007-08 actual, and the higher projected level of settlements for the 2009-2010 Budget Year?

A. PGW's settlements for suits and claims and costs for workers' compensation were $2.7 million during the 2007-2008 actual period and combined with the appropriation of $4.8 million resulted in a year-end reserve balance of $7.5 million at August 2008. PGW's current projection of total reserves for outstanding suits and claims and workers' compensation settlements is expected to total nearly $3.1 million at August 2009, a decrease compared to the $6.1 million that was projected at August 2008. The 2008-2009 Fiscal Year primarily reflects the settlement of several suits and claims and long term workers' compensation claims. The appropriation to the Reserve for Injuries and Damages is expected to total $4.3 million during the 2008-2009 Fiscal Period resulting in an ending reserve balance of $5.8 million. Settlements for the 2008-2009 Fiscal Period are anticipated to total $5.9 million. The reserve balance at August 2009 is expected to provide coverage for suits and claims and workers' compensation settlements during the 2009-2010 Budget Year.

The 2009-2010 Budget Year projects settlements totaling $6.5 million, which includes costs associated with an outstanding class action suit during the upcoming period, while the appropriation of $3.5 million represents the required level necessary to provide a year-end reserve balance of $2.8 million. This forecasted reserve balance at August 2010 is expected to provide coverage for outstanding suits and claims and workers' compensation settlements anticipated during the 2010-2011 Fiscal Year.

PGW continues, through the Human Resources, Risk Management and Legal departments, and the use of a third party provider to handle its workers' compensation program, to identify all potential savings that can be achieved through an effective coordination of these activities.

The following schedule details the Injuries and Damages Reserve:

Injuries and Damages Reserve

(Dollars in Thousands)

	Actual 2007-08	Estimate 2008-09	Budget 2009-10
Beginning Balance	$5,357	$7,456	$5,810
Settlements	(2,691)	(5,911)	(6,507)
Appropriation	4,790	4,265	3,460
Ending Balance	**$7,456***	**$5,810***	**$2,763***

*The required reserve balance represents the current portion of the total outstanding liability at the end of the fiscal period.

Q. **Would you explain the items included in the Advertising expenses shown on Exhibit C-4, Line 2, and the increase of 70% comparing the 2009-2010 Budget Year to the 2008-2009 Estimate?**

A. The major components of the advertising expenditures in the 2009-2010 Budget Year totaling $2.2 million are related to corporate campaigns to inform eligible customers of the availability of low income heating assistance programs, collection activities related to customer bill payment, PGW's Parts and Labor Repair Plans and customer appliance safety and corporate customer informational advertising. A major portion of the added spending reflects advertising costs in the 2009-2010 Fiscal Period related to a marketing campaign to promote natural gas as a clean air solution for potential customers. In addition, advertising is associated with Regulatory activities related to rate and tariff changes, meeting notices and hearings.

Q. What are the main components of the General Material costs included on Exhibit C-4, Line 3 for the 2009-2010 Budget Year and the 2008-2009 Fiscal Period?

A. In the 2009-2010 Budget Year, the three major operating departments are anticipated to utilize $5.3 million (net) of material in their operations (pipe, valves, appliance and replacement parts, etc.) approximately $.1 million or 2.5% greater than in the current period. The 19.4% overall increase in material mainly reflects a $1.0 million provision for material purchases associated with a possible work stoppage in May 2010. Without this cost overall material costs would be relatively unchanged at $5.1 million. PGW remains committed to an overall cost containment initiative to lower the overall departmental material utilization.

Q. What type of Insurance Premiums are included in the Insurance costs reported on Exhibit C-4, Line 4, and what is the reason for the $1.2 million or nearly 35% increase projected in the 2009-2010 Budget Year?

A. Insurance expense includes premiums for property, public liability, and workers' compensation coverage. Public liability coverage for the 2008-2009 and 2009-2010 Fiscal Years is expected to be maintained at the current $200.0 million level with a self-retention level of $1.0 million per occurrence. The renewal premiums for overall public liability insurance and workers' compensation coverage are anticipated to rise by nearly $1.0 million or 45% to $3.2 million in the 2009-2010 Budget Year up from the $2.2 million level experienced in the 2008-2009 Fiscal Period. The 2009-2010 Budget Year includes the impact of 1st party environmental and Cyber liability coverage that is expected to be in place. In the 2007-2008 through 2009-2010 Fiscal Years, the cost of providing insurance coverage is reflected as follows:

Insurance Expense

(Dollars in Thousands)

	Actual 2007-08	Estimate 2008-09	Budget 2009-10
Property Insurance	$1,014	$1,070	$1,231
Public Liability & Workers' Comp.	2,174	2,235	3,239
Miscellaneous	40	45	50
TOTAL	**$3,228**	**$3,350**	**$4,520**

Other labor related insurance expenditures for employee health and group life insurance were previously referenced as a component of the labor and fringe benefit expenses.

Q. What expenses are included in Contracted Maintenance on Exhibit C-4, Line 5?

A. Contracted maintenance represents the cost of work performed by outside personnel, who are retained for their specialized experience in particular tasks. Software maintenance and/or licensing fees are also included in this category. This contracted work includes paving, painting, inspections and charges for maintenance of such items as gas engines, piping insulation, instrument repairs, tools, automobiles, elevators, air conditioning equipment, alarms, fire protection equipment, office and computer equipment and computer software maintenance, etc.

Q. Costs associated with Contracted Maintenance on Exhibit C-4, Line 5, are projected to rise by $.1 million or 2% in the 2009-2010 Budget Year. Please explain the reason for the increased expense.

A. The primary reasons for the additional contracted maintenance costs reflect planned maintenance activities on gas mains totaling $.1 million and higher maintenance software costs totaling $.1 million in Information services. PGW expects contracted maintenance expenses overall to total

$5.8 and $5.9 million in the 2008-2009 and 2009-2010 Fiscal Periods, respectively.

Q. What services are included within the category of Utilities on Exhibit C-4, Line 6?

A. Utilities include the cost of electric, telephone and water service. In the 2007-2008 through 2009-2010 Fiscal Years, the actual or projected costs for these services are:

Utility Expense

(Dollars in Thousands)

	Actual 2007-08	Estimate 2008-09	Budget 2009-10
Electric	$2,120	$2,300	$2,341
Telephone	1,087	1,080	1,113
Water	482	391	391
TOTAL	**$3,689**	**$3,771**	**$3,845**

The 2% increase in utility expenditures projected for the 2009-2010 Budget Year mainly reflects higher costs for purchased electricity at PGW's facilities. The utility expenses included above exclude the cost of gas used by the company. This gas expense, in accordance with the prescribed FERC accounting methodology, is included in Natural Gas expense on Exhibit A-1, Line 11.

Q. What costs are included in Rental expenses, as presented on Exhibit C-4, Line 7?

A. Rental expenses include the rental and leasing of such items as computer related and telephone equipment, hand held microprocessors, transportation and construction equipment and PGW's customer service centers. This expense category in the 2009-2010 Budget Year is expected to remain relatively constant at $1.5 million.

Q. Please detail the type of expenses included within the category Purchased Services on Exhibit C-4, Line 8.

A. This expense category primarily includes professional and technical services such as: legal, engineering, auditing, consulting and computer related services, as well as, certain specialized services, e.g., advertising, production, collection agencies, armored car services, weather forecasting, banking and financial services and home weatherization services, etc., which are not normally available within the company's internal organization. The 2009-2010 Budget Year anticipates that purchased service costs will total $27.1 million, an increase of $4.5 million or nearly 20% above the 2008-2009 Estimate of $22.6 million. The major increases in the 2009-2010 Budget Year result from higher costs for a planned real estate optimization study, business process improvements, legal services, corporate training, technical information service support and janitorial and security services. The 2009-2010 Budget anticipates that weatherization and conservation expenditures will total $2.2 million, approximating the 2008-2009 Estimate. These costs are part of the non-fuel charges that are currently recoverable through the Universal Service Charge.

Q. Does the Postage Expense on Exhibit C-4, Line 9, include the cost of mailing all of the gas bills and notices being sent to customers?

A. Yes. PGW mails all of its monthly customer gas bills. In addition, this expense includes the cost for the mailing of collection notices, parts and labor plan contracts and general business correspondence. The 2009-2010 Budget Year total of $2.5 million is $.1 million greater than the $2.4 million expected to be incurred in the current fiscal period.

Q. Please describe the items included in the category Promotion on Exhibit C-4, Line 10.

A. The promotional expenses are associated with the Marketing department's initiatives to expand the use of natural gas in all market segments. The Marketing department included $.3 million for customer incentives in the 2009-2010 Budget Year for a burner tip conversion campaign.

Q. What are the components of Non-Utility Revenues presented on Exhibit C-4, Line 11?

A. The main component of these revenues is associated with the 1% commission paid by the Commonwealth of Pennsylvania for sales tax collection.

Q. On Exhibit C-4, Line 12, what expenses are charged to capital and what is the basis for the allocated charges to capital and corresponding credits to Operations?

A. Certain labor-related fringe benefit expenses, such as employee group life and health insurance, pensions and payroll taxes are charged initially to PGW's operating accounts on the Statement of Income, Exhibit A-1. In order to assign a proportional share of these costs to capital projects that utilize PGW personnel, a percentage of the total cost of the labor and fringe benefit expenses to the total direct payroll is calculated. On the basis of this calculation, these expenses are allocated to capital projects and operating expenses are reduced on the basis of the direct labor charges to capital. Also, administrative costs are allocated to capital based on the percentage of administrative and general expenses to total expenditures, excluding fuel costs. Capital projects are charged and operating expenses lowered on the basis of the total charges on a monthly basis to capital projects. The 2009-2010 Budget Year anticipates an allocation of $17.7 million in labor related fringe benefits and administrative and general costs to capital projects, a $.1.8 million increase compared to the 2008-2009 Fiscal Period, reflecting the additional capital spending forecasted.

Q. How are Depreciation rates determined and how do they relate to the expense listed in Exhibit C-4, Line 13?

A. PGW currently depreciates plant-in-service based on a 2004 depreciation study performed by the firm of Black & Veatch. The 2009-2010 Budget Year projects the utilization of a 2.4% composite depreciation rate and when applied to the projected plant-in-service balances accounts for the $43.4 million depreciation expense.

Q. Miscellaneous expenses included on Exhibit C-4, Line 15, are forecasted to decline by $22.1 million in the 2009-2010 Budget Year. Please explain the reasons for the reduced costs and the main components of this category?

A. Miscellaneous expenses are forecasted to total $12.9 million in the 2009-2010 Budget Year a decrease of $22.1 million primarily due to the $16.7 million net impact of anticipated benefits derived from Business Transformation initiatives, while a higher credit related to LNG inventory processing activities further contributed to the reduction. Also, a decrease of $.9 million in the reported expense for post employment benefits is expected in the 2009-2010 fiscal period. A detail of the components of the miscellaneous expense category is listed below:

Miscellaneous Expenses

(Dollars in Thousands)

	Actual 2007-08	Estimate 2008-09	Budget 2009-10
Expense of Employees	$678	$747	$1,116
Dues & Subscriptions	3,667	3,847	4,022
Taxes	21	21	30
PFMC Management Fee	381	359	360
Other Post Employment Benefits	25,834	25,558	24,615
Amortization Non-Recurring Expense	377	210	316
Deferred Compensation	361	337	344
Business Transformation Costs/(Benefits)	-	3,000	(16,700)
(Additions)/Reductions LNG Inventory	(901)	925	(1,245)
TOTAL	**$30,418**	**$35,004**	**$12,858**

Q. Does this conclude your testimony in this proceeding?

A. Yes, it does. Thank you.

RESOLUTION
AUTHORIZATION TO SUBMIT THE
PGW FISCAL YEAR 2010 OPERATING BUDGET TO THE
PHILADELPHIA GAS COMMISSION FOR REVIEW AND APPROVAL

I, ABBY L. POZEFSKY, Assistant Secretary of PHILADELPHIA FACILITIES MANAGEMENT CORPORATION, do hereby certify that the following is a true and correct copy of action taken by the Board of Directors of said corporation by unanimous consent to the adoption of this resolution dated September 17, 2008, pursuant to provisions of Section 5727(b) of the Non-Profit Corporation Law of the Commonwealth of Pennsylvania.

RESOLUTION
AUTHORIZATION TO SUBMIT THE
PGW FISCAL YEAR 2010 OPERATING BUDGET TO THE
PHILADELPHIA GAS COMMISSION FOR REVIEW AND APPROVAL

WHEREAS, pursuant to that certain Management Agreement by and between the Philadelphia Facilities Management Corporation ("PFMC") and the City of Philadelphia dated December 29, 1972, as amended, PFMC is the manager and operator of the Philadelphia Gas Works ("PGW");

WHEREAS, according to the Management Agreement §IV.2(a), PGW's Operating Budget is subject to the approval of the Philadelphia Gas Commission;

WHEREAS, according to the Management Agreement §IV.2(a), PGW's Operating Budget must be prepared with the aid of the Director of Finance and be consistent with the accounting methods described in the Management Agreement §IV.1, in a form and extent that is satisfactory to the Director of Finance and the Philadelphia Gas Commission;

WHEREAS, PGW has prepared its Fiscal Year 2010 Operating Budget and is currently developing the Forecast Fiscal Years 2011 through 2015 through the evaluation of the current needs and outlook of the municipally owned utility; and

WHEREAS, PFMC has conducted a review of PGW's Fiscal Year 2010 Operating Budget and finds it in satisfactory form and content, and will review the Forecast Fiscal Years 2011 through 2015 when they are fully developed;

NOW THEREFORE, BE IT

RESOLVED, that PFMC approves PGW's Fiscal Year 2010 Operating Budget, subject to further refinement by PGW management, should that become necessary or desirable; and that PGW is authorized to file with the Philadelphia Gas Commission for its approval and with the Director of Finance for his approval, as to form and content, the PGW Fiscal Year 2010 Operating Budget, in accordance with the Management Agreement §IV.2(a).

IN WITNESS WHEREOF, I have hereunto set my hand and have caused the corporate seal of said Corporation to be hereunto affixed this 1st day of June, 2009.

PHILADELPHIA FACILITIES
MANAGEMENT CORPORATION

Abby Pozefsky
Assistant Secretary

Philadelphia Gas Works' Base Rate Filing

II. RATE OF RETURN

II.A.14. Describe long-term debt reacquisitions by Company and Parent as follows:

II.A.14.a. Reacquisitions by issue by year.

II.A.14.b. Total gain on reacquisitions by issue by year.

II.A.14.c. Accounting of gain for income tax and book purposes.

RESPONSE:

Not applicable, PGW does not have any long-term debt reacquisitions.

II. RATE OF RETURN

II.A.15. Set forth amount of compensating bank balances required under each of the following rate base bases:

II.A.15.a. Annualized test year operations.

II.A.15.b. Operations under proposed rates.

RESPONSE:

a. Not applicable, PGW does not have compensating bank balance requirements in the annualized test year operations.

b. Not applicable, PGW does not have compensating bank balance requirements under the proposed rates.

II. RATE OF RETURN

II.A.16. Provide the following information concerning compensating bank balance requirements for actual test year:

II.A.16.a. Name of each bank.

II.A.16.b. Address of each bank.

II.A.16.c. Types of accounts with each bank (checking, savings, escrow, other services, etc.).

II.A.16.d. Average Daily Balance in each account.

II.A.16.e. Amount and percentage requirements for compensating bank balance at each bank.

II.A.16.f. Average daily compensating bank balance at each bank.

II.A.16.g. Documents from each bank explaining compensating bank balance requirements.

II.A.16.h. Interest earned on each type of account.

RESPONSE:

Not applicable, PGW does not have compensating bank balance requirements in the test year.

Philadelphia Gas Works' Base Rate Filing

II. RATE OF RETURN

II.A.17. Provide the following information concerning bank notes payable for actual test year:

II.A.17.a. Line of Credit at each bank.

II.A.17.b. Average daily balances of notes payable to each bank, by name of bank.

II.A.17.c. Interest rate charged on each bank note (Prime rate, formula rate or other).

II.A.17.d. Purpose of each bank note (e.g., construction, fuel storage, working capital, debt retirement).

II.A.17.e. Prospective future need for this type of financing.

RESPONSE:

Not applicable, PGW does not have bank notes payable in the test year.

II. RATE OF RETURN

II.A.18. Set forth amount of total cash (all cash accounts) on hand from balance sheets for last 24-calendar months preceding test year-end.

RESPONSE:

PHILADELPHIA GAS WORKS
MONTHLY CASH BALANCES
SEPTEMBER 2007 THROUGH AUGUST 2009

Month	Account 131 Cash $	Account 131 Temp Investments $	Account 135 Working Funds $	Account 136 Short-Term Investments $	Total Cash $
Sept 07	(993)	54,800	57	102	53,966
Oct 07	(739)	47,900	57	281	47,499
Nov 07	(451)	35,100	45	0	34,694
Dec 07	2,292	32,100	54	0	34,446
Jan 08	2,405	100	53	39,900	42,458
Feb 08	2,392	100	60	62,400	64,952
Mar 08	3,371	100	64	38,100	41,635
Apr 08	3,907	68,800	60	52,100	124,866
May 08	55	0	65	0	120
Jun 08	(17)	0	52	0	35
Jul 08	(860,553)	0	53	0	(860,500)
Aug 08	49,286	0	52	0	49,338
Sept 08	(1,403)	10,400	55	0	9,052
Oct 08	(669)	54,600	55	0	53,987
Nov 08	161	44,500	53	0	44,715
Dec 08	(1,680)	28,900	52	0	27,272
Jan 09	1,502	35,300	49	0	36,851
Feb 09	4,251	49,100	42	0	53,393
Mar 09	1,646	98,300	47	0	99,993
Apr 09	29	115,500	44	0	115,573
May 09	434	7,600	44	0	8,078
Jun 09	(687)	17,500	45	0	16,857
Jul 09	(1,302)	6,800	35	0	5,533
Aug 09	12	13,700	38	0	13,750

II. RATE OF RETURN

II.A.19. Submit details on Company or Parent common stock offerings (past 5 years to present) as follows:

II.A.19.a. Date of Prospectus

II.A.19.b. Date of offering

II.A.19.c. Record date

II.A.19.d. Offering period—dates and number of days

II.A.19.e. Amount and number of shares of offering

II.A.19.f. Offering ratio (if rights offering)

II.A.19.g. Percent subscribed

II.A.19.h. Offering price

II.A.19.i. Gross proceeds per share

II.A.19.j. Expenses per share

II.A.19.k. Net proceeds per share (i-j)

II.A.19.l. Market price per share

II.A.19.l.1. At record date

II.A.19.1.2. At offering date

II.A.19.1.3. One month after close of offering

II.A.19.m. Average market price during offering

II.A.19.m.1. Price per share

II.A.19.m.2. Rights per share—average value of rights

II.A.19.n. Latest reported earnings per share at time of offering

II.A.19.o. Latest reported dividends at time of offering

RESPONSE: Not applicable.

Philadelphia Gas Works' Base Rate Filing

II. RATE OF RETURN

II.A.20. Provide latest available balance sheet and income statement for Company, Parent and System (consolidated).

RESPONSE:

Philadelphia Gas Works' Financial Report for the two months ended October 31, 2009 is attached.

FINANCIAL REPORT

FOR THE TWO MONTHS ENDED OCTOBER 31, 2009

UNAUDITED

UNAUDITED
PGW
STATEMENT OF INCOME
MONTH OF OCTOBER 31, 2009 AND 2008 WITH COMPARISONS
(Thousands of Dollars)

Line No.	2008 Actual		2009 Actual	2009 Budget	Increase/(Decrease) Actual 2009 vs Budget Amount	%
		Operating revenues				
1	$ 4,695	Non-heating	$ 3,331	$ 3,172	$ 159	5
2	1,329	Gas transport service	1,675	1,613	62	4
3	32,065	Heating	28,849	26,494	2,355	9
4	873	Appliance & Other Revenues	925	857	68	8
5	12,313	Unbilled gas adjustment	8,134	7,670	464	6
6	51,275	Total gas revenues	42,914	39,806	3,108	8
7	626	Other operating revenues	522	585	(63)	(11)
8	51,901	Total operating revenues	43,436	40,391	3,045	8
		Operating expenses				
9	31,170	Natural gas	16,462	17,854	(1,392)	(8)
10	-	Other raw material	1	-	1	-
11	31,170	SUB-TOTAL FUEL	16,463	17,854	(1,391)	(8)
12	20,731	CONTRIBUTION MARGIN	26,973	22,537	4,436	20
13	1,098	Gas Processing	770	1,105	(335)	(30)
14	2,901	Field Services	3,177	3,254	(77)	(2)
15	1,442	Distribution	1,948	1,783	165	9
16	684	Collection	683	799	(116)	(15)
17	1,684	Appropriation for uncollectible reserve	1,809	1,809	-	-
18	1,098	Customer Services	1,143	1,245	(102)	(8)
19	511	Account Management	534	827	(293)	(35)
20	288	Marketing	175	360	(185)	(51)
21	3,527	Administrative & General	3,482	4,598	(1,116)	(24)
22	3,355	Health Insurance	3,757	3,331	426	13
23	(922)	Capitalized Fringe Benefits	(817)	(839)	22	(3)
24	(731)	Capitalized Admin. Charges	(539)	(570)	31	(5)
25	1,145	Pensions	1,729	1,718	11	1
26	2,130	Other Post-Employment Benefits	2,101	2,101	-	-
27	624	Taxes	637	640	(3)	-
28	-	BTI Cost (Benefits)	-	(300)	-	-
29	-	Cost Savings	-	(208)	208	-
30	18,834	Total operating expenses	20,589	21,653	(1,064)	(5)
31	1,897	Operating income before depreciation	6,384	884	5,500	-
32	3,472	Depreciation	3,551	3,617	(66)	(2)
33	(278)	Less depreciation distributed thru clearing accounts	(495)	(400)	(95)	24
34	3,194	Net depreciation	3,056	3,217	(161)	(5)
35	53,198	Total operating expenses	40,108	42,724	(2,616)	(6)
36	(1,297)	Operating income	3,328	(2,333)	5,661	-
37	1,205	Interest and other income	533	814	(281)	(35)
38	(92)	Income before interest	3,861	(1,519)	5,380	-
		Interest				
39	4,982	Long term debt	3,662	4,410	(748)	(17)
40	1,099	Other	1,427	1,444	(17)	(1)
41	(24)	Allowance for funds used during construction	(22)	(81)	59	(73)
42	6,057	Net interest expense	5,067	5,773	(706)	(12)
43	$ (6,149)	Net income	$ (1,206)	$ (7,292)	$ 6,086	

UNAUDITED
PGW
STATEMENT OF INCOME
TWO MONTHS ENDED OCTOBER 31, 2009 AND 2008 WITH COMPARISONS
(Thousands of Dollars)

Line No.	2008 Actual		2009 Actual	2009 Budget	Increase/(Decrease) Actual 2009 vs Budget Amount	%
		Operating revenues				
1	$ 8,317	Non-heating	$ 5,742	$ 5,827	$ (85)	(1)
2	2,246	Gas transport service	2,679	2,804	(125)	(4)
3	59,729	Heating	52,031	45,506	6,525	14
4	1,668	Appliance & Other Revenues	1,817	1,670	147	9
5	12,156	Unbilled gas adjustment	8,546	8,080	466	6
6	84,116	Total gas revenues	70,815	63,887	6,928	11
7	1,228	Other operating revenues	1,058	1,159	(101)	(9)
8	85,344	Total operating revenues	71,873	65,046	6,827	10
		Operating expenses				
9	44,318	Natural gas	23,309	26,128	(2,819)	(11)
10	-	Other raw material	1	-	1	-
11	44,318	SUB-TOTAL FUEL	23,310	26,128	(2,818)	(11)
12	41,026	CONTRIBUTION MARGIN	48,563	38,918	9,645	25
13	2,051	Gas Processing	1,493	2,064	(571)	(28)
14	5,205	Field Services	5,151	5,656	(505)	(9)
15	2,766	Distribution	3,494	3,266	228	7
16	1,341	Collection	1,260	1,506	(246)	(16)
17	2,779	Appropriation for uncollectible reserve	3,146	3,146	-	-
18	2,075	Customer Services	2,028	2,335	(307)	(13)
19	989	Account Management	1,109	1,334	(225)	(17)
20	517	Marketing	480	613	(133)	(22)
21	6,711	Administrative & General	6,533	8,795	(2,262)	(26)
22	6,557	Health Insurance	7,575	6,663	912	14
23	(1,724)	Capitalized Fringe Benefits	(1,337)	(1,631)	294	(18)
24	(1,083)	Capitalized Admin. Charges	(887)	(1,108)	221	(20)
25	2,295	Pensions	3,470	3,427	43	1
26	4,260	Other Post-Employment Benefits	4,202	4,202	-	-
27	1,092	Taxes	1,160	1,135	25	2
28	-	BTI Cost (Benefits)	-	(600)	600	-
29	-	Cost Savings	-	(417)	417	-
30	35,831	Total operating expenses	38,877	40,386	(1,509)	(4)
31	5,195	Operating income before depreciation	9,686	(1,468)	11,154	-
32	6,912	Depreciation	6,951	7,234	(283)	(4)
33	(556)	Less depreciation distributed thru clearing accounts	(989)	(800)	(189)	24
34	6,356	Net depreciation	5,962	6,434	(472)	(7)
35	86,505	Total operating expenses	68,149	72,948	(4,799)	(7)
36	(1,161)	Operating income	3,724	(7,902)	11,626	-
37	2,132	Interest and other income	1,054	1,590	(536)	(34)
38	971	Income before interest	4,778	(6,312)	11,090	-
		Interest				
39	9,678	Long term debt	8,024	8,831	(807)	(9)
40	1,951	Other	2,878	2,887	(9)	-
41	(56)	Allowance for funds used during construction	(44)	(161)	117	(73)
42	11,573	Net interest expense	10,858	11,557	(699)	(6)
43	$ (10,602)	Net income	$ (6,080)	$ (17,869)	$ 11,789	

PGW

BALANCE SHEETS OCTOBER 31, 2009 AND 2008

(Thousands of Dollars)

ASSETS

Line No.		2009	2008
	Utility Plant - At Original Cost		
1	In service	$ 1,754,297	$ 1,685,506
2	Under construction	37,931	57,031
3	Total	1,792,228	1,742,537
4	Less accumulated depreciation	(715,521)	(677,053)
5	Utility plant - net	1,076,707	1,065,484
6	**Sinking fund - revenue bonds**	110,540	106,585
7	**Capital improvement funds**	49,576	111,704
8	**Restricted Investment (City of Philadelphia)**	-	-
9	**Restricted Investment Workers' Compensation**	2,594	2,392
	Current Assets		
10	Cash and temporary investments	1,884	53,987
	Accounts receivable		
11	Customers	200,092	212,019
12	Others	2,516	8,216
13	Accrued gas revenues	14,798	20,300
14	Accumulated provisions for uncollectible accounts	(112,035)	(135,948)
15	Accounts receivable - net	105,371	104,587
16	Materials and supplies	140,605	214,670
17	Other current assets and deferred debits	15,832	15,080
18	Total Current Assets	263,692	388,324
19	**Unamortized bond issuance cost**	27,094	38,201
20	**Unamortized loss-reacquired debt**	52,763	47,043
21	**Other Assets**	8,089	6,684
22	**Deferred Environmental**	14,232	12,650
23	**Total Assets**	$ 1,605,287	$ 1,779,067

PGW
BALANCE SHEETS OCTOBER 31, 2009 AND 2008
(Thousands of Dollars)

EQUITY AND LIABILITIES

	Original amount	Current portion	2009	2008	Line No.
City equity			$ 234,636	$ 212,806	1
Long term debt:					
City of Philadelphia bonds					
Issued					
1989	132,520	-	5,064	5,064	2
1990	50,421	-	-	-	3
1994	183,880	-	-	-	4
1998	287,185	12,245	81,365	93,610	5
1999	176,280	2,655	22,630	25,285	6
2001	120,225	2,700	5,815	8,515	7
2002	125,000	2,670	89,915	92,585	8
2003	186,705	7,550	132,675	140,225	9
2004	207,820	13,585	184,405	200,470	10
2006	313,390	-	-	309,770	11
2007	245,350	3,300	235,835	239,260	12
2009		1,595	311,690	-	13
TECA - 11th "C"		-	17,080	15,557	14
TECA - 12th "A"		-	-	-	15
Subordinate Lease Obligations					
1997	23,000	-	-	-	16
Total Issued		46,300	1,086,474	1,130,341	17
Unamortized debt discount/premium		2,109	22,034	22,999	18
Total Long Term Bond Debt		48,409	1,108,508	1,153,340	19
Notes payable (City of Phila.)			-	-	20
Total Long Term Debt			1,108,508	1,153,340	21
Current Liabilities					
Notes payable			-	148,000	22
Accounts payable			51,518	69,693	23
Current portion of long term debt			48,409	46,701	24
Customers' deposits			4,459	6,681	25
Other current liabilities and deferred credits			20,919	33,074	26
Accrued accounts:					
Interest, taxes and wages			14,067	14,787	27
Distribution to the City			6,000	6,000	28
Total Current Liabilities			145,372	324,936	29
Other Liabilities			116,771	87,985	30
Total Equity and Liabilities			$ 1,605,287	$ 1,779,067	31

II. RATE OF RETURN

II.A.21. Provide Original Cost, Trended Original Cost and Fair Value rate base claims.

RESPONSE: Not applicable.

II. RATE OF RETURN

II.A.22. Provide Operating Income claims under:

II.A.22.(i) Present rates

II.A.22.(ii) Pro forma present rates (annualized & normalized)

II.A.22.(iii) Proposed rates (annualized & normalized)

RESPONSE: See the response to Exh.A – III.A.17.

IIA.22.b. Provide Rate of Return on Original Cost and Fair Value claims under:

II.A.22.b.(i) Present rates

II.A.22.b.(ii) Pro forma present rates

II.A.22.b.(iii) Proposed rates

RESPONSE: Not applicable.

II. RATE OF RETURN

II.A.23. List details and sources of "Other Property and Investment," "Temporary Cash Investments" and "Working Funds" on test year-end balance sheet.

RESPONSE:

Major items included in Account 121 – Non-Utility Property and Account 124 – Other Investments for Philadelphia Gas Works at August 31, 2009 are detailed below

Account 121 – Non-Utility Property

None	$0

Account 124 – Other Investments

None	$0

II. RATE OF RETURN

II.A.24. Attach chart explaining Company's corporate relationship to its affiliates (System Structure).

RESPONSE:

Not applicable, PGW has no affiliates.

II. RATE OF RETURN

II.A.25. If the utility plans to make a formal claim for a specific allowable rate of return, provide the following data in statement or exhibit form:

II.A.25.a. Claimed capitalization and capitalization ratios with supporting data.

II.A.25.b. Claimed cost of long-term debt with supporting data.

II.A.25.c. Claimed cost of short-term debt with supporting data.

II.A.25.d. Claimed cost of total debt with supporting data.

II.A.25.e. Claimed cost of preferred stock with supporting data.

II.A.25.f. Claimed cost of common equity with supporting data.

RESPONSE: Not applicable.

II. RATE OF RETURN

II.A.26. Provide the following income tax data:

II.A.26.a. Consolidated income tax adjustments, if applicable.

II.A.26.b. Interest for tax purposes (basis).

RESPONSE: Not applicable.

II. RATE OF RETURN

II.C.1. Provide test year monthly balances for "Current Gas Storage" and notes financing such storage.

RESPONSE:

The following volumes are in dekatherms (Dths).

TEST YEAR

MONTH	LNG	STORAGES
September	2,587,587	15,608,932
October	2,812,867	17,849,147
November	3,134,179	17,315,971
December	3,182,741	14,767,342
January	2,872,815	11,391,364
February	2,597,649	8,875,600
March	2,895,823	7,285,006
April	3,182,158	7,644,962
May	3,375,102	8,991,706
June	3,458,354	10,297,131
July	3,389,033	11,645,702
August	3,319,711	12,863,217

Philadelphia Gas Works' Base Rate Filing

III. BALANCE SHEET AND OPERATING STATEMENT

III.A.1. Provide a comparative balance sheet for the test year and the preceding year which corresponds with the test year date.

RESPONSE:

See the attached schedule, Exh.A – III.A.1. Please note that the balance sheet at 8/31/09 in the attached is the same balance sheet that appears in Exhibits JRB-1 and JRB-2A/2B (Exhibits to the testimony of PGW witness Bogdonavage – PGW St. 2) and the balance sheet at 8/31/10 in the attached is the same balance sheet that appears in Exhibit JRB-2A.

Exhibit A - III.A.1

PHILADELPHIA GAS WORKS
BALANCE SHEET
(Dollars in Thousands)

	ACTUAL 8/31/08	Exhibits JRB-1, 2A & 2B 8/31/09	Exhibit JRB-2A 8/31/10
ASSETS			
Utility Plant Net	$ 1,062,095	$ 1,078,406	$ 1,110,117
Sinking Fund Reserve	106,198	109,285	124,098
Capital Improvement Fund	111,207	63,326	154,201
Restricted Investment Workers' Compensation Fund & City of Philadelphia	2,383	2,594	2,634
Debt Reduction Funding	-	-	-
Cash	49,338	13,750	51,949
Gas	222,880	235,582	227,782
Other	8,714	9,150	9,425
Accrued Gas Revenues	8,145	8,741	8,175
Reserve for Uncollectible	(140,435)	(137,820)	(134,103)
Accounts Receivable:	99,304	115,653	111,279
Materials & Supplies	187,539	134,922	127,758
Other Current Assets	2,317	5,989	6,296
Deferred Debits	3,309	7,317	10,942
Unamortized Bond Issuance Expense	38,738	27,469	26,421
Unamortized Extraordinary Loss	47,902	53,742	47,391
Deferred Environmental	12,650	12,961	12,961
FY 2009 Actual Cash Adjustment		(31,649)	(31,649)
Other Assets	6,685	3,828	2,163
TOTAL ASSETS	1,729,665	1,597,593	1,756,561
EQUITY & LIABILITIES			
City Equity	226,408	243,461	323,192
Revenue Bonds	1,162,455	1,121,345	1,223,300
TECA Accretions	15,314	16,818	18,434
Unamortized Discount	(4,951)	(3,719)	(4,199)
Unamortized Premium	30,375	28,221	24,961
Long Term Debt	1,203,193	1,162,665	1,262,496
Notes Payable	90,000	-	-
City Loan	-	-	
Accounts Payable	67,508	38,645	37,250
Customer Deposits	7,325	3,250	3,350
Other Current Liabilities	8,264	1,145	1,174
Deferred Credits	24,317	23,883	4,997
Accrued Interest	12,391	11,000	10,675
Accrued Taxes & Wages	3,430	3,021	3,315
Accrued Distribution to City	3,000	3,000	3,000
Other Liabilities	83,829	107,523	107,112
TOTAL EQUITY & LIABILITIES	1,729,665	1,597,593	1,756,561

III. BALANCE SHEET AND OPERATING STATEMENT

III.A.2. Set forth the major items of Other Physical Property, Investments in Affiliated Companies and Other Investments.

RESPONSE:

Major items included in Account 121 – Non-Utility Property and Account 124 – Other Investments for Philadelphia Gas Works at August 31, 2009 are detailed below:

<u>Account 121 – Non-Utility Property</u>

None	$0

<u>Account 124 – Other Investments</u>

None	$0

III. BALANCE SHEET AND OPERATING STATEMENT

III.A.3. Supply the amounts and purpose of Special Cash Accounts of all types, such as:

III.A.3.a. Interest and Dividend Special Deposits.

III.A.3.b. Working Funds other than general operating cash accounts.

III.A.3.c. Other special cash accounts and amounts (Temporary cash investments).

RESPONSE:

The amounts and purpose of Special Cash Accounts for **FY 2009** are as follows:

Account 132 – Interest Special Deposits (Total Corporation)	$ 0
Account 135 – Working Funds (Total Corporation) The balance is comprised of petty cash and working funds for use by district offices and various departments. Funds are for small business expenses.	$45,176
Account 136 – Temporary Cash Investments (Total Corporation) The balance is comprised of securities held by PGW per the terms of the City's investment policy.	$ 0

The amounts and purpose of Special Cash Accounts for **FY 2008** are as follows:

Account 132 – Interest Special Deposits (Total Corporation)	$ 0
Account 135 – Working Funds (Total Corporation) The balance is comprised of petty cash and working funds for use by district offices and various departments. Funds are for small business expenses.	$52,099
Account 136 – Temporary Cash Investments (Total Corporation) The balance is comprised of securities held by PGW per the terms of the City's investment policy.	$ 0

Philadelphia Gas Works' Base Rate Filing

III. BALANCE SHEET AND OPERATING STATEMENT

III.A.4. Describe the nature and/or origin and amounts of notes receivable, accounts receivable from associated companies, and any other significant receivables, other than customer accounts, which appear on balance sheet.

RESPONSE:

Fiscal Year 2009

Account 141 – Notes Receivable (Total Corporation) $0

There where no notes receivable outstanding as of the end of fiscal year 2009

Account 143 – Other Accounts Receivable (Total Corporation) $2,159,000

Miscellaneous –	
Reimbursement for projects on PGW property:	$1,027,000
City of Philadelphia – Miscellaneous:	$99,000
Estimated Firm Suppliers storage usage:	$1,033,000

Fiscal Year 2008

Account 141 – Notes Receivable (Total Corporation) $0

There where no notes receivable outstanding as of the end of fiscal year 2008

Account 143 – Other Accounts Receivable (Total Corporation) $8,440,000

Miscellaneous –	
Reimbursement for projects on PGW property:	$895,000
City of Philadelphia – Miscellaneous:	$408,000
Estimated Firm Suppliers storage usage:	$7,137,000

Philadelphia Gas Works' Base Rate Filing

III. BALANCE SHEET AND OPERATING STATEMENT

III.A.5. Provide the amount of accumulated reserve for uncollectible accounts, method and rate of accrual, amounts accrued, and amounts written-off in each of last three years.

RESPONSE:

Accumulated Provision
for Uncollectible Accounts, Accruals, Write-Offs, & Recoveries
for the Twelve Months Ended August 31, 2006, 2007, 2008,2009

G/L Acct # 1440

Period Ending	Beginning Balance	Accruals (JE #2101)	Write-Offs (JE #2102)	Recoveries & Other (JE #3505, 3510, 3512)	Ending Balance
08/31/2006	(207,480,224)	(40,132,000)	95,804,304	(17,081,141)	(168,889,061)
08/31/2007	(168,889,061)	(40,000,000)	69,505,792	(10,848,214)	(150,231,483)
08/31/2008	(150,231,483)	(37,000,000)	50,758,680	(3,962,005)	(140,434,808)
08/31/2009	(140,434,808)	(41,820,144)	57,403,850	1,841,705	(123,009,397)

See attached for criteria on account write-off.

PGW	**CUSTOMER AFFAIRS** **POLICY AND PROCEDURE** **WRITE OFF PROCEDURE**	**Policy No.: CA-011** Effective: February 28, 2007 Revised: April 20, 2009 **Supersedes: April 1, 2008** **Page 1 of 2**

OBJECTIVE:

PGW writes off accounts deemed to be uncollectible. For an account to be written off, all utility service agreements must be closed for the account. Accounts shut off for non-payment or customer request that have a balance due at final bill and do not have any active service agreements are placed on the write off path. These accounts are placed with collection agencies to recover any outstanding balances prior to write-off. PGW continues to attempt to collect through agency placements after an account has been written off in an attempt to maximize recovery.

SCOPE:

Customer Affairs

METHOD OF PROCEDURE

Credit and Collection Path that leads up to Write Off:

- Bill Notice Sent
- Bill Balance Due >30 days
- 10-Day Mail Notice (56.91) after 31 days or greater depending on selection criteria
- 3-Day Phone or Field Notification (56.93) 7 days after 10 day notice
  - Additional PM/weekend phone attempt if 1st attempt unsuccessful
- 2-Day Field Notice (56.95) during the Cold Weather Interim Period (CWIP) only 1 day after a successful 3-day notice
- Field Visit to Disconnect Gas Service after 2 days have passed form the date of the 2-Day Field Notice
- Post Termination Notice (56.96) delivered to premise at the time of a successful field visit to disconnect gas service
- Final Bill Generated after gas service disconnection
- Agency Placement of account if Final Bill remains unpaid after 30 days
- Write Off –Accounts written off 90 days after the issuance of the Final Bill

*__Notes__:

1. Accounts which have not entered the above described Credit and Collection Path for delinquent customers (i.e. customers who remained current with their gas bill) however fail to pay their final bill for 30 days will also be subject to agency placement and write-off as outlined in the preceding two bullets.

2. Only the balance for gas charges are placed with agencies and placed on the write-off path, no non-utility charges.

PGW can continue to take collection action on the Written-Off monies within four (4) years of the Write-Off date. All new applicants will be subject to write – off reactivation. PGW will request an upfront payment of anywhere from the total amount due to a percentage of the Written-Off amount, prior to service restoration. A new account number must be created when issuing the Turn On for the customer. The CSR will merge the written – off dollars into the specified target account.

Associated Procedures:
Non-CRP Credit and Collection Process
Collection Agency Placement

Gerald Hornbuckle
Director of Credit and Collections
(Policy Owner)

Elsa Leung
Director of Regulatory Compliance

Cristina Coltro
Vice President of Customer Affairs

III. BALANCE SHEET AND OPERATING STATEMENT

III.A.6. Provide a list of prepayments and give an explanation of special prepayments.

RESPONSE:

ACCOUNT 165 – PREPAYMENTS AS OF AUGUST 31, 2009

Prepaid Insurance Balance represents unamortized portion of insurance premiums which are expensed over the period of the insurance coverage.	**$236,000**
Prepaid Postage Balance represents outstanding amount of postage meter.	**154,000**
Miscellaneous Prepaid Expenses	**49,000**
TOTAL:	**$439,000**

ACCOUNT 165 – PREPAYMENTS AS OF AUGUST 31, 2008

Prepaid Insurance Balance represents unamortized portion of insurance premiums which are expensed over the period of the insurance coverage.	**$2,162,000**
Prepaid Postage Balance represents outstanding amount of postage meter.	**143,000**
Miscellaneous Prepaid Expenses	**12,000**
TOTAL:	**$2,317,000**

Philadelphia Gas Works' Base Rate Filing

III. BALANCE SHEET AND OPERATING STATEMENT

III.A.7. Explain in detail any other significant (in amount) current assets listed on balance sheet.

RESPONSE:

CURRENT ASSET DETAIL AS OF AUGUST 31, 2009

Account 142 - Customer Accounts Receivable	
Gas Accounts Receivable	$219,890,000
Merchandise Receivable	242,000
Total Customer Accounts Receivable	220,132,000
Account 154 - Plant Material and Operating Supplies	
General Storeroom	7,110,000
Odorant & Gas Holders	24,000
Total Plant Material and Operating Supplies	7,134,000
Account 164 - Gas Storage	
Pipeline Storage	92,743,000
LNG Storage	25,146,000
Total Gas Storage	117,889,000
Total Material & Gas Storage	125,023,000
Account 173 - Accrued Utility Revenue	6,251,000

CURRENT ASSET DETAIL AS OF AUGUST 31, 2008

Account 142 - Customer Accounts Receivable	
Gas Accounts Receivable	$222,614,000
Merchandise Receivable	266,000
Total Customer Accounts Receivable	222,880,000
Account 154 - Plant Material and Operating Supplies	
General Storeroom	7,783,000
Odorant & Gas Holders	5,000
Total Plant Material and Operating Supplies	7,788,000
Account 164 - Gas Storage	
Pipeline Storage	142,680,000
LNG Storage	37,071,000
Total Gas Storage	179,751,000
Total Material & Gas Storage	187,539,000
Account 173 - Accrued Utility Revenue	8,145,000

III. BALANCE SHEET AND OPERATING STATEMENT

III.A.8. Explain in detail, including the amount and purpose, the deferred asset accounts that currently operate to effect or will at a later date effect the operating account supplying:

III.A.8.a. Origin of these accounts.

III.A.8.b. Probable changes to this account in the near future.

III.A.8.c. Amortization of these accounts currently charged to operations or to be charged in the near future.

III.A.8.d. Method of determining yearly amortization for the following accounts:

—Temporary Facilities
—Miscellaneous Deferred Debits
—Research and Development
—Property Losses
—Any other deferred accounts that effect operating results.

RESPONSE: as of August 31, 2009

a.)

ACCOUNT 183.2
OTHER PRELIMINARY SURVEY AND INVESTIGATION

1832.1144	Advanced Engineering	$798,579

Account 1832.1144 represents the preparation of plans, design specifications, prototyping, and costs estimates associated with developing the technology and production processes of the Philadelphia Gas Works' natural gas plant facilities and distribution system.

ACCOUNT 186.0
MISCELLANEOUS DEFERRED DEBITS

The deferred asset account is maintained by the following sub-accounts:

III. BALANCE SHEET AND OPERATING STATEMENT

1860.1100	Job Costs Accumulated Unbilled	$1,029,406
1860.1145	Environmental Remediation	14,231,857
1860.1170	State Sales - Uncollectible Gas Accounts	165,851
1860.1171	Returnable Containers	2,130
1860.1183	Accumulated W/O Reimbursable	2,156,958
1860.1196	Market Incentive Program	805,193
1860.1200	Long Term Portion Deferred Operating Expenses	538,838
1860.1202	PUC Management Audit	62,472
1860.1229	Rate Case Expenses	194,428

Account 1860.1100
represents costs that PGW accumulates when working on a project (i.e. labor).

Account 1860.1145
represents the long term portion of environmental remediation costs projected to occur between September 1, 2009 and August 31, 2040.

Account 1860.1170
represents sales tax PGW paid to the state of Pennsylvania for customer's accounts that were never collected.

Account 1860.1171
represents the deposit value of returnable containers such as liquid oxygen, propane, etc.

Account 1860.1183
represents estimates for accrued reimbursements due PGW.

Account 1860.1196
represents promotional incentives paid to customers, which are expected to be returned to PGW in accordance with the terms and conditions of each individual contract.

Account 1860.1200
represents the long term portion of amortized costs associated with rate case filings and mandated management audits.

Account 1860.1202
represents the unamortized portion of expenses associated with the FY 2008 PUC Management Audit, which are being amortized over a seven year period.

III. BALANCE SHEET AND OPERATING STATEMENT

Account 1860.1229
represents the unamortized portion of expenses associated with the FY 2007 Rate Case proceeding, FY 2009 Extraordinary Rate Case proceeding, and FY 2010 Rate Case proceeding, which are being amortized over a five, four, and five year period, respectively.

b.) There will be no significant changes to the accounts in the near future.

c.) Amortization is currently being charged to the aforementioned operating accounts.

d.) Yearly amortization method:
Temporary Facilities - Not applicable
Miscellaneous Deferred Debits - Please see description of accounts above.
Research and Property - Not Applicable
Property Loss - Not Applicable
Any other Deferred Accounts that affect operating accounts - Please see description of accounts above.

Philadelphia Gas Works' Base Rate Filing

III. BALANCE SHEET AND OPERATING STATEMENT

III.A.9. Explain the nature of accounts payable to associated companies, and note amounts of significant items.

RESPONSE:

PGW has no associated companies.

Philadelphia Gas Works' Base Rate Filing

III. BALANCE SHEET AND OPERATING STATEMENT

III.A.10. Provide details of other deferred credits as to their origin and disposition policy (e.g.—amortization).

RESPONSE:

ACCOUNT 253 –
OTHER DEFERRED CREDITS AS OF AUGUST 31, 2009

Environmental Clean-Up The amount represents proceeds from the insurance companies that will be used to offset future environmental remediation expenses.	**$22,990,000**
Appliance Parts & Labor Plans The amount represents payments received from customers which will be amortized over the life of the Plan.	**1,197,000**
Unidentified Customer Payments This amount represents payments received from customers and are in the process of being researched to properly be applied to the correct customer's accounts.	**144,000**
Meter Test Deposits This amount represents customer deposits on meters that are being tested.	**36,000**
GCR Adjustment This amount represents over-recovery of revenue that must be given back to the gas customer.	**5,873,000**
OPEB/GASB 46 This represents other post-employment benefits.	**78,207,000**
Miscellaneous	**7,815,000**
TOTAL:	**$116,262,000**

III.A.10. Continued . . .

ACCOUNT 253 –
OTHER DEFERRED CREDITS AS OF AUGUST 31, 2008

Environmental Clean-Up The amount represents proceeds from the insurance companies that will be used to offset future environmental remediation expenses.	**$21,600,000**
Appliance Parts & Labor Plans The amount represents payments received from customers which will be amortized over the life of the Plan.	**1,121,000**
Unidentified Customer Payments This amount represents payments received from customers and are in the process of being researched to properly be applied to the correct customer's accounts.	**3,438,000**
Meter Test Deposits This amount represents customer deposits on meters that are being tested.	**33,000**
GCR Adjustment This amount represents over-recovery of revenue that must be given back to the gas customer.	**15,494,000**
OPEB/GASB 46 This represents other post-employment benefits.	**52,255,000**
Miscellaneous	**8,127,000**
TOTAL:	**$102,068,000**

III. BALANCE SHEET AND OPERATING STATEMENT

III.A.11. Supply basis for Injury and Damages reserve and amortization thereof.

RESPONSE:

Accumulated Provision for Injuries and Damages at August 31, 2009

ACCOUNT 228.2 **$5,236,064**

ACCOUNT 228201
RESERVE FOR INJURIES AND DAMAGES **$3,229,995**

This amount represents the reserve for third party injuries and damages. The reserve is evaluated on a semi-annual basis and includes specifically identified accruals for known, probable future expenses, as determined by Risk Management.

ACCOUNT 228202
RESERVE FOR WORKERS' COMPENSATION **$2,006,069**

This amount represents the reserve for workers' compensation injuries and damages. The reserve is evaluated on a semi-annual basis and includes not only specifically identified accruals for known, probable future expenses, but also expenses which were incurred but not reported for both the current and prior periods.

III. BALANCE SHEET AND OPERATING STATEMENT

III.A.12. Provide details of any significant reserves, other than depreciation, bad debt, injury and damages, appearing on balance sheet.

RESPONSE:

<u>ACCOUNT 242 Accrues Wages as of August 31, 2009</u>

Compensated Absences This amount represents unused employee vacation time earned during the period.	**$3,242,000**
Accrued Wages This amount represents wages earned but unpaid at the end of the fiscal year.	**$474,600**
Workers Compensation This amount represents the estimated current liability for Worker's Compensation applicable to on-duty employee accidents.	**$3,393,931**

<u>ACCOUNT 242 Accrues Wages as of August 31, 2008</u>

Compensated Absences This amount represents unused employee vacation time earned during the period.	**$3,428,000**
Accrued Wages This amount represents wages earned but unpaid at the end of the fiscal year.	**$0**
Workers Compensation This amount represents the estimated current liability for Worker's Compensation applicable to on-duty employee accidents.	**$3,429,306**

III. BALANCE SHEET AND OPERATING STATEMENT

III.A.13. Provide an analysis of unappropriated retained earnings for the test year and three preceding calendar years.

RESPONSE:

Philadelphia Gas Works
Unappropriated Retained Earnings
(Dollars in Thousands)

	Fiscal Years ended August 31,			
	Actual 2007	Actual 2008	Actual 2009	Projected 2010
Balance, Beginning of Year	$239,405	$223,301	$226,408	$243,619
Balance, Transferred from Income	(16,104)	3,107	17,211	79,731
Balance, End of Year	$223,301	$226,408	$243,619	$323,350

	Calendar Years ended December 31,		
	Actual 2006	Actual 2007	Actual 2008
Balance, Beginning of Year	$191,420	$253,381	246,523
Balance, Transferred from Income	61,961	(6,858)	8,952
Balance, End of Year	$253,381	$246,523	$255,475

III. BALANCE SHEET AND OPERATING STATEMENT

III.A.14. Provide schedules and data in support of the following working capital items:

III.A.14.a. Prepayments—List and identify all items

III.A.14.b. Federal Excise Tax accrued or prepaid

III.A.14.c. Federal Income Tax accrued or prepaid

III.A.14.d. Pa. State Income Tax accrued or prepaid

III.A.14.e. Pa. Gross Receipts Tax accrued or prepaid

III.A.14.f. Pa. Capital Stock Tax accrued or prepaid

III.A.14.g. Pa. Public Utility Realty Tax accrued or prepaid

III.A.14.h. State sales tax accrued or prepaid

III.A.14.i. Payroll taxes accrued or prepaid

III.A.14.j. Any adjustment related to the above items for ratemaking purposes.

RESPONSE:

14.a. Prepayments
See the response to III.A.6

14.b thru g - Not applicable

14.h. State sales tax accrued or prepaid

August 31, 2008	$505,276
August 31, 2009	$369,396

14.i. Payroll taxes accrued or prepaid

August 31, 2008	None
August 31, 2009	None

14.j. - Not applicable

III. BALANCE SHEET AND OPERATING STATEMENT

III.A.15. Supply an exhibit supporting the claim for working capital requirement based on the lead-lag method.

III.A.15.a. Pro forma expenses and revenues are to be used in lieu of book data for computing lead-lag days.

III.A.15.b. Respondent must either include sales for resale and related expenses in revenues and in expenses or exclude from revenues and expenses. Explain procedures followed (exclude telephone).

RESPONSE: Not applicable.

Philadelphia Gas Works' Base Rate Filing

III. BALANCE SHEET AND OPERATING STATEMENT

III.A.16. Provide detailed calculations showing the derivation of the tax liability offset against gross cash working capital requirements.

RESPONSE: Not applicable.

III. BALANCE SHEET AND OPERATING STATEMENT

III.A.17. Prepare a Statement of Income for the various time frames of the rate proceeding including:

Col. 1— Book recorded statement for the test year.
2— Adjustments to book record to annualize and normalize under present rates.
3— Income statement under present rates after adjustment in Col. 2
4— Adjustment to Col. 3 for revenue increase requested.
5— Income statement under requested rates.

III.A.17.a. Expenses may be summarized by the following expense classifications for purposes of this statement:

Operating Expenses (by category), Depreciation, Amortization, Taxes, Other than Income Taxes, Total Operating Expense, Operating Income Before Taxes, Federal Taxes, State Taxes, Deferred Federal, Deferred State Income Tax Credits, Other Credits, Other Credits and Charges, etc., Total Income Taxes, Net Utility Operating Income, Other Income & Deductions, Other Income Detailed listing of Other Income used in Tax Calculation, Other Income Deduction, Detailed Listing, Taxes Applicable to Other Income and Deductions, Listing, Income Before Interest Charges, Listing of all types of Interest Charges and all amortization of Premiums and/or Discounts and Expenses on Debt issues, Total Interest, Net Income After Interest Charges

(Footnote each adjustment to the above statements with explanation in sufficient clarifying detail.)

RESPONSE: Please see the attached schedule, Exhibit A – III.A.17.

PHILADELPHIA GAS WORKS
STATEMENT OF PROJECTED INCOME AT PRESENT and PROPOSED RATES
ANNUALIZED TWELVE MONTHS ENDING AUGUST 31, 2010

	(1) Normalized Twelve Months Ended August 31, 2010	(2) Adjustments Under Present Rates	(3) Annualized Twelve Months Ended August 31, 2010	(4) Adjustments Under Proposed Rates	(5) Adjusted Twelve Months Ended August 31, 2010
Operating Revenues					
Gas Service Revenues	$ 791,239,000		$ 791,239,000	$ 42,971,000	$ 834,210,000
Transportation Revenues	30,084,000		30,084,000	-	30,084,000
Other Operating Revenues	18,086,000		18,086,000	484,000	18,570,000
Total Operating Revenues	839,409,000		839,409,000	43,455,000	882,864,000
Operation & Maintenance Expenses					
Natural Gas Costs	420,056,000		420,056,000		420,056,000
Other	278,216,000	527,000	278,743,000	484,000	279,227,000
Depreciation	38,607,000		38,607,000		38,607,000
Total Operating & Maintenance Expenses	736,879,000	527,000	737,406,000	484,000	737,890,000
Operating Income	102,530,000	(527,000)	102,003,000	42,971,000	144,974,000
Other Income	9,218,000	3,801,000	13,019,000		13,019,000
Income Before Interest	111,748,000	3,274,000	115,022,000	42,971,000	157,993,000
Interest Expense					
Long Term Debt	52,771,000	9,000,000	61,771,000		61,771,000
Other	11,558,000	64,000	11,622,000		11,622,000
AFUDC	(865,000)		(865,000)		(865,000)
Loss From Extinguishment of Debt	5,734,000		5,734,000		5,734,000
Total Interest	69,198,000	9,064,000	78,262,000	-	78,262,000
Net Income	42,550,000	(5,790,000)	36,760,000	42,971,000	79,731,000

Philadelphia Gas Works' Base Rate Filing

III. BALANCE SHEET AND OPERATING STATEMENT

III.A.18. Provide comparative operating statements for the test year and the immediately preceding 12 months showing increases and decreases between the two periods. These statements should supply detailed explanation of the causes of the major variances between the test year and preceding year by detailed account number.

RESPONSE:

See Exhibit A – III.A.18 for Comparative Operating Statements of the Philadelphia Gas Works' twelve months ended August 31, 2009 and August 31, 2010.

Account 480.0 – Residential Sales **($26,498,805)**
The decrease in revenues primarily resulted from a decrease in the average price per Mcf of $1.63. The average Mcf rate decreased from $17.76 to $16.12 for the twelve month period ending August 31, 2010. The overall decrease in residential sales revenue was slightly offset by an increase in sales volume of 2,171,495 Mcf to residential customers.

Account 481.0 – Commercial & Industrial Sales **($35,558,260)**
A decrease in revenues of $27,080,260 resulted from a decrease of $3.48 in the average price per Mcf applied to firm industrial and commercial customers. The average Mcf rate decreased from $18.73 to $15.25 for the twelve month period ending August 31, 2010. The overall decrease in firm industrial and commercial sales revenue was slightly offset by an increase in sales volume of 268,918 Mcf. Similarly, the average price per Mcf applied to interruptible customers decreased by $3.48 or $8,478,000 and sales volume decrease by 399,972 Mcf.

Account 482.0 – Public Authority Sales **($2,991,854)**
The decrease in revenues resulted from a decrease of $3.30 in the average price per Mcf applied to municipal and public customers. The average Mcf rate decreased from $17.62 to $14.32 for the twelve month period ending August 31, 2010. The overall decrease in municipal and public sales revenue was slightly offset by an increase in sales volume of 114,916 Mcf.

Account 489.3 – Gas Transportation **$5,170,953**
The increase in revenues resulted from an increase in sales volume of 711,660 Mcf to firm transportation customers, which was slightly offset by a $.04 per Mcf decrease in transportation service charges for the twelve month period ending August 31, 2010.

III. BALANCE SHEET AND OPERATING STATEMENT

Account 495.0 – Other Gas Revenues **$13,843,869**

Gas cost recovery charges are projected to increase from $9,621,360 to $22,012,000 during the twelve month period ending August 31, 2010 when compared to the prior twelve month period ending August 31, 2009.

Other Gas Supply **($127,370,615)**

Natural Gas Expenses **($125,803,423)**

Natural Gas costs decreased by $7,396,135 as a result of a decrease of 0.9 Bcf in the volume of natural gas utilized for send-out. Pipeline demand charges were $173,511 higher; however, the increase in total natural gas costs were offset by a decrease in the average cost per Mcf of $2.18 or $119,265,574. The average cost per Mcf decreased from $8.54 for the twelve month period ending August 31, 2009 compared to $6.36 for the twelve month period ending August 31, 2010.

Account 813.0 –
General Gas Supply Expenses **($1,222,530)**

A marginal decrease in purchase gas expenses from $20,849,791 for the twelve month period ending August 31, 2009 to $19,627,261 for the twelve month period ending August 31, 2010 further contributed to the decrease in the overall total of Other Gas Supply expenses.

Distribution **($3,074,460)**

Account 878.0 –
Meter & House Regulator **($3,604,916)**

Labor and other material shut off expenses resulting from the residential, commercial, and industrial annual collection campaign are expected to decrease for the twelve month period ending August 31, 2010 when compared to the prior twelve month period ending August 31, 2009.

Customer Accounts **$3,876,981**

Account 904.0 –
Uncollectible Accounts **$1,883,000**

The increase is due to an increase in uncollectible utility revenue.

Account 903.0 –
Records & Collection Expenses **$1,903,665**

The increase is due to an increase in labor and other general expenses associated with the call center and field collection activities.

III. BALANCE SHEET AND OPERATING STATEMENT

Customer Service **$2,164,375**

Account 908.0 – Customer Assistance **$2,164,375**
The increase is due to a projected increase in LIHEAP expenses as well as Conservation Works Program (CWP) expenses that were not experienced in the twelve month period ending August 31, 2009.

Administrative & General **$18,029,957**

Account 925.0 – Injuries & Damages **$2,481,053**
The cost of claims and liability insurance is projected to increase from $4,897,611 for the twelve month period ending August 31, 2009 to $7,378,664 for the twelve month period ending August 31, 2010.

Account 926.0 –
Employee Pension & Benefits **$12,715,047**

The payment of pension benefits to beneficiaries increased from $33,871,429 for the period ending August 31, 2009 to $35,128,000 for the period ending August 31, 2010.

The withdrawal of pension fund deposits decreased from $18,446,754 for the period ending August 31, 2009 to $11,066,000 for the period ending August 31, 2010.

The cost of health care insurance for retired and active employees is projected to increase by $4,077,722 for the twelve month period ending August 31, 2010.

Account 929.0 –
Duplicate Charges – Credit **$3,516,533**
Natural gas expenses associated with building heat and soft shutoffs are expected to decrease for the period ending August 31, 2010, resulting in an increase in the corresponding contra credit for duplicate charges.

Account 419.0 - Interest & Dividend Income **$3,272,814**
The increase is due to a projected $1,039,281 and $2,213,028 increase of interest earned on the organization's revenue bond sinking fund and capital improvement fund, respectively, for the twelve month period ending August 12, 2010.

Philadelphia Gas Works' Base Rate Filing

III. BALANCE SHEET AND OPERATING STATEMENT

Account 421.0 – Misc. Non-Operating Income **($2,451,038)**
Capacity release credits, gains realized from the refunding of the sixth series variable rate bond, and a favorable mark-to-market adjustment amounted to $1.2 million, $0.5 million, and $0.7 million, respectively, were greater for the twelve month period ending August 31, 2009 than the forecasted period ending August 31, 2010.

Account 427.0 - Interest on Long Term Debt **($1,830,770)**
The decrease is attributed to a decrease in the amount of long term debt expected to incur during the twelve month period ending August 31, 2010.

Account 428.1 - Amortization of Extraordinary Loss **($3,869,053)**
The early implementation of GASB 53, Accounting and Financial Reporting for Derivative Instruments, resulted in an additional $3.8 million deferred outflow of resources associated with the hedge termination of the sixth series variable rate bond for the twelve month period ending August 31, 2009 when compared to the forecasted period ending August 31, 2010.

Account 431.0 - Other Interest Expenses **$6,391,756**
Letter of credit (LOC) fees associated with the issuance of the variable rate eight series bond, remarketing fees associated with the fifth series variable rate bond, and interest costs associated with PGW's commercial paper program are expected to be $5.8 million, $0.2 million and $0.4 million, respectively, greater in the twelve month period ending August 31, 2010 than the prior period ending August 31, 2009.

PHILADELPHIA GAS WORKS
COMPARATIVE OPERATING STATEMENTS
TWELVE MONTHS ENDED AUGUST 31, 2009 & 2010

OPERATING REVENUES		August 31, 2009	August 31, 2010	Increase/ (Decrease)
	SALES OF GAS			
480.0	Residential Sales	$ 668,932,805	$ 642,434,000	$ (26,498,805)
481.0	Commercial & Industrial Sales	184,098,260	148,540,000	(35,558,260)
482.0	Public Authority Sales	24,777,854	21,786,000	(2,991,854)
483.0	Sales for Resale	6,866	4,000	(2,866)
489.3	Gas Transportation Service Sales	24,913,047	30,084,000	5,170,953
495.0	Other Gas Revenues	7,737,131	21,581,000	13,843,869
	Total Gas Revenues	$ 910,465,963	$ 864,429,000	$ (46,036,963)
	OTHER OPERATING			
487.0	Forfeited Discounts	9,506,252	9,264,000	(242,252)
488.0	Miscellaneous Service Revenue	157,564	199,000	41,436
		$ 9,663,816	$ 9,463,000	$ (200,816)
	TOTAL OPERATING REVENUE	$ 920,129,779	$ 873,892,000	$ (46,237,779)
OPERATING & MAINTENANCE EXPENSES				
700.0 - 708.0	Steam Production	1,269,362	838,633	(430,729)
710.0 - 742.0	Manufactured Gas Production	2,225,648	1,422,820	(802,828)
804.0 - 837.0	Other Gas Supply	547,473,755	420,103,140	(127,370,615)
840.0 - 843.9	Other Storage	9,738,860	9,002,582	(736,278)
850.0 - 870.0	Transmission	1,600,680	1,503,809	(96,871)
871.0 - 894.0	Distribution	53,010,136	49,935,676	(3,074,460)
901.0 - 905.0	Customer Accounts	68,885,619	72,762,600	3,876,981
907.0 - 910.0	Customer Service	6,176,125	8,340,500	2,164,375
920.0 - 931.0	Administrative & General	101,496,283	119,526,240	18,029,957
	Total O&M Expenses	$ 791,876,468	$ 683,436,000	$(108,440,468)
OTHER EXPENSES				
403.0	Depreciation Expenses	37,781,591	38,607,000	825,409
408.1	Taxes Other than Income Taxes	6,588,227	6,875,000	286,773
	Total Depreciation and Taxes	$ 44,369,818	$ 45,482,000	$ 1,112,182
	TOTAL OPERATING EXPENSES	$ 836,246,286	$ 728,918,000	$(107,328,286)
OTHER INCOME				
417.0	Non Utility Revenue	37,058	0	(37,058)
417.1	Expense Non-Utility Operations	0	0	0
418.0	Non Operating Rental Income	64,173	58,000	(6,173)
419.0	Interest & Dividend Income	5,513,186	8,786,000	3,272,814
421.0	Miscellaneous Non Operating Income	6,626,038	4,175,000	(2,451,038)
426.3	Reserved Penalties	0	0	0
426.5	Other Deductions	0	0	0
	Total Other Income	$ 12,240,455	$ 13,019,000	$ 778,545
INTEREST				
427.0	Interest on Long Term Debt	63,601,770	61,771,000	(1,830,770)
428.0	Amortization of Debt Discount & Expense	3,678,757	2,903,000	(775,757)
428.1	Amortization of Loss on Required Debt	9,603,053	5,734,000	(3,869,053)
429.0	Amortization of Premium on Debt	(2,576,579)	(2,526,000)	50,579
431.0	Other Interest Expenses	4,853,244	11,245,000	6,391,756
432.0	Allowance for Borrowed Funds Used During Construction	(247,437)	(865,000)	(617,563)
	Total Interest	$ 78,912,808	$ 78,262,000	$ (650,808)
	NET INCOME	$ 17,211,140	$ 79,731,000	$ 62,519,860

Philadelphia Gas Works' Base Rate Filing

III. BALANCE SHEET AND OPERATING STATEMENT

III.A.19. List extraordinary property losses as a separate item, not included in operating expenses or depreciation and amortization. Sufficient supporting data must be provided.

RESPONSE: Not applicable.

III. BALANCE SHEET AND OPERATING STATEMENT

III.A.20. Supply detailed calculations of amortization of rate case expense, including supporting data for outside services rendered. Provide the items comprising the rate case expense claim (include the actual billings or invoices in support of each kind of rate case expense), the items comprising the actual expenses of prior rate cases and the unamortized balances.

RESPONSE:

Base Rate Case Expenses:

Cost of Service Study	$150,000
Legal Counsel Costs	350,000
Expert Witness Costs	100,000
Miscellaneous Costs	10,000
Total:	**$610,000**

The aforementioned projected base rate costs are expected to be incurred by PGW during the upcoming rate case proceeding. These costs are anticipated to be amortized over a five-year period.

III. BALANCE SHEET AND OPERATING STATEMENT

III.A.21. Submit detailed computation of adjustments to operating expenses for salary, wage and fringe benefit increases (union and non-union merit, progression, promotion and general) granted during the test year and six months subsequent to the test year. Supply data showing for the test year:

III.A.21.a. Actual payroll expense (regular and overtime separately) by categories of operating expenses, i.e., maintenance, operating transmission, distribution, other.

III.A.21.b. Date, percentage increase, and annual amount of each general payroll increase during the test year.

III.A.21.c. Dates and annual amounts of merit increases or management salary adjustments.

III.A.21.d. Total annual payroll increases in the test year.

III.A.21.e. Proof that the actual payroll plus the increases equal the payroll expense claimed in the supporting data (by categories of expenses).

III.A.21.f. Detailed list of employee benefits and cost thereof for union and non-union personnel. Any specific benefits for executives and officers should also be included, and cost thereof.

III.A.21.g. Support the annualized pension cost figures.

III.A.21.g (i) State whether these figures include any unfunded pension costs. Explain.

III.A.21.g.(ii) Provide latest actuarial study used for determining pension accrual rates.

III.A.21.h. Submit a schedule showing any deferred income and consultant fee to corporate officers or employees.

RESPONSE:

Philadelphia Gas Works' Base Rate Filing

III. BALANCE SHEET AND OPERATING STATEMENT

21a. Actual payroll expense by categories of operating expenses for the twelve months ended August 31, 2010.

	Operations	Maintenance	Total
Steam Production	$114,746	$129,362	$244,108
Manufactured Gas Production	791,971	104,147	896,118
Other Gas Supply	914,514	-	914,514
Other Storage	2,050,131	2,986,286	5,036,417
Transmission	980,962	-	980,962
Distribution	25,342,166	10,234,860	35,577,026
Customer Accounts	19,038,255	-	19,038,255
Customer Service	2,020,000	-	2,020,000
Administrative & General	12,257,600	-	12,257,600
	$63,510,345	**$13,454,655**	**$76,965,000**
Total Labor Charged to Stores Expense	$2,396,000	-	$2,396,000
Total Labor Charged to Clearing Expense	8,053,000	-	8,053,000
	$10,449,000	-	**$10,449,000**
Total Labor Charged	**$73,959,345**	**$13,454,655**	**$87,414,000**

Neither the Uniform System of Accounts nor Company records distinguish between regular and overtime labor charged to functional accounts.

21b. Date, percentage increase, and annual amount of each general payroll increase during the test year (twelve months ended August 31, 2010).

	Date Effective	Percent Increase	Estimated FY2010 Impact
Bargaining Group Local 686, Utility Workers' Union of America	May 15, 2009	3.50%	$1,957,082

21c. Dates and annual amounts of merit increases or management salary adjustments.

	Date Effective	Estimated Annual Amount
Supervisory/Management	N/A	$0

Philadelphia Gas Works' Base Rate Filing

III. BALANCE SHEET AND OPERATING STATEMENT

21d. Total annual payroll increases in the test year.

Bargaining Group Local 686, Utility Workers' Union of America	$1,957,082
Supervisory/Management	$0

21e. Proof that the actual payroll plus the increases equal the payroll expense claimed in the supporting data (by categories of expenses).

Total Labor charged to Operating and Maintenance Expenses:	
Per Twelve Months Ended August 31, 2010	$85,456,918
Salary/Wage Adjustments	1,957,082
Normalized August 31, 2010	$87,414,000

21f. Detailed list of employee benefits and costs thereof for union and non-union personnel.

Twelve Months ending August 31, 2010:	
Group Life Insurance	$1,900,000
Hospitalization Insurance	39,491,220
457(K) Plan	344,000
Dental Plan	1,647,780
Legal Services	265,000
Tuition Reimbursement	400,000
Post Retirement Benefits	26,905,000
Total Benefits	$70,953,000

21g. Support the annualized pension cost figures.

(i) **State whether these figures include any unfunded pension costs. Explain.** The figures in the attached actuarial study include unfunded pension costs.

(ii) **Provide latest actuarial study used for determining pension accrual rates.** Aon's Actuarial Report for the Plan Year Ending August 31, 2008 is attached.

21h. Submit a schedule showing any deferred income and consultant fee to corporate officers or employees.

No deferred income or consultant fees to corporate officers or employees are being claimed in this rate proceeding.

PHILADELPHIA GAS WORKS
PENSION PLAN

Actuarial Valuation for the Plan Year
September 1, 2007 – August 31, 2008

November 17, 2008

November 17, 2008

Philadelphia Gas Works
1800 N. Ninth Street
Philadelphia, PA 19122

We have been retained by Philadelphia Gas Works to perform the actuarial valuation of the Philadelphia Gas Works Pension Plan as of September 1, 2007. This report sets forth the contribution range for the Plan Year, running from September 1, 2007 through August 31, 2008. The valuation is based on data sent to us by Philadelphia Gas Works, the Plan as described in the official Plan document, the assets of the Plan as reported by Philadelphia Gas Works, and the stated actuarial assumptions.

The purposes of the actuarial valuation are:

1. To determine the financial condition of the Plan and the contribution requirements for the Plan year;

2. To provide information to be used in the preparation of any required governmental forms;

3. To provide information for use in satisfying the requirements of your auditors;

4. To provide actuarial certification of the adequacy and appropriateness of the cost method and assumptions used for your Plan; and

5. To provide comments on the developing experience under your Plan, the need for changes in the Plan or funding, and other areas of concern to you. In this respect, the actuarial valuation report becomes an essential source of information for discussions throughout the year on the Pension Plan.

In our opinion, this report is complete and accurate, and the actuarial assumptions and methods, in the aggregate, are reasonably related to the experience of the Plan and represent our best estimate of future Plan experience as it should be considered for proper funding of your pension obligations. It is also our opinion that each of the actuarial assumptions and methods utilized in this valuation are reasonable (taking into account the experience of the plan and reasonable expectations) or, in the aggregate, result in total contribution equivalents that would be determined if each assumption and method were reasonable.

Aon Consulting is pleased to submit this report of the Pension Plan to you, and will also be pleased to discuss any aspects of the report with you after you have had a chance to review it.

Respectfully submitted,

Thomas G. Vicente, FSA, EA
Senior Vice President
Enrollment #08-05034

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PHILADELPHIA GAS WORKS PENSION PLAN

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PHILADELPHIA GAS WORKS PENSION PLAN

A. Comparative Summary of Principal Valuation Results

		Actuarial Valuation for Plan Year Beginning		
				Percent
1.	***Participant Data***	***September 1, 2007***	***September 1, 2005***	***Change***
	Active Participants	1,665	1,701	(2.1)
	Retired Participants	1,860	1,908	(2.5)
	Vested Terminated Participants	291	279	4.3
	Total	3,816	3,888	(1.9)
	Total Payroll	$ 102,958,230	$ 99,963,495	3.0
	Average Pay	$ 61,837	$ 58,767	5.2
	Average Age	46.32	45.51	1.8
	Average Past Service	18.93	19.09	(0.8)
2.	***Contribution Range***			
	Normal Cost *(Exhibit D)*	$ 8,084,675	$ 7,616,520	6.1
	Indicated Midyear -			
	10 Year Contribution *(Exhibit E)*	$ 18,014,825	$ 17,694,332	1.8
	20 Year Contribution *(Exhibit E)*	$ 15,024,676	$ 14,652,156	2.5
	20 Year Contribution as Percentage of Compensation	14.59%	14.66%	(0.7)
3.	***Liabilities***			
	Unfunded Accrued Actuarial Liability *(Exhibit D)*	$ 66,197,018	$ 67,348,785	(1.7)
	Present Value of Vested Benefits *(Exhibit F)*	$ 423,090,128	$ 393,920,071	7.4
	Present Value of Accumulated Benefits *(Exhibit F)*	$ 437,400,921	$ 410,077,812	6.7
4.	***Assets***			
	Actuarial Asset Value *(Exhibit D)*	$ 416,182,974	$ 383,517,337	8.5

PHILADELPHIA GAS WORKS PENSION PLAN

B. Discussion

Since the last actuarial valuation performed as of September 1, 2005, the demographics of the plan participants has changed as follows:

- There are fewer plan participants 1.9%
- Total payroll has increased 3.0%
- Average pay has increased 5.2%
- Average age of active plan participants has increased 1.8%

As of September 1, 2007, the normal cost has increased 6.1% over the normal cost of September 1, 2005. During the same period, the unfunded accrued actuarial liability decreased 1.7%. The normal cost has increased primarily due to the fact that, although the number of active participants has decreased, total payroll and average pay have increased 3.0% and 5.2% respectively. The unfunded liability ranges have decreased primarily due to the fact that the assets have grown at a higher level than the liabilities. We do not have sufficient data to analyze the asset performance for the last two years. We expect assets to earn 8.25% per year. During the past two years, the assets have increased 8.5%. The actual earnings on the assets, the amount of company contributions, expenses, and benefit payments impact the actual fund growth.

The contribution ranges have increased due to the increase in normal cost. During the past two years there have been fewer active participants, but average pay and average age increased, while average credited service declined only 0.8%. All of these factors contribute to increased costs of the plan.

PHILADELPHIA GAS WORKS PENSION PLAN

C. Financial Summary

Assets	*September 1, 2007*	*September 1, 2005*
Retirement reserve reported by the City of Philadelphia	$416,182,974	$383,517,337

Note: Aon Consulting was not asked to reconcile asset transactions.

PHILADELPHIA GAS WORKS PENSION PLAN

D. Summary of Valuation Results

	Retired	Vested Terminated	Active	Total
1 Number of Participants Included in the Valuation	1,860	291	1,665	3,816
2 Projected Annual Benefits	$ 31,558,534	$ 3,200,068	$ 106,374,636	$ 141,133,238
3 Present Value of Projected Benefits as of September 1, 2007	$ 275,455,469	$ 8,248,755	$ 273,671,721	$ 557,375,945
4 Present Value of Future Normal Costs	$ -	$ -	$ 74,995,953	$ 74,995,953
5 Accrued Actuarial Liability as of September 1, 2007: *(3)-(4)*	$ 275,455,469	$ 8,248,755	$ 198,675,768	$ 482,379,992
6 Actuarial Asset Value				$ 416,182,974
7 Unfunded Accrued Actuarial Liability: (5)-(6)				$ 66,197,018
8 Normal Cost Payable on September 1, 2007				$ 8,084,675

PHILADELPHIA GAS WORKS PENSION PLAN

E. Contribution Levels

Ten Year Amortization

1. Contribution for Normal Cost $ 8,084,675

2. Amortization Schedule

Effective Date	*Amortization Period*	*Initial Amount*	*Unfunded Accrued Actuarial Liability*	*Annual Payment*	
09/01/2007	10	$ 66,197,018	$ 66,197,018	$9,216,478	$ 9,216,478

3. Contributions September 1, 2007: *(1) + (2)* $ 17,301,153

4. Contributions Mid-year *(3) x 1.04125* $ 18,014,825

5. Contributions August 31, 2008: *(3) x 1.0825* $ 18,728,498

Twenty Year Amortization

1. Contribution for Normal Cost $ 8,084,675

2. Amortization Schedule

Effective Date	*Amortization Period*	*Initial Amount*	*Unfunded Accrued Actuarial Liability*	*Annual Payment*	
09/01/2007	20	$ 66,197,018	$ 66,197,018	6,344,785	$ 6,344,785

3. Contributions September 1, 2007: *(1) + (2)* $ 14,429,460

4. Contributions Mid-year *(3) x 1.04125* $ 15,024,676

5. Contributions August 31, 2008: *(3) x 1.0825* $ 15,619,891

PHILADELPHIA GAS WORKS PENSION PLAN

F. Actuarial Present Value of Accumulated Benefits Determined Pursuant to Financial Accounting Standards No. 35

		September 1, 2007		September 1, 2005
1. Actuarial Present Value of Accumulated Vested Benefits				
a. Participants currently receiving benefits	$	275,455,469	$	270,343,332
b. Vested terminated participants	$	8,248,755	$	7,264,852
c. Active Participants	$	139,385,904	$	116,311,887
d. Total	$	423,090,128	$	393,920,071
2. Actuarial Present Value of Accumulated Non-Vested Benefits	$	14,310,793	$	16,157,741
3. Total Actuarial Present Value of Accumulated Plan Benefits: *(1d) + (2)*	$	437,400,921	$	410,077,812
4. Net Assets Available for Benefits *(Actuarial Value, Exhibit C)*	$	416,182,974	$	383,517,337
5. Excess *(deficiency)* of Net Assets Available for Benefits over (under) Actuarial Present Value of Accumulated Plan Benefits: *(4) - (3)*	$	(21,217,947)	$	(26,560,475)
6. Active Participant Count				
a. 100% Vested		1,395		1,338
b. Partially Vested		0		0
c. Non-Vested		270		363

PHILADELPHIA GAS WORKS PENSION PLAN

G. Estimated 10-Year Benefit Pay-Out Projections

Plan Year Beginning September 1	*Expected Annual Benefit Pay-Out During Plan Year*
2007	*$34,355,904*
2008	*35,280,642*
2009	*36,371,609*
2010	*37,353,436*
2011	*38,562,588*
2012	*39,988,550*
2013	*41,386,972*
2014	*43,085,278*
2015	*44,944,642*
2016	*47,035,568*

Note: The above projected pay-outs recognize expected mortality, termination, and incidence of disability and assume all benefits will commence at Normal Retirement Date. No assumption has been made regarding possible retirements prior to Assumed Retirement Date or anticipation of new entrants.

PHILADELPHIA GAS WORKS PENSION PLAN

H. Distribution of Inactive Participants by Age and Years of Retirement

1. ***Retirees***

Years of Retirement as of September 1, 2007									
Age	*0-4*	*5-9*	*10-14*	*15-19*	*20-24*	*25+*	*Total*	*Annual Benefits Total*	*Annual Benefits Average*
15-44	3	-	-	-	-	-	3	$ 50,343	$ 16,781
45-49	13	5	1	-	2	1	22	399,897	18,177
50-54	54	21	1	-	-	1	77	1,895,698	24,619
55-59	115	97	18	2	1	-	233	5,234,961	22,468
60-64	63	71	93	3	-	-	230	4,942,368	21,489
65-69	30	46	123	11	3	1	214	4,483,170	20,949
70-74	15	40	120	29	5	10	219	4,082,131	18,640
75-79	26	29	84	138	26	19	322	4,743,829	14,732
80-84	30	27	31	82	106	43	319	3,838,769	12,034
85-89	15	12	14	10	54	71	176	1,607,854	9,135
90+	5	3	5	2	2	28	45	279,513	6,211
Total	369	351	490	277	199	174	1,860	$31,558,533	$16,967
Average Age: 72.09 Average Retirement Years: 12.90									

2. ***Vested Terminated***

Age	*Number*	*Annual Benefit Total*	*Annual Benefit Average*
15-44	102	$ 1,018,235	$ 9,983
45-49	80	975,361	12,192
50-54	68	796,838	11,718
55-59	34	310,002	9,118
60-64	7	99,633	14,233
Total	291	$3,200,069	$ 10,997

PHILADELPHIA GAS WORKS PENSION PLAN

I. Distribution of Active Participants by Age and Service

(Showing Number of Employees & Average Earnings)

	Completed Years of Service as of September 1, 2007											Earnings	
Age	00-00	1-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40+	Total	Total	Average
15-19	1	-	-	-	-	-	-	-	-	-	1	$ 19,587	19,587
	19587	-	-	-	-	-	-	-	-	-	19587		
20-24	12	40	2	-	-	-	-	-	-	-	54	2,042,603	37,826
	34306	37887	57733	-	-	-	-	-	-	-	37826		
25-29	7	57	22	-	-	-	-	-	-	-	86	4,083,134	47,478
	33196	46396	54828	-	-	-	-	-	-	-	47478		
30-34	2	37	34	9	1	-	-	-	-	-	83	4,288,427	51,668
	45663	46318	54949	62074	56397	-	-	-	-	-	51668		
35-39	1	34	21	26	36	9	-	-	-	-	127	7,432,634	58,525
	20382	49774	63406	62686	61080	62188	-	-	-	-	58525		
40-44	3	32	26	26	77	114	1	-	-	-	279	16,701,933	59,864
	35128	49531	55692	58579	61830	63351	57498	-	-	-	59864		
45-49	3	18	9	20	58	110	173	7	-	-	398	25,543,494	64,180
	17503	46467	55806	65764	61892	64153	67933	62588	-	-	64180		
50-54	1	9	7	19	35	68	155	59	6	-	359	24,119,441	67,185
	31128	44453	67498	60053	64669	61297	70900	71066	76786	-	67185		
55-59	-	9	11	11	13	34	54	38	29	1	200	13,381,299	66,906
	-	57754	86607	68460	56796	61617	64344	69270	73996	69713	66906		
60-64	-	2	4	4	6	12	17	11	10	-	66	4,314,152	65,366
	-	98483	87569	70199	52942	56099	63609	63320	71741	-	65366		
65-69	-	1	2	1	1	-	2	-	1	1	9	865,342	96,149
	-	29283	215812	43176	61403	-	82859	-	53612	80527	96149		
70+	-	1	-	-	1	-	-	-	-	1	3	166,184	55,395
	-	68916	-	-	48668	-	-	-	-	48600	55395		
	30	240	138	116	228	347	402	115	46	3	1665	102,958,230	61,837
Total	32145	46677	62890	62456	61559	62752	68460	69216	73426	66280	61837		

Average Age: 46.32 Average Service: 18.89

J. Actuarial Methods and Assumptions

1. Cost Method

The cost method used is the Projected Unit Credit Cost method. Each year the projected benefits of each participant are estimated and their present value determined. The normal cost for each active participant is determined by dividing this present value by service from entry into the plan to assumed retirement age. The total normal cost is equal to the sum of individual normal costs.

The accrued actuarial liability for each active participant is equal to the normal cost multiplied by service since entry to valuation date. The accrued actuarial liability for inactive participants is equal to the present value of their benefits. The total accrued actuarial liability is equal to the sum of the individual accrued actuarial liabilities.

The Unfunded Accrued Actuarial Liability as of any date is equal to the accrued actuarial liability less the actuarial value of assets as of such date.

Each year actuarial gains and losses occur since actual experience under the Plan will vary from the actuarial assumptions. All gains and losses will be amortized in future years.

2. Asset Valuation Technique

The Actuarial Asset Value is equal to the value of fund assets as reported by the City of Philadelphia with no adjustments.

PHILADELPHIA GAS WORKS PENSION PLAN

J. Actuarial Methods and Assumptions
(continued)

3. *Actuarial Assumptions*

(Unless otherwise specified, the same assumptions have been used for the determination of the Contribution Range and Accumulated Plan Benefits)

a. *Mortality:* **Healthy Lives:** The RP-2000 Combined Healthy Male mortality table is used for males. Combined Healthy Female mortality table is used for females. Sample annual percentages are as follows:

Percentage of Healthy Participants
Expected to Die in the Next Year

Age	*Males*	*Females*	*Age*	*Males*	*Females*
20	.0345%	.0191%	45	.1508%	.1124%
25	.0376	.0207	50	.2138	.1676
30	.0444	.0264	55	.3624	.2717
35	.0773	.0475	60	.6747	.5055
40	.1079	.0706	65	1.2737	.9706

Disabled Lives: Disabled mortality rates are used for anticipated future disablements and current disabled lives. Sample percentages are as follows:

Percentage of Disabled Participants
Expected to Die in the Next Year

Age	*Males*	*Females*	*Age*	*Males*	*Females*
20	2.4583%	0.9650%	45	4.3033%	2.3988%
25	2.7457%	1.1974%	50	4.8004%	2.7961%
30	3.0661%	1.4843%	55	5.3120%	3.2594%
35	3.4184%	1.7654%	60	5.8118%	3.7993%
40	3.8373%	2.0579%	65	6.3669%	4.4287%

b. *Interest:* 8.25%, compounded annually.

J. Actuarial Methods and Assumptions
(continued)

c. ***Turnover:*** A scale varying by age and service with illustrative annual rates of turnover as follows:

	Years of Service					
Age	*0*	*1*	*2*	*3*	*4*	*5*
20	*23.2%*	*17.4%*	*14.4%*	*11.6%*	*8.8%*	*5.8%*
25	*18.8%*	*14.0%*	*11.8%*	*9.4%*	*7.0%*	*4.6%*
30	*14.8%*	*11.0%*	*9.2%*	*7.4%*	*5.6%*	*3.6%*
35	*11.2%*	*8.4%*	*7.0%*	*5.6%*	*4.2%*	*2.8%*
40	*8.8%*	*6.6%*	*5.6%*	*4.4%*	*3.4%*	*2.2%*
45	*7.2%*	*5.4%*	*4.6%*	*3.6%*	*2.8%*	*1.8%*
50	*5.2%*	*3.8%*	*3.2%*	*2.6%*	*2.0%*	*1.2%*
55	*0*	*0*	*0*	*0*	*0*	*0*

d. ***Disability*** A scale varying by age with illustrative annual rates of disability as follows:

Percentage of Participants Expected to Become Disabled in the Next Year

Age	Percentage
30	*0.0600%*
35	*0.0700*
40	*0.1100*
45	*0.2200*
50	*0.4600*
55	*1.0200*
60	*1.6200*

e. ***Salary Increase***

Determination of Contribution Range Salaries are assumed to increase by an amount equal to 3% of the salary at the beginning of the next three years, then 4.50% of the salary at the beginning of the fourth and subsequent years.

Accumulated Plan Benefits Past salaries are discounted at the same rate as described above. Future salaries are assumed to remain at the same level as on the valuation date.

PHILADELPHIA GAS WORKS PENSION PLAN

J. Actuarial Methods and Assumptions
(continued)

f. *Retirement Age* Retirements are assumed to occur at the following ages:

Age	*Percentage*
55-61	*10%*
62	*100%*

4. *Change in Actuarial Assumptions*

None.

PHILADELPHIA GAS WORKS PENSION PLAN

K. Summary of the Principal Plan Provisions

Any ambiguities or questionable provisions of this summary should be resolved by reference to the official Plan Document. This summary is not intended to be a source document, but merely an instrument of convenience for the administration of the Plan.

1. *Effective Date:* March 24, 1967, most recently amended as of January 1, 1999.

2. *Eligibility:* Full-time employees hired prior to March 24, 1967 who will have completed 15 years of Credited Service at normal retirement occurring prior to January 1, 1979 or 5 years Credited Service at normal retirement occurring on or after January 1, 1979 became participants on March 24, 1967. Employees hired on or after March 24, 1967 will become participants on their date of employment. A full-time employee is one who works regularly for 20 or more hours each week.

3. *Contribution:* Philadelphia Gas Works pays the entire cost of the Plan.

4. *Credited Service:* Years and months of service credited prior to March 24, 1967 and years and months of continuous service thereafter; continuous service is reduced for periods of approved unpaid leaves (except for military leave) in excess of one month. Layoff periods are also excluded and, if in excess of one year, when approved, the employee is considered terminated.

5. *Final Average Compensation:* Average of the five highest consecutive calendar years' earnings during the last 10 years of Credited Service. Compensation includes overtime, bonus, shift differential, and any other special compensation. Per the amendment approved on November 14, 1986, compensation includes amounts deferred under the PGW Employees' Deferred Compensation Plan.

6. *Retirement Dates*

- *a.* *Normal Retirement:* First of the month next following attainment of age 65 and completion of 5 years of Credited Service.
- *b.* *Early Retirement*: First of any month after attaining age 55 and completing 15 years of Credited Service, or after completing 30 years of credited service.
- *c.* *Late Retirement:* First of any month after Normal Retirement up to age 70.
- *d.* *Disability Retirement*: If permanently disabled and has attained age 45 and completed at least 15 years of Credited Service, provided age plus years of Credited Service equals at least 65. Or after completion of at least 20 years of Credited Service regardless of age, upon recommendation of the Medical Director of the Company.

7. *Benefit Formula*

- *a.* *Normal Retirement:* The monthly equivalent of the greater of (i) or (ii) below, payable for life.
  - (i) 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 Credited Service; maximum of 60% of the highest annual earnings during any one of the last 10 years of Credited Service; applicable to all participants.

K. Summary of the Principal Plan Provisions
(continued)

(ii) 2% of total earnings received during period of Credited Service plus 22.5% of the first $1,200 of such amount; applicable only to participants who were employees on or prior to March 24, 1967.

b. ***Early Retirement:*** Same as 7(a) above, based upon Final Average Earnings and Credited Service as of the early retirement date and reduced by the percentage described in 8 below depending upon Credited Service as of the early retirement date.

c. ***Late Retirement:*** Same as Normal Retirement Benefit based on Final Average Compensation and Credited Service as of Late Retirement Date.

d. ***Disability Retirement:*** Same as Normal Retirement Benefit, based on Final Average Compensation and Credited Service as of date of disability.

8. ***Benefits Upon Termination of Employment - Vesting:*** All participants who terminate after having completed at least 5 years of Credited Service are entitled to a benefit as described in 7(a) above, based upon Final Average Compensation and Credited Service as of the date of termination.

Early Commencement of Payments: A former participant who is entitled to a deferred benefit may elect to have his benefit commence on the first day of any month between his 55th and 65th birthdays. Such benefit will be reduced by 3% for each of the first 5 years and 5% for each of the next 5 years by which commencement of payments precedes age 65. If the participant has completed 25 years of Credited Service, his benefit will be unreduced for the first 3 years and reduced by 3% for each of the next 2 years and by 5% for the following 5 years by which commencement of payments precedes age 65.

If a participant has completed 30 or more years of credited service, payments are not reduced.

9. ***Death Benefits***

a. ***Before Retirement:*** Spouses of deceased active participants or of former participants are entitled to vested benefits, provided such participants died after having attained age 45 and completed at least 15 years of Credited Service and whose age plus years of Credited Service equals at least 65 years or who have completed at least 20 years of Credited Service regardless of age.

The benefit payable is an amount for the spouse's remaining lifetime equal to the amount the beneficiary of the participant would have received had the participant retired due to disability on the day preceding his death and elected the 100% Contingent Annuitant Option.

b. ***After Retirement:*** None except as provided by election of an optional form.

10. ***Normal Form of Benefits:*** Life annuity

11. ***Optional Benefit Forms:*** 100%, 75%, or 50% Contingent Annuitant option, 75% or 50% Joint and Last Survivor option.

III. BALANCE SHEET AND OPERATING STATEMENT

III.A.22. Supply an exhibit showing an analysis, by functional accounts, of the charges by affiliates (Service Corporations, etc.) for services rendered included in the operating expenses of the filing company for the test year and for the 12-month period ended prior to the test year:

III.A.22.a. Supply a copy of contracts, if applicable.

III.A.22.b. Explain the nature of the services provided.

III.A.22.c. Explain basis on which charges are made.

III.A.22.d. If charges allocated, identify allocation factors used.

III.A.22.e. Supply the components and amounts comprising the expense in this account.

III.A.22.f. Provide details of initial source of charge and reason thereof.

RESPONSE: Not applicable.

III. BALANCE SHEET AND OPERATING STATEMENT

III.A.23. Describe costs relative to leasing equipment, computer rentals, and office space, including terms and conditions of the lease. State method for calculating monthly or annual payments.

RESPONSE:

The Philadelphia Gas Works has leasing arrangements with various companies for the leasing office and computer equipment, vehicles, mobile equipment, and other types of equipment. Listed below are the long term leases with an explanation of the method used for calculating the monthly or annual payments.

Annual Payment

Air Gas East **$10,295.83**
Under this agreement, the Philadelphia Gas Works rents or leases gas cylinders for use in its operations. The lease schedule has a term of three years. The monthly payments are based on a predetermined rental rate and remain constant throughout the term of the lease agreement.

Amquip Corporation **$131,320.83**
Under this agreement, the Philadelphia Gas Works procured short term rental of various types of mobile equipment such as cranes, dump trucks, grad alls, and backhoes/loaders as needed for use in its operations. The rental of each unit typically ranges from one week to six months; however, the contract has a term of four years. The weekly and monthly payments are based on a predetermined rental rate and remain constant throughout the term of the lease agreement.

De Lage Laden Financial **$9,992.17**
Under this agreement, the Philadelphia Gas Works leased one (1) three wheeled mobile lifting truck for use in its operations. Since the inception of the lease agreement, the organization has exercised its option to purchase the equipment. The lease/purchase schedule had a term of three years.

Eastern Lift Truck Co. **$4,823.00**
Under this agreement, the Philadelphia Gas Works procured short term rental and transport of forklifts as needed for use in its operations. The rental of each unit typically ranged from one to six months; however, the contract has a term of three years. The monthly payments are based on a predetermined rental rate and remain constant throughout the term of the lease agreement.

III. BALANCE SHEET AND OPERATING STATEMENT

Enterprise Rent A Car **$297,558.50**

Under this agreement, the Philadelphia Gas Works procured short term rentals of cars, light duty pickup trucks, and utility vans as needed for use in its operations. The rental of each unit typically ranged from one week to six months and the contract had a term of one year. The monthly payments were based on a predetermined rental rate and remain constant throughout the term of the lease agreement.

Express Car & Truck Rental **$53,891.45**

Under this agreement, the Philadelphia Gas Works procured short term rentals of cars and light duty pickup trucks as needed for use in its operations. The rental of each unit typically ranged from one week to six months and the contract had a term of one year. The monthly payments were based on a predetermined rental rate and remain constant throughout the term of the lease agreement.

Godwin Pumps **$3,626.00**

Under this agreement, the Philadelphia Gas Works procured rental of a four inch and six inch water discharge pump as needed for use in its operations. The rental of each unit typically ranged from one week to four weeks; however, the contract has a term of three years. The monthly payments are based on a predetermined rental rate and remain constant throughout the term of the lease agreement.

G&H Service Company **$66,161.99**

Under this agreement, the Philadelphia Gas Works leases wide angle printing equipment for use in its operations. The contract has a term of four years and monthly payments are based on a predetermined rental rate and remain constant throughout the term of the lease agreement.

GT&S Incorporated **$7,478.21**

Under this agreement, the Philadelphia Gas Works rents or leases gas cylinders and nitrogen tube trailers for use in its operations. The lease schedule has a term of three years. The monthly payments are based on a predetermined rental rate and remain constant throughout the term of the lease agreement.

J.J. Clark Company **$22,009.79**

Under this agreement, the Philadelphia Gas Works procured short term rental and transport of forklifts as needed for use in its operations. The rental of each unit typically ranged from one to six months; however, the contract has a term of two years. The monthly payments are based on a predetermined rental rate and remain constant throughout the term of the lease agreement.

OCE Imagistics Inc. **$291,384.66**
Under this agreement the Philadelphia Gas Works leases office technology equipment, multi-functional copier/printer/fax machine/scanner, for use in its operation. The lease schedule has a term of three years. The monthly payments are based on a predetermined rental rate and remain constant throughout the term of the lease agreement.

Penske Truck Leasing **$225,960.49**
Under this agreement, the Philadelphia Gas Works procured short term rentals of light and heavy duty pickup trucks and utility vans as needed for use in its operations. The rental of each unit typically ranged from one week to six months; however, the contract had a term of one year. The monthly payments were based on a predetermined rental rate and remain constant throughout the term of the lease agreement.

Philly Car Share **$15,475.79**
Under this agreement, the Philadelphia Gas Works procured short term rentals of compact cars as needed for use in its operations. The rental of each unit typically ranged from one hour to one day; however, the contract has a term of one year. The monthly payments are based on a predetermined rental rate and remain constant throughout the term of the lease agreement.

Pitney Bowes **$11,547.00**
Under this agreement the Philadelphia Gas Works leases two mailing systems for use in its operation. The lease schedule has a term of four years. The monthly and quarterly payments are based on a predetermined rental rate and remain constant throughout the term of the lease agreement.

United Rentals **$39,665.00**
Under this agreement, the Philadelphia Gas Works procured short term rental and transport of man and scissor lifts as needed for use in its operations. The rental of each unit typically ranged from one to four weeks; however, the contract has a term of two years. The monthly payments are based on a predetermined rental rate and remain constant throughout the term of the lease agreement.

III. BALANCE SHEET AND OPERATING STATEMENT

Verizon Wireless **$28,584.46**
Under this agreement the Philadelphia Gas Works leases mobile wireless air cards for laptop computers issued to field force personnel. The lease schedule has a term of four years. The monthly payments are based on a predetermined rental rate and remain constant throughout the term of the lease agreement.

Wistar Equipment **$25,617.75**
Under this agreement, the Philadelphia Gas Works procured short term rental and transport of one (1) diesel powered high pressure 750 CCM @ 300 PSI air compressor for use in its operations. The contract has a term of two years. The monthly payments are based on a predetermined rental rate and remain constant throughout the term of the lease agreement

Xerox Corporation **$19,727.84**
Under this agreement the Philadelphia Gas Works leases Xerox office technology equipment and supplies including meter usage and print charges for use in its operation. The lease schedule has a term of five years. The monthly rental payments and quarterly meter charges are based on a predetermined rental rate and remain constant throughout the term of the lease agreement.

The Philadelphia Gas Works has leasing arrangements with various companies for the leasing of parking space and pipeline right of way passage.

Charles Weiner **$3,000.00**
Under this agreement the Philadelphia Gas Works leases parking space for the district offices.

Consolidated Rail Corporation **$1,224.00**
Under this agreement the Philadelphia Gas Works leases pipeline right of way passage at the corner of Third Street and Packer Avenue.

CSX Transportation **$1,905.69**
Under this agreement the Philadelphia Gas Works leases pipeline right of way passage at the corner of Third Street and Packer Avenue.

Philadelphia Gas Works' Base Rate Filing

III. BALANCE SHEET AND OPERATING STATEMENT

Potomac Parking Logistics **$1,000.00**
Under this agreement the Philadelphia Gas Works leases parking space for the district offices and other official business conducted within center city Philadelphia.

Renaissance Parking **$720.00**
Under this agreement the Philadelphia Gas Works leases parking space for the district offices and other official business conducted within center city Philadelphia.

Septa **$1,398.00**
Under this agreement the Philadelphia Gas Works leases parking space and pipeline right of way passage.

The Philadelphia Gas Works has leasing arrangements with various companies for the leasing of office space.

Department of Public Property **$43,914.09**
Under this agreement the Philadelphia Gas Works leases office space at One Parkway Building; 1515 Arch Street, 9th floor; Philadelphia PA 19102 for use in its operation.

Belmont Management Corporation **$37,521.84**
Under this agreement the Philadelphia Gas Works leases office space at 4410 Frankford Avenue, Philadelphia, Pa 19124 for use in its operation.

GGHDC Legend Management Co. **$68,228.62**
Under this agreement the Philadelphia Gas Works leases office space at 210 West Chelten Avenue, Philadelphia PA 19144 for use in its operation.

Girard Square A NY LP **$138,657.02**
Under this agreement the Philadelphia Gas Works leases office space at 1137 Chestnut Street, Philadelphia PA 19107 for use in its operation.

III. BALANCE SHEET AND OPERATING STATEMENT

III.A.24. Submit detailed calculations (or best estimates) of the cost resulting from major storm damage.

RESPONSE: None.

Philadelphia Gas Works' Base Rate Filing

III. BALANCE SHEET AND OPERATING STATEMENT

III.A.25. Submit details of expenditures for advertising (National and Institutional and Local media). Provide a schedule of advertising expense by major media categories for the test year and the prior two comparable years with respect to:

III.A.25.a. Public health and safety

III.A.25.b. Conservation of energy

III.A.25.c. Explanation of Billing Practices, Rates, etc.

III.A.25.d. Provision of factual and objective data programs in educational institutions

III.A.25.e. Other advertising programs

III.A.25.f. Total advertising expense

RESPONSE:

Please see the attached schedule, Exhibit A – III.A.25.

Exhibit A - III.A.25

PHILADELPHIA GAS WORKS
ADVERTISING SUMMARY

	Period Ending 08/31/2010	Period Ending 08/31/2009	Period Ending 08/31/2008
NEWSPAPER			
a. Public Health & Safety	$ 100,000	$ -	$ 25,000
b. Conservation	175,000	-	220,580
c. Billing, Rates, Supply, etc.	621,000	338,597	422,762
d. Educational Institution Programs	-	-	-
e. Other Advertising Programs	258,000	115,832	172,259
Total Newspaper Advertising Expense	1,154,000	454,429	840,601
TELEVISION			
a. Public Health & Safety	-	-	-
b. Conservation	-	-	-
c. Billing, Rates, Supply, etc.	-	-	-
d. Educational Institution Programs	-	-	-
e. Other Advertising Programs	-	-	-
Total Television Advertising Expense	-	-	-
RADIO			
a. Public Health & Safety	-	-	-
b. Conservation	-	-	402,158
c. Billing, Rates, Supply, etc.	220,000	157,258	186,097
d. Educational Institution Programs	-	-	-
e. Other Advertising Programs	257,000	276,505	79,863
Total Radio Advertising Expense	477,000	433,763	668,118
MAGAZINES & MISCELLANEOUS			
a. Public Health & Safety	-	-	-
b. Conservation	25,000	-	-
c. Billing, Rates, Supply, etc.	37,000	-	12,695
d. Educational Institution Programs	-	-	-
e. Other Advertising Programs	473,000	212,611	41,201
Total Magazine & Miscellaneous Expense	535,000	212,611	53,896
BILL INSERT & BROCHURES			
a. Public Health & Safety	25,000	-	-
b. Conservation	50,000	-	75,000
c. Billing, Rates, Supply, etc.	-	-	-
d. Educational Institution Programs	-	-	-
e. Other Advertising Programs	5,000	2,000	-
Total Insert & Brochure Advertising Expense	80,000	2,000	75,000
GRAND TOTAL	$ 2,246,000	$ 1,102,803	$ 1,637,615

III. BALANCE SHEET AND OPERATING STATEMENT

III.A.26. Provide a list of reports, data, or statements requested by and submitted to the Commission during and subsequent to the test year.

RESPONSE:

Supplements to Gas Service Tariff – Quarterly 1307(f) filings

Supplement 26 – Effective September 1, 2008.

Supplement 27 – Effective October 25, 2008.

Supplement 29 – Effective January 1, 2009.

Supplement 31 – Effective March 1, 2009.

Supplement 33 – Effective June 1, 2009.

Supplement 34 – Effective September 1, 2009.

Supplement 35 –Effective December 1, 2009.

Gas Cost Rate – 2009-2010 1307(f) Filing

Exhibits supporting the PGC rate for the twelve months ended August 31, 2010, filed February 1, 2009.

Testimony, tariff sheets and additional exhibits supporting the PGC rate for the twelve months ended August 31, 2010, filed March 1, 2009.

Other Data

Pa. P.U.C. – 52 Pa. Code Section 56.231;
Monthly submission of residential delinquent statistics.

Pa. P.U.C. – 52 Pa. Code Section 59.81 – 50-84;
Annual Resource Planning report – IRP.

Annual report of PGW to the Pa. P.U.C.

Pa. P.U.C. – 52 Pa. Code Section 101;
Public Utility Preparedness through Self Certification Report

Pa. P.U.C. – 52 Pa. Code Section 62.33;

III. BALANCE SHEET AND OPERATING STATEMENT

Findings of Annual Quality of Service Survey

Pa. P.U.C. – 52 Pa. Code Section 62.5;
Annual Universal Services Report

Pa. P.U.C. – 52 Pa. Code Section 58.15;
Annual LIURP Program Evaluation

Pa. P.U.C. – 52 Pa. Code Section 59.33;
Annual DOT Reports – form 2137 – 0522

III. BALANCE SHEET AND OPERATING STATEMENT

III.A.27. Prepare a detailed schedule for the test year showing types of social and service organization memberships paid for by the Company and the cost thereof.

RESPONSE:

There were no social and/or service memberships paid during the test year by the Philadelphia Gas Works.

Philadelphia Gas Works' Base Rate Filing

III. BALANCE SHEET AND OPERATING STATEMENT

III.A.28. Submit a schedule showing, by major components, the expenditures associated with Outside Services Employed, Regulatory Commission Expenses and Miscellaneous General Expenses, for the test year and prior two comparable years.

RESPONSE:

Please see the attached schedule, Exhibit A – III.A.28

PHILADELPHIA GAS WORKS

ACCOUNT 923.0 - OUTSIDE SERVICES EMPLOYEED

		August 31, 2010	August 31, 2009	August 31, 2008
700	Material	$ -	$ 586	$ 588
1700	Purchased Services	2,152,000	1,286,175	1,872,590
1900	Equipment Rental	-	49	-
	Total	$ 2,152,000	$ 1,286,810	$ 1,873,178

ACCOUNT 928.0 - REGULATORY COMMISSION EXPENSE

		August 31, 2010	August 31, 2009	August 31, 2008
100	Labor	$ 390,000	$ 296,200	$ 294,691
200	Taxes	30,000	20,585	21,196
300	Expense of Employees	2,000	1,359	1,278
700	Material	5,000	3,744	4,634
1300	Postage	1,000	800	600
1400	Advertising	35,000	6,263	12,224
1600	Dues and Subscriptions	2,605,000	2,415,338	2,541,672
1700	Purchased Services	707,000	564,962	685,865
1800	Insurance	50,000	37,188	40,097
1900	Equipment Rental	6,000	1,109	1,078
2000	Other Rents	50,000	43,914	47,906
2600	Maintenance of Office Equipment	1,000	3,620	1,699
2900	IT Allocations	20,000	20,000	17,010
3100	Telecommunication Allocations	4,000	4,223	1,629
4020	Amort Deferred Oper & Maint Expense	258,000	209,634	107,932
	Total	$ 4,164,000	$ 3,628,939	$ 3,779,511

ACCOUNT 930.2 - MISCELLANEOUS GENERAL EXPENSES

		August 31, 2010	August 31, 2009	August 31, 2008
300	Expense of Employees	$ 25,000	$ 10,674	$ 18,286
700	Material	358,000	50,342	25
1300	Postage	5,000	-	-
1600	Dues and Subscriptions	731,000	705,916	681,749
1700	Purchased Services	-	119	-
3802	Management Fee	360,000	249,525	381,438
5111	PGW Contribution-457 Plan	344,000	337,129	360,994
	Total	$ 1,823,000	$ 1,353,705	$ 1,442,492

III. BALANCE SHEET AND OPERATING STATEMENT

III.A.29. Submit details of information covering research and development expenditures, including major projects within the company and forecasted company programs.

RESPONSE:

No research and development expenditures were incurred during the period ending August 31, 2009.

There are currently no research and development expenditures expected to occur during the period ending August 31, 2010.

Philadelphia Gas Works' Base Rate Filing

III. BALANCE SHEET AND OPERATING STATEMENT

III.A.30. Provide a detailed schedule of all charitable and civic contributions by recipient and amount for the test year.

RESPONSE:

<u>Twelve months ended August 31, 2010</u>

Utility Emergency Service Fund	$ 280,000.00

III. BALANCE SHEET AND OPERATING STATEMENT

III.A.31. Provide a detailed analysis of Special Services—Account 795.

RESPONSE:

The Philadelphia Gas Works' system of accounts does not include Account 795 as Special Services.

III. BALANCE SHEET AND OPERATING STATEMENT

III.A.32. Provide a detailed analysis of Miscellaneous General Expense—Account No. 801.

RESPONSE:

The Philadelphia Gas Works' system of accounts does not include Account 801 as Miscellaneous General Expense.

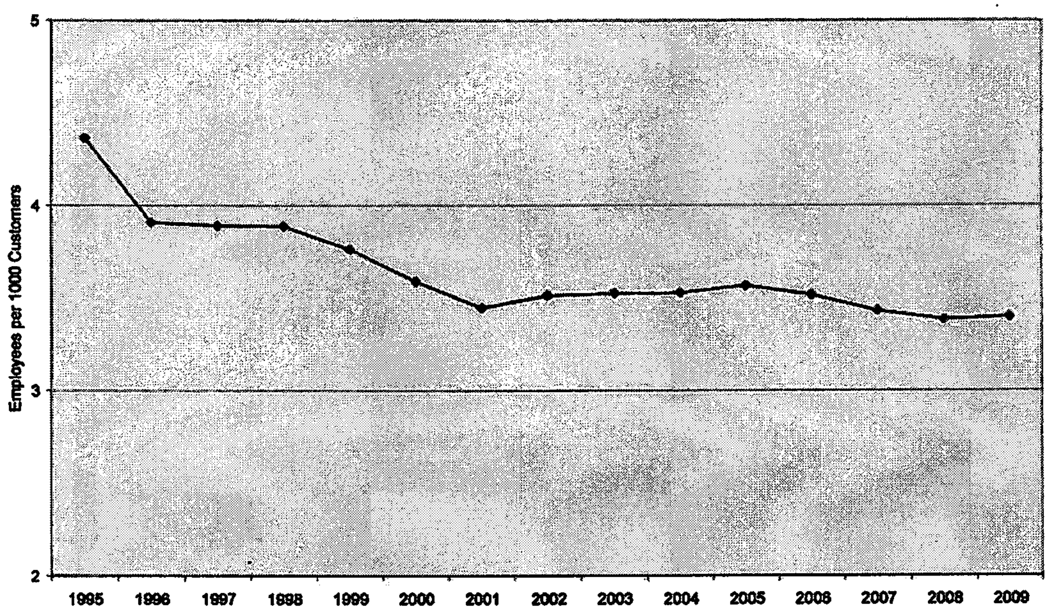
Philadelphia Gas Works' Base Rate Filing

III. BALANCE SHEET AND OPERATING STATEMENT

III.A.33. Provide a labor productivity schedule.

RESPONSE:

PHILADELPHIA GAS WORKS
LABOR PRODUCTIVITY SCHEDULE



III. BALANCE SHEET AND OPERATING STATEMENT

III.A.34. List and explain all non-recurring abnormal or extraordinary expenses incurred in the test year which will not be present in future years.

RESPONSE:

Philadelphia Gas Works does not have non-recurring abnormal or extraordinary expenses included in the test year or future years other than those detailed in the testimony of PGW witness Bogdonavage (PGW St. 2).

III. BALANCE SHEET AND OPERATING STATEMENT

III.A.35. List and explain all expenses included in the test year which do not occur yearly but are of a nature that they do occur over an extended period of years. (e.g.—Non-yearly maintenance programs, etc.)

RESPONSE:

There are no expenses that fall into this category within the test year for the Philadelphia Gas Works.

III. BALANCE SHEET AND OPERATING STATEMENT

III.A.36. Using the adjusted year's expenses under present rates as a base, give detail necessary for clarification of all expense adjustments. Give clarifying detail for any such adjustments that occur due to changes in accounting procedure, such as charging a particular expense to a different account than was used previously. Explain any extraordinary declines in expense due to such change of account use.

RESPONSE:

There were no adjustments made to operating and maintenance expenses due to changes in accounting procedures.

III. BALANCE SHEET AND OPERATING STATEMENT

III.A.37. Indicate the expenses that are recorded in the test year, which are due to the placement in operating service of major plant additions or the removal of major plant from operating service, and estimate the expense that will be incurred on a full-year's operation.

RESPONSE:

For PGW's fiscal year 2010 test year, $3,000,000 of cost of removal expenses are included.

III. BALANCE SHEET AND OPERATING STATEMENT

III.A.38. Submit a statement of past and anticipated changes, since the previous rate case, in major accounting procedures.

RESPONSE:

Since the previous rate case PGW has implemented the accounting and financial reporting requirements related to recent pronouncements of the Governmental Accounting Standards Board. The accounting and financial reporting impact of these pronouncements is reflected in PGW's financial statements. The reference for any impact is noted in the Management Discussion and Analysis as well as in the Notes to the Financial Statements.

Philadelphia Gas Works' Base Rate Filing

III. BALANCE SHEET AND OPERATING STATEMENT

III.A.39. Identify the specific witness for all statements and schedules of revenues, expenses, taxes, property, valuation, etc.

RESPONSE:

PGW Statement 2 – Joseph R. Bogdonavage	Sponsoring: Financial Statements, Filing Requirement Responses, Expenses, Taxes (where applicable) Property Valuation, etc.
PGW Statement 4 – Samuel M. Kikla	Sponsoring: OPEBs
PGW Statement 5 – Kenneth S. Dybalski	Sponsoring: *Pro Forma* Revenues

III. BALANCE SHEET AND OPERATING STATEMENT

III.A.40. Adjustments which are estimated shall be fully supported by basic information reasonably necessary.

RESPONSE: See Mr. Bogdonavage's testimony (PGW St. 2), Exhibits JRB-1 and JRB-2A/2B.

III. BALANCE SHEET AND OPERATING STATEMENT

III.A.41. Submit a statement explaining the derivation of the amounts used for projecting future test year level of operations and submit appropriate schedules supporting the projected test year level of operations.

RESPONSE: See Mr. Bogdonavage's testimony (PGW St. 2), Exhibits JRB-1 and JRB-2A/2B.

III. BALANCE SHEET AND OPERATING STATEMENT

III.A.42. If a company has separate operating divisions, an income statement must be shown for each division, plus an income statement for company as a whole.

RESPONSE: Not applicable.

III. BALANCE SHEET AND OPERATING STATEMENT

III.A.43. If a company's business extends into different states or jurisdictions, then statements must be shown listing Pennsylvania jurisdictional data, other state data and federal data separately and jointly (Balance sheets and operating accounts).

RESPONSE: Not applicable.

III. BALANCE SHEET AND OPERATING STATEMENT

III.A.44. Ratios, percentages, allocations and averages used in adjustments must be fully supported and identified as to source.

RESPONSE: Not applicable.

III. BALANCE SHEET AND OPERATING STATEMENT

III.A.45. Provide an explanation of any differences between the basis or procedure used in allocations of revenues, expenses, depreciation and taxes in the current rate case and that used in the prior rate case.

RESPONSE: None

III. BALANCE SHEET AND OPERATING STATEMENT

III.A.46. Supply a copy of internal and independent audit reports of the test year and prior calendar year, noting any exceptions and recommendations and disposition thereof.

RESPONSE:

Please see the attached internal and independent audit reports issued during FY 2009. Internal and independent audit reports have not been issued yet during FY 2010.

Mr. Joseph Bogdonavage
Senior Vice President of Finance
Philadelphia Gas Works
800 West Montgomery Avenue
Philadelphia, PA 19122

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February 13, 2009

Dear Mr. Bogdonavage,

Internal Audit (IA) has completed our assessment of the utilization of the Oracle Financials software solution with respect to operational efficiency, as well as alignment with strategic PGW Business Transformation Initiatives and Utility Industry Best Practices.

The objective of our review was to gain an understanding of the effectiveness and efficiency of the implementation and configuration of licensed Oracle Financials modules. Our fieldwork was performed during October 2008 through January 2009. A summary of our work is contained within the attached report, as well as our detailed observations and recommendations.

This project was carried out in accordance with Statements on Standards for Consulting Services of the Institute of Internal Auditors.

We appreciate the cooperation received from all PGW personnel whom participated in this project. Thus, this assessment did not include any controls testing within any of PGW's functional areas, but rather was an assessment of the Oracle Financials implementation relative to the COSO evaluation framework through a combination of inquiry/interview, observation and data collection.

Sincerely,

G Daniel Miller
Partner, Philadelphia Advisory
Practice Leader
Business Advisory Services
Grant Thornton LLP

Oracle Financial System Deployment Assessment
PHILADELPHIA GAS WORKS
December 2008

Table of Contents

General Background

Philadelphia Gas Works (PGW) is a municipally owned utility operated by the Philadelphia Facilities Management Corporation (hereafter referred to as "PFMC"). PGW is the largest municipally owned gas utility in the country maintaining a distribution system of approximately 6,000 miles of gas mains and service pipes serving approximately 500,000 customers.

PGW has approximately 1,700 active employees who work in three shifts and 2,000 retirees. Most processing is centralized at PGW Headquarters at 800 West Montgomery Avenue, Philadelphia, PA 19122. PGW also maintains 6 district offices, 2 plants and several outlying stations.

PGW ' s Internal Auditing Department serves PGW management and the Board of Directors of the Philadelphia Facilities Management Corporation ("PFMC") as an independent appraisal and evaluation function. Its primary purpose is to help PGW accomplish its strategic objectives by conducting audits which are designed to add value, improve operations, and evaluate and improve:

- the effectiveness of risk management;
- controls; and
- governance processes.

In the late 1990's, PGW made the decision to retire its historical accounting system and replace it with the Oracle Financial System (Oracle). With 10 years of experience with extensive reengineering of company operations, PGW wants to be sure that it is obtaining the maximum benefit from Oracle and also wants to determine whether PGW is deploying Oracle Financials in conformance with Utility Best Practices. PGW's Internal Audit Department is seeking an evaluation of PGW's Oracle Financials deployment to improve financial reporting and analysis, risk management, controls, and governance processes.

The Oracle Financial System Deployment Assessment will determine:

- Whether PGW's Finance Department is obtaining the maximum strategic benefit from Oracle Financials for the following purposes:
    - Furthering its mission and primary purpose of ensuring the financial viability of PGW;
    - Providing timely reporting of financial information to be used by PGW's management to execute sound financial business practices;
    - Performing appropriate routine and/or complex financial analyses for the efficient operation of PGW and the effective management of PGW's financial resources; and
- How PGW's deployment of this technology and its current business processes aligns with, and compares to, Utilities Industry Best Practices.

Audit Scope

At the request of Management of PGW, Internal Audit performed an assessment of PGW's utilization of their Oracle Financials solution with respect to operational efficiency, as well as alignment with strategic PGW Business Transformation Initiatives and Utility Industry Best Practices. This assessment did not include any controls testing within any of PGW's functional areas.

Objectives

The initial phase of work for this project involved the determination of the scope of the Oracle Financial solution to ensure that the assessment considered all the functional software available to users at PGW. The elements of the functional software were tagged to the general and industry-specific modules available from the software vendor. Additionally the team identified modules that have not been implemented by PGW which might be used by an organization to support a comprehensive financial process framework.

PGW functional process areas included in the assessment are:

- General Ledger & Financial Reporting
- Purchasing & Procurement
- Accounts Payable
- Project Accounting
- Fixed Assets
- Gas Purchasing
- Revenue
- Accounts Receivable & Collections
- Treasury

Oracle Financials Modules determined to be in scope:

Module	Description
GL	General Ledger
AP	Accounts Payable
INV	Inventory
PA	Project Accounting
PO	Purchasing
FA	Fixed Assets

We developed a standard ERP/Oracle Financials evaluation template consisting of 7 evaluation objectives areas under which PGW was assessed:

I. Degree of use of Oracle Financials functionality
II. Extent of manual vs. automated accounting
III. Extent of manual vs. automated reporting
IV. Use of workflow and approvals
V. Use of manual ledger posting
VI. Alignment of Technology Development with the Strategic Direction of the Business
VII. Use of Oracle Financials-embedded industry best practice

Each evaluation objective is aligned to the COSO 1992 framework to provide a basis for determining the nature of the objective. COSO is the Committee of Sponsoring Organizations of the Treadway Commission, which is a U.S. private-sector initiative, formed in 1985. Its major objective is to identify the factors that cause fraudulent financial reporting and to make recommendations to reduce its incidence. COSO is sponsored and funded by 5 main professional accounting associations and institutes; American Institute of Certified Public Accountants (AICPA), American Accounting Association (AAA), Financial Executives International (FEI), The Institute of Internal Auditors (IIA) and The Institute of Management Accountants (IMA). COSO has established a common definition of internal controls, standards, and criteria against which companies and organizations can assess their control systems.

Evaluation Objectives	Operational Objectives	Financial Reporting Objectives	Compliance Objectives
I. Degree of use of Oracle Financials functionality	✓	✓	✓
II. Extent of manual vs. automated accounting	✓	✓	
III. Extent of manual vs. automated reporting	✓	✓	✓
IV. Use of workflow and approvals	✓	✓	✓
V. Use of manual ledger posting		✓	
VI. Alignment of Technology Development with the Strategic Direction of the Business	✓		
VII. Use of Oracle Financials Embedded Industry Best Practice	✓	✓	✓

Assessment Procedures

We assessed the Oracle Financials implementation relative to the COSO evaluation framework through a combination of inquiry/interview, observation and data collection.

The initial assessment procedures adopted are as follows:

Evaluation Objectives	Domain	Approach
I. Degree of use of Oracle Financials functionality	User Security	• assess span of access of the users within/across modules (i.e. who can change settings)
	User enabled configurable settings	• assess suitability of configurable settings in licensed products to Oracle Financials best practices, PGW business processes
II. Extent of manual vs. automated accounting	Transactional user(s) and supervisor in respect of day to day procedures followed	• assess use of standard functionality supporting existing business processes, degree of use of Oracle Financials automation
	Departmental Procedures Documentation	• assess degree of manual sub-ledger/ledger posting (e.g. daily and month-end accounting procedures relative to posting entries)
III. Extent of manual vs. automated reporting	Selection of management reports	• assess use of standard and customized Oracle Financials reports, Noetix reporting and dashboards
		• assess data integration from satellite systems
IV. Use of workflow and approvals	Oracle Financials Workflow Configuration	• assess use of automated/manual workflow functionality
V. Use of manual ledger posting	Sub-ledger accounting entries	• assess the daily and month-end accounting procedures relative to posting entries
VI. Alignment of Technology Development with the Strategic Direction of the Business	IS Strategic Plan & IS Project Approval Process	• assess degree of technology platform standardization, BT projects, IS objectives/technology roadmap
VII. Use of Oracle Financials Embedded Industry Best Practice	Oracle Financials Installation	• determine if industry-aligned modules (i.e. best-in-breed solutions or configurations have been considered • gain an understanding of the rationale in the selection of the module/system used to support the relevant business process and understand how the technology has been implemented

We consolidated the results of the assessment of the evaluation objectives and documented a summary within work books developed by Internal Audit. Seven (7) unique work books were created – one for each of the Evaluation Objectives. Each work book includes eight (8) individual tabs, with each tab representative of the functional process areas. Furthermore, in the Executive Summary section to this report we have included a distinct set of radar charts for each of the Evaluation Objectives which provide a graphical summary representation of the use of standard Oracle Financials functionality.

Executive Summary

This assessment was initiated by management, who desires to gain an understanding of the effectiveness and efficiency of the implementation and configuration of licensed Oracle Financials modules. The assessment included documenting our understanding of how the various PGW processes operate within the parameters set in the configurable settings within Oracle Financials, and benchmarking the settings against Oracle Financials best practices. We documented the current state of each of the configurations and met with process owners to ensure that there was consensus on the current state before moving forward.

We reviewed PGW's Strategic Plan and Business Transformation initiative to gain an understanding of the project portfolio, and determined if current Oracle Financials configurations are adequate or could be strengthened to support or improve upon desired goals and objectives.

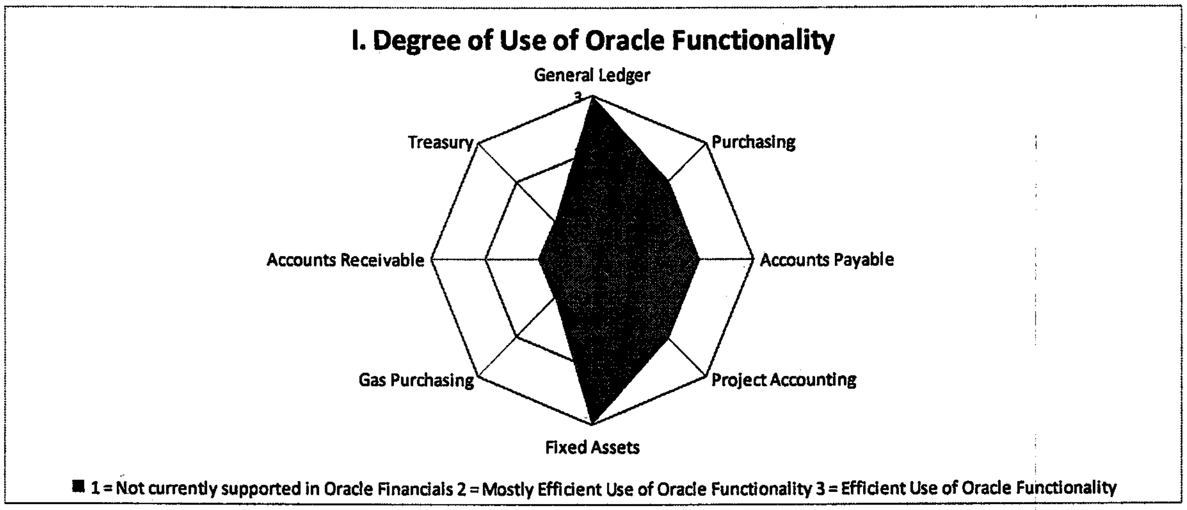
PGW has been using Oracle Financials software since approximately 1998 (v 10.7) and ultimately v11.5 since 2004. During the implementation cycles, PGW deployed a light version of Oracle, maintaining functionality that does not take advantage of all functionality available in the suite of Oracle Financials modules. However, overall manual and automated configurable settings within each of the Oracle Financials licensed products appear to be adequately set and maintained in order to process financial transactions, enter and post journal entries, and produce financial statements. In addition, PGW Finance provides training aids to Oracle Financial users, as well as developed and maintains various key performance indicators (KPI's) in the form of a dashboard reporting.

Within each of the licensed modules we have identified some configurable settings that may be utilized more effectively. In areas of Oracle Financials best practices, we also identified some items that management may want to consider investigate further, such as segregation of duties, manual job processing, file extractions/load (e.g. data integration from satellite systems into Oracle Financials), and automated workflow processing.

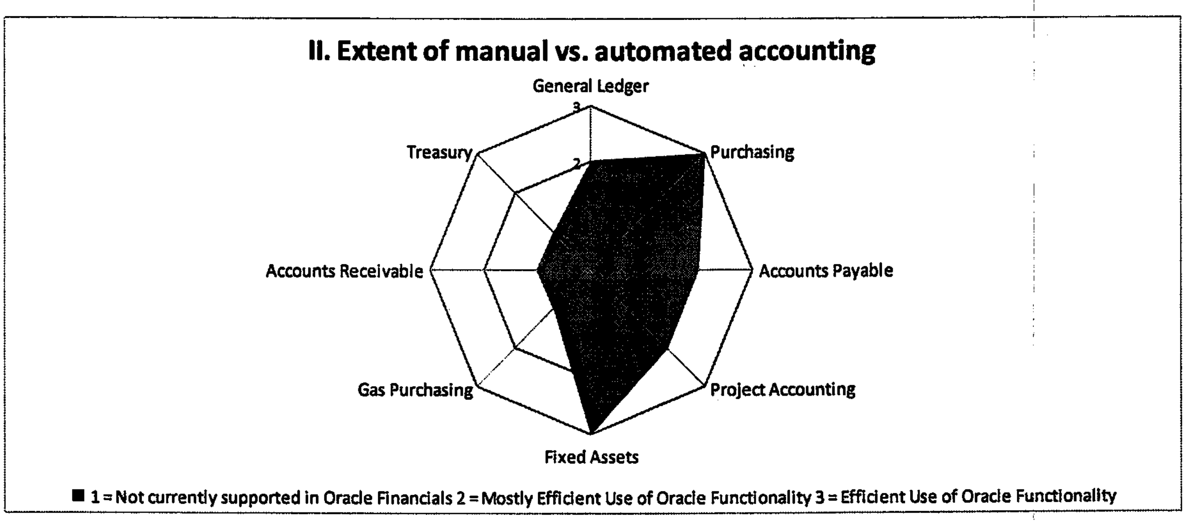
We further identified other opportunities for enhancing the design and effectiveness of management information gathering and reporting that could be fulfilled through the design and implementation of a Data Warehouse reporting solution.

Finally, we noted some additional opportunities for investigation which could potentially enhance the effectiveness of the Oracle Financials environment. Consideration should be given to evaluating other Oracle Financials modules such as Oracle Cash Management and with additional Oracle Utilities and Energy modules such as Oracle Utilities Quotation Management.

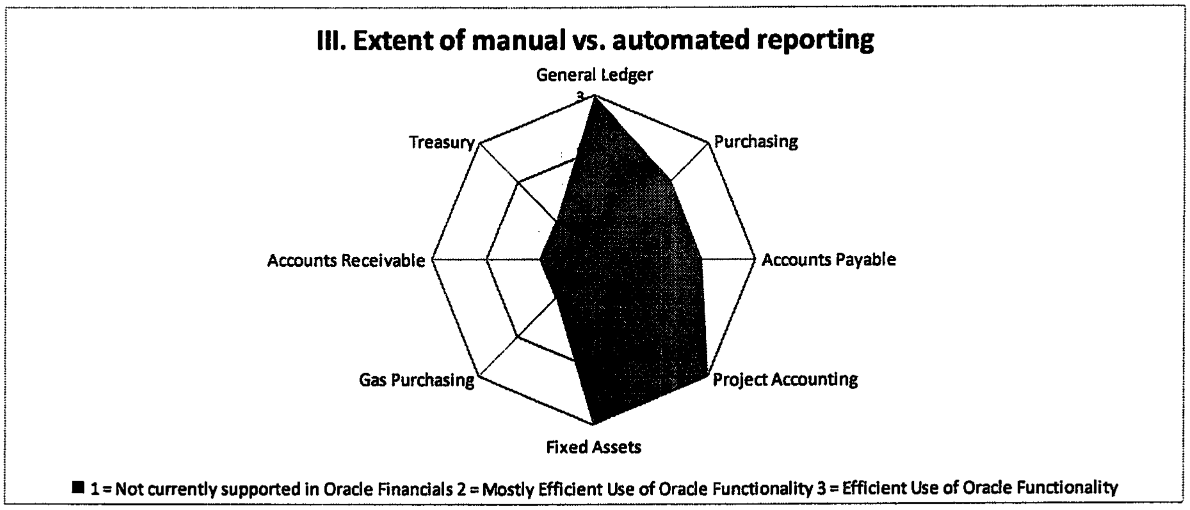
Below is a summary of the Oracle Financials assessment for each of the evaluation objectives:



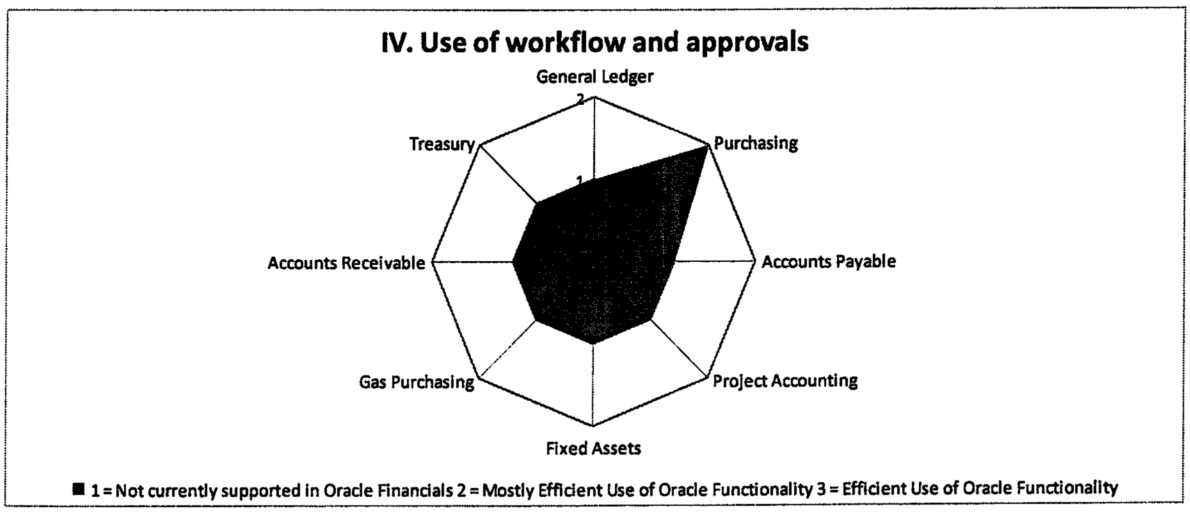
- The Oracle Financial modules implemented appear to be configured appropriately and provide the functionality PGW requires to properly manage financial transactions.



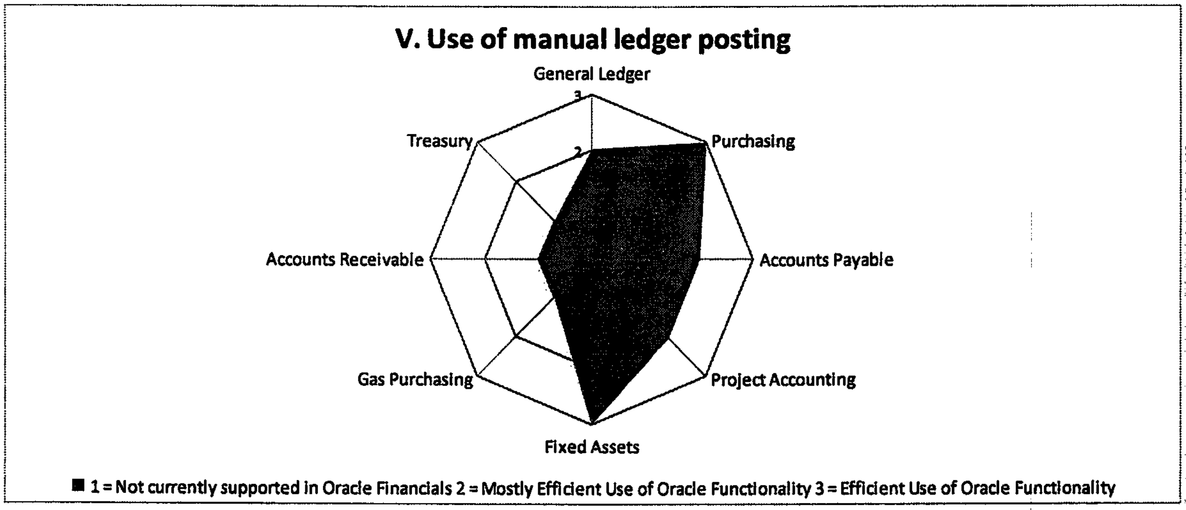
- The accounting concepts embedded into Oracle Financials are achieved through either manual or automated processes.



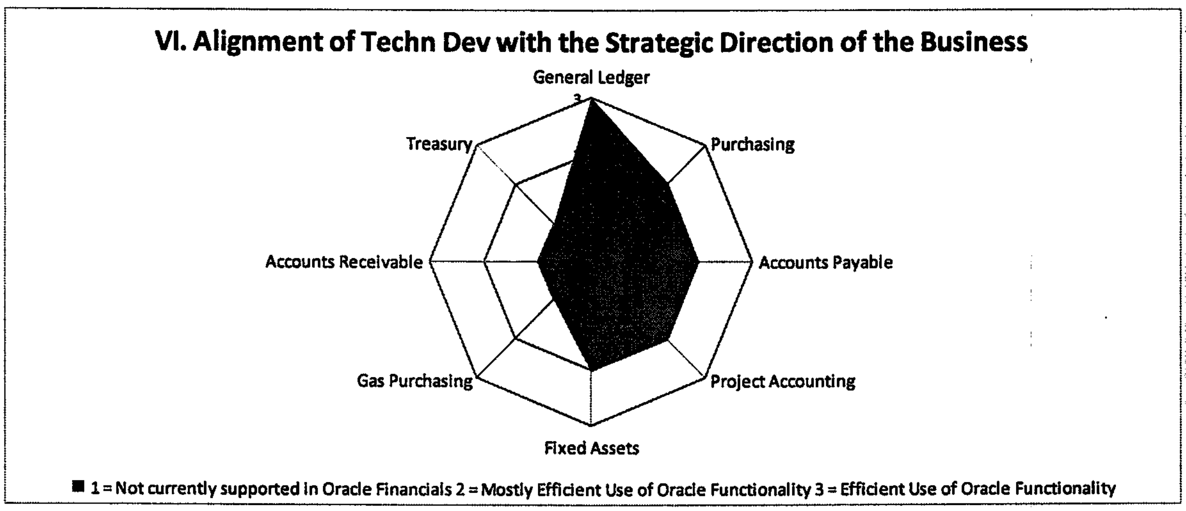
- The Oracle Financial system provides many standard, as well as custom reports to the user community.



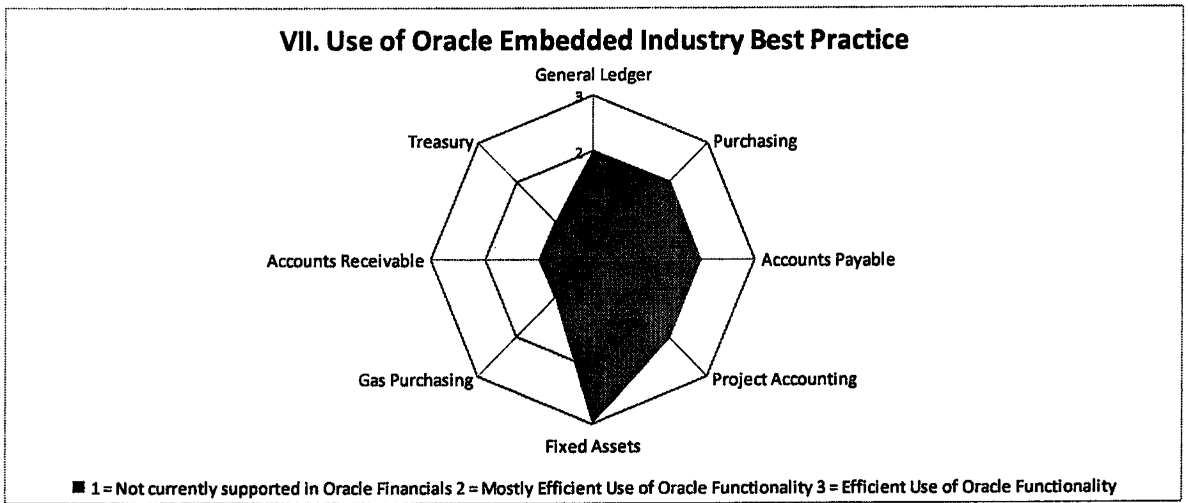
- Oracle Purchasing provides a standard approval workflow for purchase requisitions which PGW does utilize, however other processes requiring management approval, such as journal entry posting and cash disbursements rely on manual approvals.



- PGW utilizes standard Oracle Financials analytical tools to ensure that the GL is in balance and that appropriate manual reviews and reconciliations are performed to ensure that all entries posted to the GL are reported in financial statements.



- While technology development strategies appear to align with strategic goals of the organization, maintaining the current technology environment may have an impact on desired objectives of transforming the business (i.e. leveraging technology and business process automation).



- Certain financial information is available via dashboard reporting, however management's desire for holistic systemic data reporting is a critical issue. PGW has been exploring technology solutions both within the Oracle Financials suite, as well as within other commercial off-the-shelf products, in order to achieve the optimal solution that provides proper decision support information to the organization.

Overall, PGW's implementation and use of the six (6) licensed Oracle Financial modules appears to support the financial management processes related to the operating budget, capital budget, financial reporting, and financial systems/functions of PGW.

Details of our observations and recommendations are documented on the following pages.

Detailed Observations

I. Degree of use of Oracle Financial System functionality

During this phase of the project, we reviewed a mixture of financial and operational process documentation (narratives, business flow) provided by PGW in order to gain an understanding of how processes are supported by Oracle Financials and other related systems. Additionally, we conducted interviews with appropriate personnel to gain an understanding of the organization structure, roles and responsibilities. We also interviewed key members of the accounting/finance team in order to gain an understanding of how Oracle Financials is managed and configured, and evaluated the configurations based on vendor recommended settings. We further assessed the user span of control of the configurable settings by reviewing and evaluating the Oracle Financials user population and their associated roles/responsibilities.

The evaluation of the degree of use of Oracle Financials functionality resulted in the following:

PGW's deployment of the standard functionality embedded in the Oracle Financials software provides the automation to fully integrate Oracle GL with other Oracle Financials applications (e.g. Purchasing, Accounts Payable, Inventory, etc.). Oracle Financials appears to have been appropriately configured to allow accounting transactions to flow with adequate audit trail capabilities (ref: WorkBook I - Degree of Use of Oracle Financials Functionality).

We reviewed the standard Oracle Financials User Profile Options for each of the licensed modules within Oracle Financials. Oracle Financials uses a set of user profile options that are common to all the application products. Profile options are a set of user changeable options that affect the way the application performs. While not all Oracle Financial System recommended profile settings are appropriate for each and every user installation, the standard, or Oracle Financial System recommended profile options in each of the licensed modules appear to be set appropriately.

The profile settings assessment for each of the licensed modules is summarized below:

General Ledger– we examined the PGW-defined 42 GL profile settings against Oracle Financial System recommended settings and identified two profile setting considerations:

1) Currency: Allow Direct EMU and Non-EMU User Rates. The setting is currently set to Y. This profile option allows a General Ledger to derive an exchange rate between an EMU and Non–EMU currency, based on a rate entered between the euro and a Non–EMU currency. Because PGW only transacts with USD, a setting of N is recommended.

2) Budgetary Control Group: set to 0 (not utilized). PGW reviewed the functionality of encumbrance accounting during the Oracle Financials implementation and a decision was made not to utilize the function. The purpose of encumbrance accounting is to prevent further expenditure of funds in light of commitments already made.

Purchasing and Procurement – we examined the PGW-defined 47 Purchasing profile settings against Oracle Financials recommended settings and identified one profile setting consideration:

1) PO: Allow Buyer Override in AutoCreate Find. This setting indicates that the suggested buyer defaulted into the Find Requisition Lines windows can be cleared or overridden. PGW reviewed the functionality of buyer override during the Oracle Financials implementation, and a decision was made to allow buyer override. Because PGW HR data (e.g. roles/responsibilities) is not integrated with Oracle Purchasing, purchase requisitioners select PO buyers which may increase the risk for error. Integrating the non-Oracle HRIS application with Oracle financials would increase the likelihood that appropriate buyers are selected.

Accounts Payable – we examined the PGW-defined 14 AP profile settings against Oracle Financials recommended settings and identified one profile setting consideration:

1) Budgetary Control Group: set to 0 (not utilized). PGW reviewed the functionality of encumbrance accounting during the Oracle Financials implementation and a decision was made to not to utilize the function.

Project Accounting – we examined the PGW-defined 38 PA profile settings against Oracle Financials recommended settings and identified one profile setting consideration:

1) PA: Licensed to Use Project Billing: set to Y. Indicates if Oracle Project Billing is licensed, Yes = In addition to Project Costing functions, Oracle Projects allows you to set up contract projects and perform all Project Billing functions. Project work is organized into a work breakdown structure of projects and underlying tasks. Budgets are created based on an estimate of the resources required to complete the work. Costs and revenue are managed against the work breakdown structure. Oracle Project Billing provides revenue accrual and invoice generation features, enabling ability to track unbilled receivables and bill other entities (where applicable) for each individual project. As a project accrues revenue, comparisons against budget and costs to track the progress and profitability of a project are available. PGW reviewed the functionality of Project Billing during the Oracle Financials implementation and a decision was made to not utilize Project Billing. A setting of N is recommended.

Fixed Assets – we examined the PGW-defined 23 FA profile settings against Oracle Financials recommended settings. PGW has defined the profile settings to support its asset accounting function processes in a manner that provides an efficient use of Oracle Financials functionality.

Inventory– we examined the PGW-defined 53 INV profile settings against Oracle Financials recommended settings. PGW has defined the profile settings to support its inventory/supply chain accounting function processes in a manner that provides an efficient use of Oracle Financials functionality.

Opportunities for improvements

1) PGW's use of its licensed Oracle Financials modules is configured in a manner whereby timely, accurate and complete financial information is provided via integrated, standard, non-customized functionality. However, some manual process (e.g. gas procurement, cash management) and satellite systems such as Billing Collection and Customer Service (BCCS) System, Automated Intelligent Mobile System (AIMS), Time Labor Management (TLM), M4 (fleet management)) were and continue to be designed with an independent functional focus (with or without interfaces among systems) where the information is summarized and details of transactions often are complex to integrate. This results in silos of information, and may lead to duplication of data entry and lack of integration.

2) During the review of profile settings, we also examined a listing of active users in order to determine that only authorized users have the ability to change profile settings. We observed that Oracle Financials application end-users may have inappropriate application access rights.

Recommendations

1) To the extent functionality isn't currently available at PGW, we will recommend (see Section VII - Use of Oracle Financials-embedded industry best practice) that PGW consider other technology solutions that could reduce/eliminate the need for manual process that are typically prone to delays and human error. Additionally, the current business processes should be diagramed and data flows documented so that required software (e.g. Oracle Financials) functionality is identified

to support the business process. Gaps between process and functionality can facilitate potential Business Transformation initiatives.

2) PGW Accounting and Finance Management perform an undocumented segregation of duties (SOD) review during the last quarter of each fiscal year. We recommend that PGW Accounting and Finance Management create, implement, and document a formal policy procedure for the annual SOD review process so that any future SOD issues are properly addressed and documented.

Conclusion

Overall, Oracle Financials appear to be configured appropriately and provides the functionality PGW requires to properly manage financial transactions. While PGW effectively utilizes the Oracle Financials functionality licensed, we have noted in this report some additional Oracle Financials integrated modules that could improve operational effectiveness by migrating from manual processes to automated processes.

Management Response

General Ledger- Currency: Allow Direct EMU and Non-EMU User Rates. Current setting Y.

During the next application upgrade, when end to end testing is conducted, the setting will be changed to N and tested.

Projects Accounting – PA: Licensed to Use Project Billing. Current setting Y.

During the next application upgrade, when end to end testing is conducted, the setting will be changed to N and tested for any impact on Project Costing.

The annual segregation of duties (SOD) review will be documented.

II. Extent of manual vs. automated accounting

During this phase of the project, we expanded our review of process documentation to examine procedures and steps executed manually in Oracle Financials, other tools, or other systems to gain an understanding of the integration between applications. We interviewed key personnel to gain an understanding of the data flows and interfaces (manual and automated) to and from Oracle Financials. We looked at how GL defines the processing environment used by the other modules (i.e. all transactions should flow to the GL with full audit capabilities).

The evaluation of extent of manual and automated accounting resulted in the following:

Typical analytical tools used by PGW include the Financial Statement Generator (FSG), on-line queries, standard as well as some customized Oracle Financials reports, and Financial Analyzer (FA).

The assessment of standard accounting functionality for each of the process areas are summarized below (ref: WorkBook II - Extent of Manual versus Automated Accounting):

A. **General Ledger and Financial Reporting** - FSG reports are an integral part of the financial statement preparation cycle. Balancing the GL requires a significant amount of manual journal entries which may impact on the period close schedule. PGW's use of Oracle General Ledger appears to provide appropriate journal entry capabilities to record financial transactions from sub-ledgers and other systems.

B. **Purchasing** - There are some manual steps that PGW performs when performing the purchasing and procurement processes, such as approvals. Additionally, gas procurement and insurances procurement are not included in the Oracle Procurement Cycle.

C. **Accounts Payable** - PGW enters batch invoices into the Oracle A/P application module, as well as performs three-way matches against purchase orders (purchase order, receipt, and invoice) in addition to sending invoice batches to the PGW Treasury Department for payment and the performance of inquiries within the Oracle Accounts Payable application module.

D. **Project Accounting** - PGW procedural documentation, as well as information received during interviews with PGW management-level personnel, has determined that some of the project cost/billing accounting is performed outside of the Oracle Financials application (e.g. Mainframe Legacy Financial Information System – JEMS).

E. **Fixed Assets** - Oracle FA functionality is effectively managing asset values, depreciation algorithms, etc., some of the transactional processing within the Fixed Asset application is manual in nature.

F. **Gas Purchasing** - While Gas Procurement is managed outside of the Oracle Financials environment, the receipt is subject to the same three-way match and payment functionality utilized in AP.

G. **Accounts Receivable and Collections** - While Accounts Receivable and Collections is managed outside of Oracle Financials, summary level data is ported into Oracle GL via manual BCCS file interface transactions as well as some manual billings, which are manually approved prior to posting to the Oracle GL.

H. **Treasury** - While Cash Management is managed outside of Oracle Financials, summary level data is entered into Oracle GL manually.

Opportunities for improvements

While the extent of standard Oracle Financials functionality appears to be utilized effectively, financial reporting processes that support transactions in other systems require manual processes. PGW should consider determining the impact (environment, operations, and information) associated with the volume of manual journal entries required during the period close process in order to automate the financial reporting process where applicable.

Recommendations

As noted in Section VII - Use of Oracle Financials-embedded industry best practice, PGW should consider other commercially available software modules which could be integrated in order to help reduce/eliminate the need for manual processing.

Conclusion

The accounting concepts embedded into Oracle Financials (Assets = Liabilities + Owner's Equity; and all financial transactions are recorded and balance) are achieved through either manual or automated processes which create financial transactions that ultimately create journal entries.

Management Response

Automated allocation processes are in development to replace current mainframe and manual allocation processes. The automated allocation processes are scheduled to be available May 2009.

III. Extent of manual vs. automated reporting

During this phase of the project, we interviewed key personnel to gain an understanding of how standard and custom reports are accessed, and the frequency of use. Additionally, we looked at how reports and management dashboards are developed, maintained, and supported. We also interviewed management to gain an understanding of their use of dashboard reports, and how it supports the decision making processes.

The evaluation of extent of manual and automated reporting resulted in the following:

PGW users rely on approximately 150 different concurrent request programs (i.e. Standard Oracle Financials reports) which are typically run on demand by Oracle Financials end-users. In addition, PGW currently has two operational information dashboards (with four-to-five sub-dashboards in each), which are summaries of key indicators defined by PGW Management. The dashboards are developed using a Noetix utility (i.e. report writer) and are custom in nature. PGW uses the Noetix application when standard or current customized Oracle Financials reports do not provide the specific information required.

The Key Financial Statistics Dashboard is a high level income statement, and the information within that Dashboard comes from a Financial Statement Generator (FSG) Report. For example, the Cash Receipts Dashboard is used to determine how much money was collected compared to how much money PGW was projected to collect, and how much money was brought in from public assistance versus money actually collected.

The assessment of standard reporting for each of the process areas are summarized below (ref: WorkBook III - Extent of Manual versus Automated Reporting):

A. **General Ledger and Financial Reporting** – Standard and customized Oracle Financials reports are developed per user requirements and appear to be managed via a change management process.
B. **Purchasing** – Numerous standard reports/concurrent requests are utilized by the user community.
C. **Accounts Payable** - Because some commodity purchases, such as Natural Gas and healthcare insurance premiums are not originated/transacted via Oracle Purchasing, some manual processes exist for reporting. These commodity purchases can be reported out of the Accounts Payable and General Ledger Oracle Financials modules at a summary level.
D. **Project Accounting** - Numerous standard reports/concurrent requests are utilized by the user community.
E. **Fixed Assets** - Numerous standard reports/concurrent requests are utilized by the user community.
F. **Gas Purchasing** – While Gas Procurement is managed outside of the Oracle Financials environment, summary level data is entered into Oracle Financials and extracted via standard and/or customized reports or dashboard reporting.
G. **Accounts Receivable and Collections** – While Accounts Receivable and Collections is managed outside of the Oracle Financials environment, summary level data is entered into Oracle Financials and extracted via standard and/or customized reports or dashboard reporting.
H. **Treasury** – While Cash Management is managed outside of the Oracle Financials environment, summary level data is entered into Oracle Financials and extracted via standard and/or customized reports or dashboard reporting.

Opportunities for improvements

The creation of new customized reports, modifications to existing custom reports, the development of Noetix reports, as well as the creation of - or modification to existing - Noetix Dashboards can be strengthened through a more formal documentation and communication process. Currently the authority and expertise to create new Noetix reports or to modify existing reports is limited to only one PGW employee.

The PGW end-user community would benefit from communicating/training their management-level staff on how to develop more detailed Oracle Financials and Noetix reports in order to ensure that the production of custom Oracle Financials/Noetix reports is timely and provides added value. Additionally, the dashboards that are currently maintained appear to provide accurate and complete financial data, however we have observed that the data may not be fully utilized by its intended audience.

Recommendations

As significant development has occurred to create reporting dashboards, Management should ensure that the data elements extracted provide the required information for its intended audience. Management should consider identifying individuals within PGW to learn how to develop, manage, and modify Oracle Financials reports as well as dashboards developed and maintained in Noetix.

Conclusion

There appears to be a greater reliance on Oracle Financials standard reports as the number of custom reports is less in comparison to standard. While custom report development and support is managed by the Finance Group, the role and responsibility is limited to two individuals. Additionally, the development and support of custom dashboard reporting also is managed by the Finance Group, however only one individual has the role and responsibility. This increases the risk that back up coverage may result in the hiring of consultants to create new and/or maintain existing reports.

Management Response
No comment

IV. Use of workflow and approvals

During this phase of the project, we reviewed process documentation and interviewed key personnel to gain an understanding of how approvals (purchase requisitions, invoice payment, journal entries, etc.) are managed in Oracle Financials.

The evaluation of use of workflows and approvals resulted in the following:

Generally, PGW relies upon manual approvals for most financial transactions and does not utilize Oracle Workflow functionality within the Financials Suite. However, within the Purchasing module, PGW integrates embedded standard Oracle Purchasing workflow technology for PO approvals.

The assessment of automated workflow and approval functionality for each of the process areas are summarized below (ref: WorkBook IV - Use of Workflows and Approvals):

A. **General Ledger and Financial Reporting** – Oracle Financials Workflow/Builder is not a licensed module. Workflows could be used for journal approvals and validations and GL consolidations
B. **Purchasing** – This module allows approval for requisitions, such as standard and planed purchase orders, blanket and contract purchase agreements through approx 10 embedded Oracle Purchasing Workflows.
C. **Accounts Payable** - Oracle Financials Workflow/Builder is not a licensed module. Workflows could be used for invoice approvals and payment processing.
D. **Project Accounting** - Oracle Financials Workflow/Builder is not a licensed module. Workflows could be used for project approvals and status change.
E. **Fixed Assets** - Oracle Financials Workflow/Builder is not a licensed module. Workflows could be used for asset account auto-generation.
F. **Gas Purchasing** –Gas Procurement is managed outside of the Oracle Financials environment.
G. **Accounts Receivable and Collections** –Accounts Receivable and Collections is managed outside of the Oracle Financials environment.
H. **Treasury** –Cash Management is managed outside of the Oracle Financials environment.

Opportunities for improvements

Automate manual approvals, where applicable.

Recommendations

As part of determining the impact associated with manual processes as described in II. Extent of manual vs. automated accounting, Management should consider the benefit of automating certain manual approvals via an automated workflow and/or alerts solution.

Conclusion

Manual approvals processes occur with in Oracle Purchasing which can lead to an increase in process cycle time. Automating the approval process can shorten these cycle times. To expand the existing Oracle Financials implementation, a complete workflow management system and alerts notification should be considered, such as Oracle Workflow and Oracle Alerts. Oracle Workflow supports business process based integration through modeling, automation, and continuous improvement of business processes, and routing information of any type according to user-defined business rules. Oracle Alerts provides auto-generated email capability to selected individuals based on predefined criteria.

Management Response

No comment

V. Use of manual ledger posting

During this phase of the project, we reviewed process documentation and interviewed key personnel to gain an understanding of daily and month-end accounting procedures relative to posting GL entries, and the impact to period close cycle time. We further reviewed documentation to gain an understanding of how systems outside of Oracle Financials create journal entries in Oracle Financials such as ADP (Payroll), BCCS (Customer information system), TLM (time and attendance), Mainframe JEMS (Labor, transportation), and M4 (Fleet management).

The evaluation of use of manual ledger posting resulted in the following:

PGW utilizes satellite systems to process some transactions outside of the Oracle Financials environment. Approximately 62 manual and 22 recurring journal entries are executed at period close. Journal entries typically are processed for posting in three different formats: manual, imported, and generated. Manual journal entries or batches are keyed to the ledger through the GL module.

The assessment of manual ledger posting for each of the process areas are summarized below (ref: WorkBook V - Use of Manual Ledger Posting):

A. **General Ledger and Financial Reporting** – There is a considerable manual nature of the monthly close process for PGW. Oracle Financials user roles and responsibilities/duties appear to be appropriately segregated between Oracle Financials application end-users who can enter a journal entry and those who can post a journal entry to the Oracle General Ledger.

B. **Purchasing** – PGW utilizes the Oracle Procurement module primarily to process purchase requisitions and purchase orders for non-contract goods and services, as well as performing inquiries into existing purchase orders and purchase requisitions within the Oracle Financials application. Three-way match capabilities appear to be in place between Purchasing and Accounts Payable whereby purchase order, receipt, and invoice information are required prior to releasing for payment. As some commodity purchases, such as Liquefied Natural Gas (LNG) and healthcare insurance premiums are not originated/transacted via Oracle Purchasing, manual entries are required.

C. **Accounts Payable** – Some manual processes exist whereby AP sends invoice batches to the Treasury for payment, and Payables Validation concurrent request.

D. **Project Accounting** - Capital Work Orders and budgets are currently being tracked through Oracle Project Accounting module via manual transaction processing.

E. **Fixed Assets** - Manual transactions are created to generate an asset, assign a value to that asset, and ultimately to assign that valued asset to a specified project within the Oracle Project Accounting application module

F. **Gas Purchasing** –Gas Procurement is managed outside of the Oracle Financials environment.

G. **Accounts Receivable and Collections** –Accounts Receivable and Collections is managed outside of the Oracle Financials environment.

H. **Treasury** –Cash Management is managed outside of the Oracle Financials environment.

Opportunities for improvements

Satellite systems and manual processes are utilized to properly account for non-Oracle Financials transactions at the GL level requiring manual journal entries. These processes tend to slow the velocity of the period close. PGW should consider determining the impact (environment, operations, and information) associated with the volume of manual journal entries required during the period close process in order to automate the financial reporting process where applicable. Accelerating the financial close can help PGW streamline consolidation and reporting processes for a more timely and efficient closing.

Recommendations

Create more timely closing and consolidation processes by assessing as-is processes & critical mapping, benchmark diagnostic results, gap analysis, findings and recommendations for close reduction opportunities, and determine future state performance indicators and targets.

Conclusion

The configuration of Oracle Financials allows journal entries from other Oracle Financials modules to be summarized in the GL. Journal entries from outside the GL are processed through an import function. Reversing, recurring and allocation journals are also generated in the GL module.

Management Response

Automated allocation processes are in development to replace current mainframe and manual allocation processes. The automated allocation processes are scheduled to be available May 2009.

VI. Alignment of Technology Development with the Strategic Direction of the Business

During this phase of the project, we reviewed process documentation and interviewed appropriate personnel to gain an understanding of IS organization structure, roles, and personnel responsible for developing, implementing and tracking IS strategy, as well as understanding the role business owners and the responsible IS parties have for the governance of the IS systems.

Additionally, we conducted interviews with appropriate personnel within Business Transformation to gain an understanding of the PGW strategy, goals and objectives in order to assess the alignment of IS technology development projects.

The evaluation of strategic alignment resulted in the following:

With a clearly defined Business Transformation (BT) roadmap to external challenges such as increased customer demands, response to regulatory requirements, and rising natural gas cost; and internal requirements such as workforce attrition due to retirements and cost-control, the role of IS and technology development is critical to the success of distinct BT initiatives.

FY 2009 IS objectives and goals appear to be aligned with the PGW Business Transformation initiatives within the Field Operations, Supply Chain, Customer Affairs and Enterprise-wide business areas. While IS initiatives will impact the current technology footprint (i.e. BCCS, AIMS, TLM, etc.), the strategic goal of optimizing traditional operating model to leverage best practices, create world class utility and accomplish third party development of PGW assets can be further addressed by analyzing the current technology footprint.

The assessment of technology development with strategic direction of the business for each of the process areas are summarized below (ref: WorkBook VI - Alignment of Technology Development with the Strategic Direction of the Business):

A. – E. **General Ledger and Financial Reporting, Purchasing, Accounts Payable, Project Accounting, Fixed Assets** – PGW has and continues to preserve maintenance and support licenses, application and system patch levels, provide problem and incident management, and appear to maintain adequate internal controls over change management, security, and operations.

F. **Gas Purchasing** – While Gas Procurement is managed outside of the Oracle Financials environment, data integration into the GL and management reporting dashboards is a key technology success factor (e.g. further automation or migration to standardized platform)

G. **Accounts Receivable and Collections** – While Accounts Receivable and Collections is managed outside of the Oracle Financials environment, data integration into the GL and management reporting dashboards is a key technology success factor (e.g. further automation or migration to standardized platform)

H. **Treasury** – While Cash Management is managed outside of the Oracle Financials environment, data integration into the GL and management reporting dashboards is a key technology success factor (e.g. further automation or migration to standardized platform)

Opportunities for improvements

Determining how the current enterprise resource planning system (ERP) can further enable the strategic direction of the business is a critical assessment. Oracle Financials and related sub-systems support the business and the data needed for a variety of functions such as financial information/reporting, field service management, project management, human resources and customer information management within PGW's decision support systems.

Examining the flow of data from different systems in order to determine valid integration points so as to create a seamless data store may increase the likelihood that system(s) information is available and relevant.

PGW Management relies upon the data residing inside of several transactional systems to aid in the decision making process of executing business plans. For example, financial data and operational data is extracted and reported via standard and customized Oracle Financials reports as well as through developed Noetix dashboards. We have learned that the data elements required by management may at times be centric to the technology platform from which it was extracted and not fully integrated. In order to support managerial decision making, a data warehouse solution may meet this need. Data warehouses have the potential to transform operational data into business intelligence; enabling effective problem and opportunity identification and critical decision making.

Recommendations

PGW should consider assessing the overall effectiveness and efficiency of their current management information solutions. Two key steps in this assessment include 1) identification of non-value added activities and 2) current software capabilities not being effectively utilized. In addition, an assessment of systems capabilities including data integration, while not easy, can yield benefits and a better understanding of the costs of expanded and/or new systems.

Data integration solutions considerations include off-line data warehouses and real-time data warehouses. Off-line data warehouses are updated from data in operational systems on a regular basis and the data warehouse data is stored in a data structure designed to facilitate reporting. Real time data warehouses are solutions that are updated every time an operational system performs a transaction.

Conclusion

The PGW ERP system comprises a set of discrete applications, each maintaining discrete data stores. While we have assessed that the configuration of the Oracle Financials modules which provides PGW with accurate and complete financial information, the multiplicity of manual processing that occurs – whether within the Oracle Financials or other software applications - appears to have an impact on the timeliness of financial and operational information. Integration of these systems and finding efficiencies within the business processes is essential so information can pass between systems, otherwise islands of automation may result and prevent the effective use of data throughout all intended data flows.

Management Response

IS agrees with these observations and will put a plan in place to evaluate and implement the recommendations listed here. We are currently implementing Oracle (SPL)'s Business Intelligence for CISPLUS, which utilizes Oracle Internet Developers Suite to populate a data warehouse. The BI tool covers 40 key performance indicators identified by PGW. The data extracts have been developed and the resulting dashboards are currently being validated.

VII. Use of Oracle Financials Embedded Industry Best Practice

During this phase of the project, we attended the Oracle Financials OpenWorld conference in September 2008 and participated in Utilities and Energy Sector user forums, and technology updates. Additionally we researched and inquired of Oracle to confirm our understanding of solutions and functionality available in the Utilities and Energy Sector.

We conducted interviews with appropriate personnel within Business Transformation, Finance and IS to gain an understanding of the PGW accounting and financial reporting strategy during the Oracle Financials life cycle.

Also, we reviewed documentation to gain an understanding of process and technology supporting functional areas not currently managed through Oracle Financials functionality.

The evaluation of industry best practice resulted in the following:

PGW currently licenses six (6) key modules of the Oracle Financials Suite for its accounting requirements. Within the Oracle Financials Modules AP, FA, GL, INV, PA, and PO there are over 750 reports and processes. The following systems interface to the General Ledger module:

- ADI (Application Desktop Integrator)
- ADP (Payroll)
- BCCS (Customer information system)
- TLM (recent implementation of time and attendance BT initiative)
- Mainframe JEMS (Labor, transportation)
- M4 (Fleet management)

The configuration of the application software provides the functionality PGW requires in order to accurately account for financial transactions. Data from satellite systems typically is ported into the financials suite at a summary level. Standard and custom Oracle Financials reports, as well as user developed reporting (Noetix), provides summary-level data for Management decision support. While some Oracle Financials application administration is provided by the Finance Team, technology infrastructure support and application support/development is provided by the PGW Information Services Organization. Additionally, the Finance Team provides end-user training development and support as well as custom report development.

The assessment of use of Oracle Financials best practice for each of the process areas are summarized below (ref: WorkBook VII - Use of Oracle Financials Embedded Industry Best Practice):

A. **General Ledger and Financial Reporting** – The GL module is a central repository of accounting data, receiving transactions from Oracle Financials and non-Oracle Financials (e.g. BCCS, ADP, etc) sub-ledgers. The GL maintains financial balances, including actual, budget, summary, statistical, and average balances, in one balanced ledger, synchronizes journals, detail balances, and summary balances using a posting process. The embedded standard functionality is adequately configured to support budgetary controls, currency, allocations (automate journal batch creation and posting to recurring journals, allocations, and budgets), journal entries (allocation, recurring, reversing, statistical, foreign currency, skeleton and manual journal entries), account hierarchy, financial analyzer integration

B. **Purchasing** – Supports the procurement of commodity items via standard, blanket, or contract purchase orders.

C. **Accounts Payable** - Supports the procure-to-pay process while providing financial controls and strategic financial information. Supports automated scheduling of the invoicing-through-payment processing cycle. Creates recurring payments. Embedded workflow processes enforce approvals and business rules. Performs three-way purchase order (PO) matching.

D. **Project Accounting** - Supports cost management for projects and activities planned and tracked within the enterprise. Shares transactions in Oracle Financials Payables, Purchasing, and Inventory. Project-related requisitions are shared with Oracle Purchasing.

E. **Fixed Assets** - Manages financial accounting and maintenance of fixed assets. FA tracks assets, capitalizes Construction-In-Progress (CIP) assets from project accounting. Supports drilldown to projects for tracking of cost components. Tracks non-depreciating assets, including expensed asset items, real estate and assets acquired under operating leases.

F. **Gas Purchasing** – The Gas Procurement process is managed outside of the Oracle Financials environment. Gas purchases do not follow the same purchase approval process as the purchasing of goods and services. Gas payables follow the same three-way match and payment controls as other inventory, supplies, goods and services.

G. **Accounts Receivable and Collections** – The Accounts Receivable and Collections process is managed outside of the Oracle Financials environment in BCCS. BCCS creates journal entries that interface with Oracle GL.

H. **Treasury** - The Cash Management process is managed outside of the Oracle Financials environment. Cash receipts are a manual process resulting in manual journal entries into Oracle GL.

Opportunities for improvements

In Nov 2006, PGW and TMG Consulting, Inc. conducted an assessment of the scalability and usability of the BCCS application by means of a comprehensive, analytical approach. PGW and TMG also assessed the current software solutions utilized by PGW and compared them against those being used by other public utility companies in regards to available features within each respective software application. The result of this assessment concluded that PGW should replace the BCCS application with a new product solution managed and supported by a commercial software vendor. PGW assessed commercial off-the-shelf software solutions in order to identify features within each product and compare them against PGW business requirements. The results of this assessment concluded that the Oracle Financials Customer Care and Billing (i.e. the next generation BCCS, initially SPL Customer Information System) module would be an appropriate replacement for the existing BCCS application, and has been targeted for future implementation.

While PGW has assessed some segments of its technology platform, a comprehensive application rationalization effort for other areas of the software environment, such as the approach previously taken with the BCCS assessment, can help management determine PGW's technology portfolio and capabilities, and the business value of IT investments.

To that end, a holistic approach to data integration across the enterprise seeks to create a consistent and logical set of information. Data consistency and process integration focus on joining a system of disparate applications. A comprehensive application rationalization approach can create an application platform that has an architecture that contains components whose functionality may be part of independent applications.

Rationalization strategies are developed based on input from finance, lines of business users, application/infrastructure heads, business and IT management, as well as Executive Management and may include:

- Decommissioning and redesign of business processes that, given changes in technology, are now inefficient
- Redesign and integration of data reporting mechanisms
- Redesign and modernization of the enterprise integration layer, ensuring organization-wide connectivity and data integrity

There are various application strategies that can be considered to rationalize existing applications. The strategy should begin with identifying and understanding relevant business processes and functions, desired best practices, workflows and mapping available applications to them. The attempt is to deliver collateral business benefits without attempting business process reengineering or large scale changes.

Below is a matrix of possible end-state application strategies:

Application Strategies	Pros	Cons
Platform Solution	• Integration is designed-in – robust data sharing • Minimal implementation conflict and redundancy among applications • Simplified maintenance and upgrades	• Typically larger, more complex initiatives – require strong planning • Typically some sacrifice in functionality or timing/availability vs. best-in-breed
Best-in-Breed Commercial Solutions (integrated selection)	• Strongest functionality within limits of specific applications • Reasonable cross-application integration levels can be attained if well planned and executed	• Achieving strong cross-application functionality can be limited or complex • Maintenance, support, upgrades are more complex, costly • Minimizing implementation conflicts can be difficult • Multiple vendor relationships – lower vendor leverage, complex and time consuming vendor management
Best-in-Breed Commercial Solutions (ad hoc selection)	• Strongest functionality within limits of specific applications	• Integration is typically an afterthought. Results in complex architecture, data model, interfaces – low robustness, costly maintenance • Maintenance, support, upgrades are more complex, costly • Multiple vendor relationships – lower vendor leverage, complex and time consuming vendor management
Custom Point Solutions	• Targeted solutions can be executed quickly	• Integration is an afterthought. Results in complex architecture, data model, interfaces – low robustness, costly maintenance • High internal development, maintenance and support costs • Overall implementation speed can be false perception when full extent of point solutions and integration is considered

As described below, an application rationalization strategy may result in achieving benefits in speed and cost of implementing & maintaining new solutions:

Reason to rationalize applications	Potential benefits
Cost of maintaining systems	• Reduced maintenance costs • Fewer platforms to support • Less dependence on legacy experts • Simplified application upgrades • Increase IT flexibility, reduce support requirements
Ability to see the roll-up of all systems	• Financial performance • Operational performance • Corporate wide analytics and performance alerts
Standardization on common business practices	• Quicker close of books • Simplified employee training • Streamlined internal communication

In order to determine the most optimal strategy for PGW, management needs to consider identifying certain criteria relevant to the desired end-state to ensure adequate integration. For example:

- Business Drivers = what
- Functionality = how
- Customizations = how
- Interfaces = how
- Resources = who
- Cost Benefits = why
- Timeliness = when

IT can foster improvements and competitive advantage for the organization, however it can only be achieved if business leaders become more involved in technological decision making.

Recommendations

Although management has assessed their strategic needs via Business Transformation initiatives, which has had an impact on the current technology platform (e.g. AIMS, Time Labor Management), management should consider assessing additional areas of the technology platform so as to build upon data integration strategies. Prior to this being accomplished, however, an application rationalization assessment should be considered to evaluate the feasibility and cost effectiveness of integrating purchased commercial software (best-in-breed) products or internally developed point solutions into the current technology platform. Business and IT leaders need to collaborate through a steering committee (Governance) comprised of senior managers from all fundamental (Business) organizations. The key is to ensure that these leaders not only take ownership in setting the corporate IT agenda, but also manage the performance of IT. The steering committee must incorporate an established portfolio management process to evaluate, approve, fund, prioritize, and monitor IT investments.

We further recommend that PGW consider building a collaborative relationship with each respective software vendor that is ultimately selected as the technology solution which PGW will deploy. Many software companies, such as Oracle, have programs where select customers work closely with software vendor's business and IT strategy experts to identify the critical objectives and challenges for their unique business needs and understand how technology can help address. Additionally, PGW should share its solution needs through application-specific customer advisory boards and user forums, where applicable. Software vendors have historically used the customer advisory board model with a number of software development projects as a way to create products better tailored to its target market. These types of arrangements are a win-win for stakeholders where customers end up with a software solution that they have had an opportunity to influence design, and the software vendor develops a relationship whereby their solution and PGW becomes a showcase for the industry.

Other opportunities to gain operational efficiencies may exist in the following process areas:

1. Collaborate with your software vendors, including Oracle, to determine how to best accommodate the unique delegation of authority requirements (Vice President of Gas Management) with respect to gas procurement. While gas purchasing is a complex process, gaining a reduction in manual processes may increase efficiencies.

2. The cash receipts process is primarily manual, reducing manual process through Oracle Cash Management may increase efficiencies. Cash Management gives direct access to expected cash flows from operational systems. PGW could analyze cash management cash requirements, ensuring liquidity and optimal use of cash resource. While other commercial software solutions outside of Oracle Financials may be available, management should consider evaluating Oracle Financials Cash Management module. However, an application rationalization effort should be conducted in order to determine feasibility and cost effectiveness.

3. PGW manages storeroom inventory based on seasonality factors (i.e. maintain inventory to very low levels when demand is out of season, such as appliance parts). Through interview, we learned that storeroom inventory replenishment requisitions are executed manually, and as such, PGW does not enforce automated reordering functionality in Oracle Inventory.

Inventory planning/reordering, constrained by seasonal fluctuations, is part of standard functionality in Oracle Inventory (R11i). We recommend that PGW consider managing inventory levels using the planning and replenishment features, such as the statistical forecast method in the current Oracle Inventory module, and collaborating with Oracle to determine how to best deploy this functionality. The functionality includes min–max planning, reorder point planning, and a replenishment system for generating orders. Additionally forecast rules, which include forecast source options, entering statistical forecast parameters (i.e. uses exponential smoothing, trend, and seasonality algorithms to forecast demand for the item) can be crated when loading forecasts.

Conclusion

In some organizations, applications are deployed and then execute without an end of life strategy, leading to a likely increase of IS services that can be costly to sustain over time. Older applications often require increasing levels of maintenance and support. As the PGW business application platform is comprised of mixture of best-in-breed commercial solution (Oracle Financials, BCCS, TLM, M4, ADP, Datastream, etc.) and custom point solutions (AIMS), consideration should be given to investigate end of life strategies and adoption of newer industry specific functionality in order to improve current decision support processes, financial reporting processes, and operational processes through application rationalization, as in the case of the BCCS replacement through an evaluation of Oracle Customer Care and Billing.

Management Response
The Finance Organization maintains a corporate membership with the Oracle Application User Group (OAUG). OAUG provides valuable information on the latest developments within the Oracle community and the OAUG Enhancement Request System allows members to provide recommendations for application enhancements. Finance members have attended local and national conferences sponsored by OAUG and Oracle's Open World Conference.

Mr. Douglas A. Moser
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March 5, 2009

Dear Mr. Moser,

Internal Audit (IA) has completed our assessment of PGW's compliance with the requirements of the PaPUC 1307 (f) filing process. This review included an assessment of the least cost purchasing formulas that PGW is obligated to follow as stipulated in the final GCR settlement agreements to ensure adherence. An evaluation was also performed on the Gas Planning and Supply business processes to determine if they are aligned with least-cost purchasing practices that are required to ensure both the safety and reliability of gas supply in addition to protecting the consumer from short term gas cost rate volatility. All of these assessments were performed while considering how current or planned purchasing policies affect cash flow for PGW. Finally, we evaluated the current regulatory requirements around the gas purchasing and rate setting functions to determine if they are effective and efficient in achieving industry standard least cost practices.

Our fieldwork was performed during October 2008 through February 2009. A summary of our work is contained within the attached report, as well as our detailed observations and recommendations. This project was carried out in accordance with Statements on Standards for Consulting Services of the Institute of Internal Auditors.

We appreciate the cooperation received from all PGW personnel whom participated in this project. Please note that this assessment did not include any controls testing within any of PGW's functional areas, but rather was an assessment of PGW's compliance with the requirements of the PaPUC 1307 (f) filing process through a combination of inquiry/interview, observation and data collection.

Sincerely,

G Daniel Miller
Partner, Philadelphia Advisory
Practice Leader
Business Advisory Services
Grant Thornton LLP

Gas Purchasing Compliance Assessment and Evaluation
PHILADELPHIA GAS WORKS
December 2008

Table of Contents

Executive Summary

At the request of management, an assessment was conducted to determine PGW's compliance with the requirements of the PaPUC 1307 (f) filing process. This involved several different reviews, which included an assessment of the least cost purchasing formulas that PGW is obligated to follow as stipulated in the final GCR settlement agreements to ensure adherence. An evaluation was also performed on the Gas Planning and Supply business processes to determine if they are aligned with least-cost purchasing practices that are required to ensure both the safety and reliability of gas supply in addition to protecting the consumer from short term gas cost rate volatility. All of these assessments were performed while considering how current or planned purchasing policies affect cash flow for PGW. Finally, we evaluated the current regulatory requirements around the gas purchasing and rate setting functions to determine if they are effective and efficient in achieving industry standard least cost practices.

As a part of the assessment we documented our understanding of current PGW business processes and performed substantial testing of PaPUC 1307(f) filings during a specified period of time to determine whether PGW provided documentation that was materially complete and accurate. Through additional testing we also attempted to verify that the 1307(f) filing process least-cost gas purchasing formulas, which are required within the annual GCR settlement agreement, were being used.

Our evaluation also included a review of the efficiency and effectiveness of the regulation process, itself. We compared PGW's gas purchasing process to others in this and other regions to see where there are opportunities for possible improvement. We also documented our understanding of the current PGW least-cost gas purchasing processes, including any inherent associated risks. This was determined through our review of the tools used to support the aforementioned gas-purchasing processes, including computer modeling systems, reports, and outside expert services.

Summary Findings

Compliance with 1307(f) Filing Requirements:

1. PGW is in compliance with PaPUC 1307(f) filing requirements and the directions of the joint GCR settlement agreements, including adherence to least-cost gas purchasing formulas.
2. PGW follows acceptable least cost-gas purchasing practices to meet the PaPUC regulatory requirements.

Review of PGW Gas Purchasing business processes:

1. purchased in an acceptable least-cost portfolio method, which also protects against short term gas rate volatility.
2. Comparing PGW's approach to others in the industry we find PGW's approach to gas purchasing to be conservative in design protecting the reliability of supply. This conservative approach is largely due to the capacity constraints of the pipeline system, having the ability to meet only 70% of the requirements of a design day situation.

Summary Recommendations:

1. We recommend that PGW develop a system of policies, procedures and risk-based internal controls around the 1307(f) filing and gas purchasing processes to improve effectiveness and to help mitigate part of the risk of having limited numbers of knowledgeable personnel capable of maintaining those processes.
2. We recommend that a stronger and more transparent reporting system be developed for the least-cost gas purchasing decision-making process to allow management to better evaluate all available options and communicate them to the Gas Supply Committee and the PaPUC.
3. PGW should consider obtaining an integrated information system that reports natural gas supply and supply logistics requirements in terms that comport to the contract products now offered in the marketplace. The ability to express PGW physical customer demand in such terms will enhance its ability to access the wider market on an auction basis and achieve its goals for least-cost reliable supply.

General Background

Philadelphia Gas Works

Philadelphia Gas Works (PGW) is the largest municipally owned gas utility in the country maintaining a distribution system of approximately 6,000 miles of gas mains and service pipes serving approximately 500,000 customers. PGW has approximately 1,700 active employees who work in three shifts and 2,000 retirees. Most administrative functions are centralized at PGW Headquarters at 800 West Montgomery Avenue, Philadelphia, PA 19122. PGW also maintains 6 district offices, 2 plants and several outlying stations.

Philadelphia Gas Works (PGW) is owned by the City of Philadelphia and operated by the Philadelphia Facilities Management Corporation (hereafter referred to as "PFMC") a not for profit corporation specifically established to operate PGW. The PFMC Board of Directors consists of seven outside directors who are appointed by the Mayor of Philadelphia to four year terms. The Philadelphia Gas Commission (PGC) is a management oversight organization recognized under city charter to approve the operating budget, review the capital budget, make recommendations to city council with respect to all GAS purchases contracts, and to regulate other specific parts of PGW operations. It consists of five members: the city controller, two members appointed by city council, and two members appointed by the Mayor. In July of 2000, in accordance with the Natural Gas Competition Law, the responsibility for recovery of costs/tariffs, gas supply, gas transportation, reliability, safety, customer relations, and financial fitness was transferred to the Pennsylvania Public Utility Commission (PaPUC).

PGW's Internal Auditing Department reports to the Audit Committee of Facilities Management Corporation ("PFMC"). Its primary purpose is to help PGW accomplish its strategic objectives by conducting assessments which are designed to add value, improve operations, and evaluate and improve:

- the effectiveness of risk management;
- controls; and
- governance processes.

Natural GAS Market/Distribution

The natural gas market is broken down into three major segments: exploration and production, transmission, and local distribution. The exploration and production segment is conducted mostly by large vertically integrated petroleum companies. The transmission segment consists of a network of pipelines that move natural gas from production areas to consumption areas. Storage facilities are situated along the pipelines to help balance receipts and deliveries of gas to local market areas. The local distribution segment of the natural gas market consists of utilities like PGW, along with large industrial users and electricity generators. The exploration and production segment currently operates in a market environment with no direct regulation with respect to price; however the transmission segment is regulated by the Federal Energy Regulatory Commission (FERC) and the local distribution segment is regulated by state utility commissions.

There are three different types of production company supplier contracts for the purchase of natural gas: firm contracts (must deliver/take), swing contracts (flexible), or base load contracts (best efforts). The pricing on supplier contracts can be fixed or it can be based on an indexed or spot market. The gas is then transported through the transportation pipeline system to the local distribution companies (LDC) using firm (reserved capacity) or interruptible (available capacity) transportation contracts. Transportation rates are broken down into commodity charges (charge to transport molecules) and reservation charges (purchased firm capacity). In addition, through capacity release trading, firm shippers can assign all or part of their firm transportation capacity to a third party for all or some portion of the reservation charge. The LDC then sells to its customer with firm supply or transportation agreements with rates set by regulators or under interruptible supply and transportation agreements.

The PGW Gas Management department is responsible for the procurement and transportation of natural gas to PGW's city gate and the liquefied natural gas facility (LNG), which is inside of the city gate. The Gas management function includes gas planning, procurement, transportation, external storage, the LNG facility and system operations. In addition to the physical responsibilities around gas management, the Gas Management department, along with Regulatory & External affairs, is responsible for preparing the annual and four quarterly Gas Cost Rate filings to the PaPUC.

Required 1307 (f) filing requirements with the PaPUC

Since July of 2000 PGW tariffs and gas cost rates have been regulated by the PaPUC. Title 66 of PA legal code contains the governing laws for public utilities in Pennsylvania and chapter 13 section 07 (1307) governs gas cost rates. Title 52 of the PA legal code chapter 53 governs tariffs for public utilities The Regulatory and External affairs department has the actual responsibility for filing the 1307 (f) filings. The Gas Planning and Rates department has the responsibility for preparing the required detailed financial and operational data that is contained in the filing documents. The 1307 process consists of an annual filing which is a review of the previous year and a projection of the upcoming year's gas rates. The annual process also includes testimony from PGW Management and the key stakeholder representatives along with a joint settlement between the parties on how PGW will calculate their rates and perform their least cost portfolio purchasing practices. In addition to the annual filing process there are four quarterly rate filings required, which determine the actual Gas Cost Rate component in the customer tariffs.

Least-Cost Gas Purchasing Requirements

Under Title 66 of the PA legal code § 1318, (Determination of just and reasonable gas cost rates) PGW is required to follow least cost purchasing practices. Under 1318 PGW must demonstrate the following:

1. The utility has fully and vigorously represented the interests of its ratepayers in proceedings before the Federal Energy Regulatory Commission.

2. The utility has taken all prudent steps necessary to negotiate favorable gas supply contracts and to relieve the utility from terms in existing contracts with its gas suppliers which are or may be adverse to the interests of the utility's ratepayers.

3. The utility has taken all prudent steps necessary to obtain lower cost gas supplies on both short-term and long-term bases both within and outside the Commonwealth, including the use of gas transportation arrangements with pipelines and other distribution companies.

4. The utility has not withheld from the market or caused to be withheld from the market any gas supplies which should have been utilized as part of a least cost fuel procurement policy.

In addition, in its GCR settlement agreements with the PaPUC PGW is required to pursue a least cost procurement policy using a portfolio approach in both contract structure and pricing. The least-cost fuel procurement policy needs to be consistent with PGW's obligations to provide a safe adequate and reliable service to its customers. Also PGW's least cost procurement approach must be designed to protect the rate payers from the risk of natural gas price volatility in the market.

The Gas Supply Transportation and Control department along with the Gas Planning and Rates department have the major responsibilities for the implementation of the least-cost procurement policy with some dependency on the Gas Operations department which is responsible for the LNG operations. This is a constraint bound optimization process with two major variables to project, weather and natural gas prices, with natural gas prices often having a dependent relationship with the weather. The following factors all have to be considered when determining a least-cost natural gas procurement policy at PGW.

- Customer demand

- Weather degree days

- Available assets, transportation, external storage, and LNG.

- Gas supply, transportation, and storage contracts
- Natural gas market price volatility
- Weather volatility
- Reliability of supply to fixed demand customers
- Safety of supply
- Commitments to regulators both PaPUC and PGC
- The cash requirements and limitations of PGW

Assessment Scope

At the request of the Management of PGW, Internal Audit (IA) performed an evaluation of PGW compliance with the annual PaPUC 1307(f) filing process. The scope of this project also included a review of PGW gas purchasing practices to determine adherence to the annual PGW resource plan, agreed-upon formulas for least cost gas purchasing with the PaPUC, and alignment with industry best practices. In addition, IA performed an evaluation of the efficiencies and effectiveness of PGW's least-cost gas purchasing process and the current regulatory structure for gas purchasing and rate setting.

Assessment Objectives

The assessment objective is to determine whether PGW's natural gas purchasing/planning practices and business processes achieve the following:

- Compliance with existing regulatory formulas and requirements for the annual and quarterly PaPUC 1307(f) filings and are in compliance with existing PUC policies, procedures, and appropriate documentation.
- Compliance with the annual PaPUC Gas Cost Recovery (GCR) Settlement Agreement requirements.
- Compliance with the agreed-upon formulas for least-cost purchasing contained in the PUC 1307(f) filing GCR settlement agreements;
- Demonstrate adherence to the implementation of effective least-cost purchasing practices as defined in Pa 1318 of the 1307 (f) filing process.
- Determine if PGW appropriately matches its purchasing strategies with resource planning to accomplish a reliable and effective least cost supply that guards the consumer against rate volatility as best as possible under the gas market and supply conditions.
- Compare purchasing practices and resource planning with effective industry practices for possible practice improvements.
- Compare current regulatory structure to other regulatory structures in the industry and if better, alternative regulatory structures and mechanisms are appropriate to recommend such changes to the PaPUC 1307(f) structure.
- Compare the agreed-upon formulas for least-cost purchasing contained in the PUC 1307(f) filings with Utility Industry Best Practices;

Assessment and Evaluation Procedures

Internal Audit assessed and evaluated PGW's natural gas purchasing/planning practices through a combination of inquiry-interview, observation, data collection, and sample testing using the three year test period FY 2006-2007 through FY 2008-2009.

The assessment/evaluation procedures are as follows:

Assessment/ Evaluation Objectives	Sub-Objective	Approach	Meets Requirements
I. Assess PGW Compliance with existing regulatory requirements 1307(f)	**A.** Determine what the current 1307 (f) filing process requires	1. Performed interviews and walkthroughs of the different aspects of the 1307(f) filing process with the Gas Planning & Rates department and the Regulatory & External affairs department. We then reviewed all of the documentation filed for the last two annual periods.	N/A
	B. Determine if proper documentation was filed with 1307 (f) filings	1. Obtained copies of all the appropriate legislative requirements from PaPUC and tested two annual filings to determine if all the required documentation was filled or accounted for.	Meets Requirements
	C. Determine if the documentation filed in 1307(f) was accurate	1. Sampled two quarterly rate filings and tied actual data back to source documentation. Forecasted data was compared to actual and variations were analyzed for causes. 2. Reviewed audits conducted by PaPUC for the last four years.	Meets Requirements

Assessment/ Evaluation Objectives	Sub-Objective	Approach	Meets Requirements
I. Assess PGW Compliance with existing regulatory requirements 1307(f) (continued)	**D.** Evaluate forecasting methods and assumptions used in the 1307 (f) filings are reasonable in determining the gas cost rate (GCR)	1. Reviewed the methodology and assumptions discussed in the filings. 2. Reviewed the comments on the forecasting methods and assumptions contained in the ICF study. 3. Held discussions with the members of the Gas Planning and Rates department.	Meets Requirements
	E. Proper GCR settlement agreement process documentation and pre-settlement follow up information was filed	1. Tested two years GCR settlement agreement process, obtaining testimony, resource plans, petitions for settlement and final settlements. Ensured that any pre-settlement follow-up documentation requirements were submitted or available.	Meets Requirements
II. Assess Compliance with the annual PaPUC GCR settlement agreement requirements	**A.** Proper GCR settlement agreement documentation requirements were completed	1. Reviewed two years final joint petitions for GCR settlement agreement and ensured all requirements were completed or the data was available upon request. 2. Traced any changes required in the future filings if the future filing was currently available. (Some requirements are for future dates than are beyond the current period)	Meets Requirements

Assessment/ Evaluation Objectives	Sub-Objective	Approach	Meets Requirements
III. Assess Compliance with the agreed-upon formulas for least-cost purchasing contained in the PUC 1307(f) filings	**A.** Actual fixed price gas purchases, FOM option contract availability and physical hedge availability matched the least cost portfolio requirements in the GCR settlement agreements.	1. Verified fixed price purchases to internal reporting which was verified by sample testing locked in future delivery confirmations. 2. Verified FOM option contract availability to actual contracts in force for the period. 3. Verified volume of purchases made at market rates 4. Verified physical hedgers to amounts in storage, injected, and withdrawn from invoices in the test period.	Meets Requirements Since November of 2005
IV. Demonstrate adherence to implementation of effective least-cost purchasing practices	**A.** Answer the question - Is there an effective least cost practice while considering the following constraints: 1. Reliability of supply 2. Volatility of rates 3. Cash flow of PGW	1. Performed interviews and walkthroughs 2. Reviewed projections and reporting used 3. Reviewed external asset studies 4. Attended gas supply committee meetings 5. Compared rates with other PA utilities filling in same calendar quarter	Meets Requirements
V. Compare purchasing practices and resource planning with effective industry practices for possible practice improvements	**A.** Compare with good industry standards for a not for profit using a conservative approach with least-cost objectives constrained by 1. Reliability of supply 2. Volatility of rates 3. Liquidity	1. Performed interviews and walkthroughs 2. Reviewed reporting used 3. Reviewed external experts used to aid in the planning process. 4. Reviewed external asset studies 5. Attend gas supply committee meetings 6. Discussed with industry experts	N/A

Assessment/ Evaluation Objectives	Sub-Objective	Approach	Meets Requirements
VI. Compare purchasing practices and resource planning with effective industry practices for possible practice improvements	**A.** Compare with small universe of similar utilities, understand risk differences and compare to broader field of for profits and smaller not for profits	1. Performed interviews and walkthroughs of the different aspects of the 1307(f) filing process with the Gas Planning & Rates department and the Regulatory & External affairs department. 2. Discussed with management the current restrictions to operating in the best interest of the rate payer.	N/A
VII. Compare the agreed-upon formulas for least-cost purchasing contained in the PUC 1307(f) filings with Utility Industry Best Practices;	**1.** Compare with more liberal physical asset and fix price future purchase contract models.	1. Assessed the risks mitigated and created by and the opportunities lost and evaluate 2. Reviewed and discussed with industry experts	N/A

Detailed Observations

I. Compliance with Existing Regulatory Requirements for 1307(f) Filings

Overview of Testing Procedures for this Assessment Evaluation Objective:
During this phase of the project we reviewed the last two years annual filings and portions of the last three years quarterly filings provided by PGW in order to gain an understanding of the requirements of those filings. We obtained links to the Pennsylvania Code website for the applicable laws governing the filing process from the PaPUC. Additionally, we conducted interviews with appropriate personnel from the Gas Supply and Rates department, the Regulatory & External Affairs department, and outside council - Wolf Block.

In order to ensure that we adequately met all of the objectives and sub-objectives of our assessment, we broke this segment of testing down into three different sections:

1. Verification of Legal Filing Requirements;
2. Documentation provided in the filings is accurate, which is further broken down into:
    - **A.** Findings for forecasted data; and
    - **B.** Findings for actual data
3. An assessment of compliance with the GCR settlement agreement.

Each of these sections include the procedures undertaken followed by findings and recommendations.

Detailed Observation Results

1. **Verification of Legal Filing Requirements**: We obtained the proper legal filing requirements (Title 52 Pa Code §53.45 §53.61-53.68§59.84§69.32 Title 66 Pa Code §1102(3)§1307(f)§1307(e)§1318§2101) from the Pennsylvania Code Website. We then verified that each section of the code that pertained to PGW was accounted for in the two annual filings selected to test.

    Findings

    1. For the two sample test periods all required documentation was filed or accounted for in the filing documents submitted.
    2. There are no written policies and procedures for the filing requirements process with the PaPUC. Within the two responsible departments the bulk of knowledge is currently known by one or two individuals. The current filings are put together based on the prior periods filing and the knowledge of the individuals involved.
    3. The manner in which the information is supplied in the filings meets the requirements necessary to comply with the regulations.

    Recommendations

    1. To ensure that the filings are produced properly in the future, written policies and procedures should be developed that include what needs to be filed including a check list with how the filing should be prepared and origin of the source data. A copy of all source data should be retained as backup to the filing and to maintain the ability to produce the filings in the absence of key personnel.
    2. An opportunity exists to provide data in the filings that is more easily understood and clearly shows that PGW is following the guidelines of the regulator. Examples would include the rate calculation schedules having clear notes to explain what is being calculated and how the calculated numbers roll into the final rates or other rate supporting schedules. In supplying the FERC information a summary page could be provided that shows what is being pursued on the behalf of the consumer and adding items that will be pursued if opportunities arise to eliminate the challenges from the OSBA in the GCR settlement agreement process.

MANAGEMENT RESPONSE

Gas Management has ensured the process has been completed satisfactorily to date. However we will begin the process of developing written procedures and policies governing the 1307(f) filing.

2. **Documentation provided in the filings is accurate**: We selected two quarterly filings from the test period and verified the actual historical data back to source documentation provided for accuracy. For the forecasted data we compared the forecasted data to the actual data in the filings where actual data was now available due to the passage of time. Finally we reviewed the last four years PUC 1307 filing audit reports.

   A. **Findings - Actual Data**
      1. When verifying the actual numbers used to calculate the under/over recovery in the quarterly filings we found that for the net cost of fuels and the firm sales for the most recent months in the filings the values did not tie out to the current financial reports. The difference was that some of the numbers were estimates due to actual numbers not being available at the time of the filing and that other values changed due to adjustments made to the actual numbers in later periods. We then verified the numbers in the following quarterly filings and found that they were corrected to match the current financial reports supplied. Since the over/under calculation is self adjusting (meaning that an error in the rate in one period is corrected in the next) and the size of the differences found are less than 0.01% of the rate calculation we determined that these differences were a minimal risk to the rate payers.
      2. The 4th quarter of 2007 the firm sales in MCF were overstated by 60,100 MCF due to the inclusion of the air conditioning sales which should have been excluded from the calculation. This error is extremely small in its effect on GCR and was corrected in later quarter reconciliations making the parties whole.
      3. In reviewing the last three years audits performed by the PaPUC two errors were discovered. In 2006 $297,750 of off-system sales was not included as a credit to the net cost of fuel when calculating recoverable GCR costs. In 2005 total Restructuring/Consumer Education Costs were overstated by $55,772. These errors had a less than 0.05 % effect on the GCR and were corrected in later period reconciliations making the rate payer and PGW whole. Although we concluded that the errors found were immaterial to the rate filings they are evidence of an evolved system of informal controls rather than a risk based designed system of internal controls being in place.

   B. **Findings - Forecasted Data**
      1. The verifying of forecast data is not an exact science since so much variation is caused by weather (Demand) and natural gas market price volatility. In simple comparisons made between actual and the forecasted numbers the variations in both cost and volume stay in the 10 % or under range. One consistent difference is that volumes are generally to the high side and usually above 5% of actual. Comparing the current degree days provided to the 30 year historical degree days used in the filings the difference is approximately 5%. Also the 2008 unexpected April-July price run up was not forecasted by PGW which was to be expected since most of the experts in the market missed it.

      2. We reviewed the methodology described in the filing, which the PaPUC has found to be acceptable, and reviewed the ICF study from 2006 running PGW forecast against ICF independent forecasting system using similar assumptions that finds PGW approach is reasonable. We tested natural gas pricing used in the forecast for the filings back to the NYMEX and Global Insight prices at the time and agree this is a reasonable approach to forecast natural gas prices.

   Recommendations
      1. Currently there are no formal policies, procedures or risk based controls over the accuracy and completeness of the data in the filings. The individuals who currently

prepare the filings understand what is needed and have their own individual methods for ensuring accuracy and completeness that have evolved over time. Managers perform reviews of the filings that can detect large and unusual errors. PGW should consider creating formal written policies and procedures to generate the filings along with establishing formal controls to ensure the filings are free of major errors . These policies, procedures and controls would also help ensure that there is repeatability of the process in the event that key individuals involved in the process are no longer available.

2. There is no formal policy to maintain the historical support documentation used for the filings submitted, providing no straight forward audit trail if the numbers are challenged later. Maintaining the support documentation would also aid in enhancing the ability to reproduce the process in the absence of key personnel.

MANAGEMENT RESPONSE

Gas Management has ensured the process has been completed satisfactorily to date. However we will begin the process of developing written procedures and policies governing the 1307(f) filing

3. **Proper GCR settlement agreement process documentation and pre-settlement follow-up:** We reviewed the GCR settlement agreement documentation including the testimony, annual resource plan, joint settlement proposal, and the approval of the joint settlement for the last two annual periods.

Findings

1. The proper documentation was filed with the PaPUC throughout the GCR settlement agreement process, although there was not always direct evidence in the testimony phase of issues with the office of the consumer advocate (OCA) and the office of the small business administration (OSBA) being resolved. We used the joint GCR settlement agreement and its approval as evidence of the resolution of the issues with the OSBA and OCA taking place.
2. The documentation to support the GCR settlement agreement process is not filed in a central repository and is not readily available for review.

Recommendations

1. To support future years' settlement efforts it would be useful to have the prior years settlement documentation on file in central repository for review to aid in the responses in the next year's filling.
2. To improve the internal control of the GCR settlement agreement process, PGW should consider reviewing the prior year's settlement process and make a list of the issues brought up by the interested parties in the process. This list can then be used in the preparation of the next year's filing and written testimony to be proactive in addressing the issues of the regulators, which will make the next year's process smoother.

MANAGEMENT RESPONSE

PGW is currently reviewing a central repository for interrogatories and regulatory filings. Dependent upon the outcome of this review and an allocation of internal resources, PGW will determine a method for moving these recommendations forward.

II. Compliance with the Annual PaPUC GCR Settlement Agreement Requirements

Detailed Observation Results

Overview of Testing Procedures for this Assessment Evaluation Objective:
We reviewed the last two annual joint settlements approved by office of the trial staff (OTS) and ensured that the future filing requirements of the settlement were met in the proper future periods. We then requested evidence for those items that would not be found in the future filings to verify their existence.

Findings

1. In the 2007 GCR settlement agreement there was a requirement for the company to prepare a quarterly report on its hedging activities to be provided to any of the parties to the settlement upon request. Although records have been maintained that would enable this report to be produced it currently is not. In the 2008 settlement PGW is allowed to retain 25% of its off system sales margin and capacity release credits. Although this calculation is included in the projected numbers used to establish the fourth quarter raters for 2008, it is not transparent in the filing documentation. In the quarterly filings these amounts are not shown separately they are components of the natural gas billed line in the projected applicable fuel expense worksheet. We were able to verify that the 25% retained was no longer subtracted from natural gas billed lines in the projection by examining the underlying data provided by gas planning.

2. There is no documented formal follow up procedure to the agreed GCR settlement to ensure each person in the process gets the information needed to ensure compliance. However it should be noted that currently the information seems to get disseminated to the proper people since the filings are materially correct.

Recommendations

1. When changes are made to the methods for calculating the GCR rates the changes should be clearly presented in the schedules filed to ensure to the regulators that PGW is complying with the settlement agreement. A clear example of this is not having a separate line item for the 25% retention of the capacity releases and off system sales in the forth quarter 2008 GCR rate filing.
2. The compliance process can be improved and the chance of errors reduced by having a formalized procedure where an assigned individual has the responsibility of summarizing all of the requirements of the GCR settlement agreement and following up with the proper individuals to ensure that the necessary actions are taken and the proper changes are made to the future filings. This individual should report the results to the Gas Supply Committee in a brief report.

MANAGEMENT RESPONSE

PGW does present data used for the calculation of the GCR to interested parties as required. In addition, PGW has been audited by various external auditors including the PUC and to date has not been found in violation pertaining to this finding and recommendation. Gas Management will evaluate modifying the process to assure continued compliance.

III. Compliance with the agreed-upon formulas for least-cost purchasing contained in the PUC 1307(f) filings

Detailed Observation Results

Overview of Testing Procedures for this Assessment Evaluation Objective:
In order to compare actual fixed price gas purchases, first of month (FOM) contract availability, and physical hedge availability to the least cost portfolio requirements in the GCR settlement agreements with the PaPUC, we selected the 2006-2007 and 2007-2008 GCR settlement agreements and verified the following:

1. For the fixed price hedges we verified the actual fixed price hedge purchases to the prescribed method in the settlement by verifying the amounts in the schedules maintained in the purchasing department and by sample testing selected fixed price purchases in the schedules back to the actual purchase confirmations.
2. For the physical hedges for external storage we scheduled and verified the inventory balances, injections, and withdrawals to the pipeline invoices for the periods. For the physical hedges in LNG storage we verified inventories, injections, and withdrawals to the monthly operations reports supplied by the Gas Processing department.
3. For the first of month call option contracts we scheduled and verified the amounts available on the actual contacts in place during the test periods.

Findings

1. For the 2006-2007 Fiscal Year (FY) the September 2005 and October 2005 fix price contracts for delivery in September 2006 and October of 2006 of 23,810 Decatherms (Dth) / mo were not made. Upon investigation we found that management was aware of the situation and had taken actions to prevent this from happening in the future. We tested additional future periods and found that all the required GCR settlement agreement fixed price contracts were in place verifying management's assertion that the problem had been remedied. The 2006-2007 settlement called for 90,000 Dth to be purchased in May of 2006 for Delivery in November of 2006 and only 30,000 Dth were purchased. Upon investigation it was found that the prior settlement for 2005 called for 30,000 Dth to be purchased in May of 2006 for delivery in November of 2006 and since the 2006 settlement wasn't approved until June 22, 2006 to be effective September 1, 2006 the error was in the settlement documentation not in the purchasing function's compliance with the settlement.

2. Total maximum storage for April 2006- March 2007 storage season was 21,463,814 Dth and total injections and withdraws from storage were 13,726,886 Dth and 12,586,072 Dth respectively. For the April 2007 – March 2008 storage season the maximum storage was 20,572,054 Dth and total injections and withdraws from storage were 15,170,620 Dth and 11,626,768 Dth respectively. The table below shows the physical hedging activities for the period demonstrating the minimum hedging requirement 12,000,000 Dth per year was easily met if all the values are considered.

Dth	April 2006 – March 2007			April 2007 – March 2008		
	Storage	LNG	Total	Storage	LNG	Total
Max Storage	17,389,807	4,074,007	21,463,814	16,931,739	3,640,315	20,572,054
Withdraw	11,526,350	1,059,722	12,586,072	11,165,340	461,428	11,626,768
Injections	11,980,937	1,801,949	13,726,886	12,931,739	2,238,881	15,170,620
Beginning Balance	6,420,242	2,926,234	9,346,476	6,028,437	2,687,307	8,715.744
Ending Balance	6,028,437	2,687,307	8,715,744	6,516,713	3,588,064	10,104,777

3. The required GCR settlement agreement FOM call option contracts for the test periods of FY 2007 and FY 2008 was 16,245,000 Dth for both years which amounted to 23.5 % of settlement purchase volumes. The actual amounts available under the multiple FOM contracts available were 20,100,000 Dth for FY 2007 and 22,050,000 Dth for FY 2008 which were 37% and 39.4% of forecasted purchase volumes respectively. In looking at the forecasted winter demand the contracts in place for those months covered 31.7% for FY 2007 and 26.4% for FY 2008 which was well above the required 23.5 %.

Conclusions from Findings:

1. For the two periods tested PGW was in compliance with the agreed upon formulas for least cost purchasing contained in the 1307 (f) GCR settlement agreement except for the September 2005 and October 2005 fixed contract purchases for delivery in September 2006 and October of 2006 of 23,810 Dth each. However we did find that the total actual amounts of fixed price purchases for each fiscal year and each month of the fiscal years were greater than the minimum amounts required by the formulas in the settlements. For the FOM call option contracts and physical hedging requirements we found PGW to be in compliance for both periods. We performed additional testing for fixed contract purchases testing the entire period from November of 2005 – November of 2008 and found no additional exceptions.

Recommendations

1. Although there is a good internal reporting system around the fixed rate purchase contracts with a monthly report furnished to the Gas Supply Committee (GSC). The current status of the gas in external storage and LNG is also provided in reports to the GSC. Improvements in the reporting and transparency of the GCR settlement agreement formulas can be made by developing one comprehensive monthly report for the GSC that reflects the current status and projected compliance plans for the remainder of the settlement period for all of the settlement's purchasing and supply formulas. Having this report would demonstrate that the GSC is monitoring this process regularly. This report could also be used to fill any request made by the PaPUC, such as the availability of a quarterly report for issue upon request.

MANAGEMENT RESPONSE

Gas Management will investigate the development of a comprehensive report as detailed above to more clearly demonstrate compliance.

IV. Demonstrate adherence to implementation of effective least-cost purchasing practices

Detailed Observation Results

Overview of Testing Procedures for this Assessment Evaluation Objective:
To determine if PGW adheres to effective least-cost purchasing practices we conducted interviews, as well as reviewed and analyzed procedures – considering this is not a process that could be tested using simple sample selections. We first inquired if there are documented policies and procedures in place to ensure that least-cost purchasing was achieved. We learned that outside of the Gas Supply Committee Charter there were no written policies and procedures available at the time of the assessment. With no formal written policies and procedures in place we conducted interviews and created walkthroughs of the processes around least cost purchasing to learn what procedures and controls are in place and operating. From these walkthroughs we learned that there are undocumented procedures in place which are summarized below focusing on each component of the procurement strategy:

Procedure Findings

1. <u>Projecting gas requirements:</u> The Gas Planning and Rates department develops the projected requirements for the customers on the system using historical consumption data along with projected increases and changes to the demographics of the customer base on the system. The demand projections are processed in a computer model system called Plan Metrics. Multiple demand scenarios are projected for average winters, design winters, design days, low demand days and plan days based on projected average 30 year weather for the upcoming winter season.
2. <u>The projection of the cost</u>: The Gas Planning and Rates department using dated supplied by the Gas Supply Transportation & Control department and the Gas Operations department calculates the cost of supplying the projected gas requirements using the New Energy Computer system which is then given to the Gas Supply Transportation and Control department to develop a least cost purchasing plan.
3. The Gas Supply and Control department takes the projected data from the Gas Planning and Rates department and performs an analysis on the design and expected requirements to build an asset portfolio with annual winter heating and summer refill plans. The Gas Supply and Control department then contracts to fill the planned requirements optimizing the use of the assets available under the constraints of reliable & safe supply, rate volatility to customers, requirements of the regulators, and cash limitations of the company.
4. The Gas Supply and Control department builds a reliable least-cost portfolio plan using the following assets:
    a. Transportation contracts on two pipelines Texas Eastern and Transco that have access points in multiple key production regions and are tied directly to the city gate. PGW has a mix of transportation contracts, some being year round and some being winter only with take or release options to avoid over supply situations.
    b. PGW is able to manage its transportation costs through capacity release agreements having summer releases that are auctioned on bulletin boards, continuous releases with recall rights, and various opportunity releases when the winter supply is assured. In addition when winter supplies are assured PGW can use off system sales to help reduce system costs and improve cash flow by selling off storage and LNG gas at a profit.
    c. Multiple gas supply contracts with a mix of fixed price, market index, and FOM index contracts that allow for daily volume changes.
    d. Nine external storage facilities with the ability to store around 20,000,000 Dth of natural gas. These storage facilities are used to meet winter demand, balance daily loads from the pipelines, and to physically hedge natural gas prices.

   e. One of the largest LNG facilities in the nation which is currently used to protect the winter supply needs of a design winter and as a physical hedge for natural gas prices. Due to an annual injection capacity limitation, off system sales are currently limited.
5. A quarterly forecast update and portfolio adjustment process takes place considering weather, natural gas supply, and market pricing changes. The Gas Planning and Rates department generates the forecast updates and the Gas Supply and Control department modifies its supply plans and contract commitments where possible to adjust to the projection changes.

Walkthrough Findings
We found from our walkthroughs the following undocumented system of internal controls around the least-cost gas purchasing process:

1. The overall responsibility for the governance of the least-cost purchasing practices of PGW lies with the Gas Supply Committee (GSC) which meets monthly. The Gas supply committee has a charter on file that gives it the following directives:
   a. Advise and approve gas supply management strategies and procedures.
   b. Ensure that gas supply management strategies and procedures comply with both the Pennsylvania Public Utility Code (e.g. least cost purchase standards) and the annual Gas Cost Recovery Settlement Agreements.

   The GSC consists of four voting senior leaders, the CEO, the COO, the Sr. VP of Finance, and the VP of Gas Management. In addition the Sr. VP of Administration & General Council, the Controller, the VP of Regulatory and External Affairs, the Manager of Federal Regulatory Affairs, the Director of Gas Supply and the Director of Gas Planning are in attendance but are non-voting. All official matters require the affirmative vote of three of the four voting members. Minutes of each meeting are to be maintained and approved at the next meeting.

   Monthly Gas Supply committee meetings consist of the following:

   a. Information is distributed to the participants including:
      1. Consumption and price trends in the natural gas markets
      2. Forecasted weather trends both short and mid term
      3. Seasonal and short term gas supply plans.
      4. Status on purchases for compliance with PaPUC GCR Settlement Agreement
      5. Storage and supply contract status.
   b. Decisions are made for up coming short term and seasonal purchases.
   c. Long term strategies are investigated, discussed and decided upon.

2. There are weekly meetings of the Gas Management organization held by the VP of Gas Management to discuss the current gas market, demand requirements, asset utilization, and purchasing strategies and options.
3. In the winter season daily meetings are held between the Gas Planning and Gas Supply departments to review current demand requirements, supplies and market conditions.
4. If there are significant market changes or material failure in supplies that require a change in the basic strategy by Gas Management the GSC is immediately notified and if necessary the GSC will hold a special meeting to address the issue.

Evidence Findings
To verify that the process was in fact taking place and working effectively we reviewed and obtained the following evidence:

1. Verified that reasonable demand and cost projections were in place by reviewing the methodologies described in the annual filings, reviewing the 2006 ICF International

study and comparing the projections to actual results with adjustments for weather and gas price volatility.

2. Verified that the portfolio assets in place and the capacity releases were reasonable and consistent with the constraints and objectives of the company by reviewing the ICF international and Stoner studies.
3. Verified that reasonable annual, monthly, and weekly plans based on the demand and cost projections were created and tracked against actual results taking into account the use of the assets available under the constraints of reliable & safe supply, rate volatility to customers, requirements of the regulators, and cash limitations of the company. Reviewed the spreadsheets maintained by the Gas Supply, Transportation and Control department for effectiveness, accuracy and consistency in tracking and reporting.
4. Attended multiple Gas Supply Committee meetings and reviewed the minutes of Gas Supply Committee meetings for the test period to determine that the gas purchasing process is continuously being monitored to adjust for changes in the conditions of the gas markets and to ensue that the proper approvals of strategies and actions are taking place.
5. Performed a comparative analysis of PGW's purchased gas cost rates with that of the other utilities of similar size that filed with the PaPUC in the same calendar quarters as PGW with the following results(Note: In the analysis the quarters were weighted equally in the calculations) :
    a. PGW's average rate was 6th for the overall period from August 2006 to January 2009.
    b. PGW's quarterly rate rank ranged from 2nd in the most recent period of January 2009 to 10th back in January 2007.
    c. PGW's average rate was 2% higher than the average rate for the overall period as compared to the lowest rate being 11% lower and the highest rate being 12% higher than the average rate for the overall period.
    d. For the last three quarters PGW's quarterly rate has been lower than the average quarterly rate by 5%, 3% and 2% respectively.
    e. In comparing PGW's average rate for the overall period to that of its closest suburban competitor PECO Energy the PGW rate is 1% lower than PECO's rate.
    f. PGW had the lowest standard deviation from its mean of all of the ten utilities in the analysis, which translates to the lowest rate volatility in the comparison.

Recommendations

1. Although they informally exist, except for the Gas Supply Committee Charter, PGW does not have documented policies, procedures and controls around the gas planning and supply functions. PGW should consider formalizing and documenting its policies and procedures around the gas planning and supply function.
2. Improve the current reporting quality by introducing sensitivity analysis for the underlying constraints and risks that are part of the decision making process providing a clear and open understanding of the purchasing strategies and practices to the Gas Supply Committee. Examples of the constraints and risks to consider adding to the reporting are:
    a. Safety and reliability of supply
        1. Net cost of additional capacity for design day and winter protection with a sensitivity analysis around the defining of the design days and winters.
    b. Management of price volatility
        1. Risk mitigated with fixed price contracts and physical hedges.
        2. Opportunities lost with fixed price contracts and physical hedges.
    c. Cash Requirements of the Company (Liquidity risk of the different portfolio positions)
    d. Any future risk structuring required by creditors and credit rating agencies
    e. Portfolio restrictions imposed by the regulators.(Risk mitigated vs. opportunities lost)

3. Formalize the reporting process by developing seasonal and monthly reporting packages for the Gas Supply Committee. Although PGW should determine the exact format of the reporting based on the needs of the GSC a suggested structure would be to produce a monthly flash reporting package to be distributed before the GSC monthly meeting containing the following information:
    a. Current weather trends
    b. Current Natural Gas Market trends
        1. Supply, demand, and storage
        2. Spot prices
        3. Futures price short, long, and medium term
    c. Current position on agreed upon formulas in the PaPUC GCR settlement agreement
    d. Current positions for locked in and open volumes.
    e. Cash requirements for the purchase of gas for the current and previous month
    f. Summery plans for the up coming month, remainder of the current season, and next season incorporating:
        1. Projected demands
        2. Design demands (winter season)
        3. Asset utilization
        4. Cash requirements
        5. Storage positions
        6. Risk and constraint analysis and commentary around the current portfolio positions and asset utilizations
    g. Compare the prior month's plan to the actual results and explain variations with risk and constraint considerations included.
    h. At the end of both the winter heating season and the summer refill season produce a plan to actual results analysis explaining variances with risk and constraint considerations included.
4. Create a weekly dashboard report for the GSC covering some key metrics determined by the GSC and Gas Management. Some possible metrics to include are:
    a. Significant weather changes
    b. Significant natural gas market changes
    c. Gas costs month to date and projected to the month end
    a. Any significant changes to the monthly plan with notes giving the reasons for the changes and the risks and constraints that had to be considered.
5. For all of the directives and special analysis requested in the GSC meetings, evidence of the execution of the directives and copies of the analysis should be files with the approved minutes of the meeting. If any directive or analysis was not completed as stated in the minutes of the meeting, a note with the reason for not completing the action should be included with the minutes.

MANAGEMENT RESPONSE

The above information and analyses are part of the daily and weekly discussions which occur in the Gas Management area. Highlights of these discussions and actions taken are reported during the GSC meeting. In the near term Gas Management will begin investigating a software package with reporting capability that incorporates the various functions within the Gas Management area.

V. Compare purchasing practices and resource planning with effective industry practices and Identify Opportunities for Improvement

Detailed Observation Results

Overview for this Assessment Evaluation Objective:
Internal Audit compared PGW's purchasing and resource planning to industry standards in order to evaluate alignment with best practices.

Findings
NOT APPLICABLE

Recommendations

1. Formalize and quantify the risk considerations in the forecasting process. Currently PGW runs forecasted supply, demand, and costing models quarterly with pricing being updated quarterly and the customer demands adjusted annually. Currently only three scenarios are utilized normal conditions, design winter conditions, and design day conditions. The model is then run monthly, for reliability of supply, capacity release, and off system sales planning in the winter season. Since the diversified portfolio approach followed by PGW is designed to mitigate supply, price, negative cash, and price volatility risk, PGW should consider running multiple scenarios based on changing the major risk factors of natural gas price and demand based on changes in weather. This will help PGW to better understand and quantify the effects these risks on the rate payers when there are variations from a normal winter season and the current forecasted pricing which is what the winter plan is based on. Once these risks are understood, the gas planning and supply team should present the results to the GSC to gain an understanding of what risk the company and the rate payers are exposed to and how they can adjust the portfolio to mitigate any unacceptable risks.
2. To allow more flexibility in developing plans and analysis PGW should consider obtaining an integrated computer system for the gas planning, supply, and transportation functions. Currently gas planning is managed on two independent supply and demand software packages and gas supply and transportation is managed on undocumented spreadsheets that are developed and maintained by the end users. All data in these systems is manually input and there is no integration to or from these systems to other systems such as accounting and sales.
3. The current type of forecasting and planning tools PGW uses produce linear modeled forecasts that yield deterministic projections. This results from PGW using a basic buildup method to the planning of its least-cost portfolio of assets, contracts, and hedges. PGW should consider developing sophisticated risk based supply assessment resources including departmental procedures and dedicated information technology which will allow PGW to achieve the following:
    a. Develop and follow a clearly defined least-cost portfolio purchasing strategy with objectives set by the GSC.
    b. Consider in a single optimum view all of the factors driving demand and pricing in both the physical and financial gas markets.
    c. Go to the physical and financial natural gas markets with the proper understanding of its needs to obtain a least-cost portfolio that properly mitigates both the price and supply risks to achieve the gas purchasing objectives approved by the GSC.
    d. Purchase the right physical and financial products at favorable terms to manage its portfolio effectively.
    e. Present the proper data and analysis to regulators and effectively present a case to restructure its portfolio approach.
4. Currently PGW has regulatory restrictions that do not allow the pursuit of a more diversified least-cost portfolio approach. PGW should investigate the benefits of introducing the following into its portfolio based on their abilities to mitigate the risks identified by the GSC:
    a. Contracts for greater than 12 months out for delivery
    b. Specify risk mitigating products to be embedded into terms of physical supply and services contracts

c. Financial hedges for protecting price, price volatility, and liquidity risk.
d. Options to protect against unacceptable upward price moves but allowing for participation in favorable downward price moves.
e. Virtual storage contracts
f. Weather derivatives, futures and options

Note: *Currently the financial products markets outside of the straight forward futures are in a state of flux and some of the products may be limited in supply or unfavorably price until the markets can sort out the risks to be absorbed when issuing these products. Therefore these should be investigated periodically to see if they are advantageous at that point in time.*

MANAGEMENT RESPONSE

We agree that the current flux in the financial market has added a layer of complexity in evaluating the use of additional products for the PGW portfolio. Gas Management will continue to monitor and evaluate the products and seek regulation changes as necessary to benefit the rate payer. In addition, as discussed in the response to IV, Gas Management will investigate a software solution that will consolidate the data as well as develop the ability to run various reports.

VI. Compare purchasing practices and resource planning with effective industry practices for possible practice improvements

Detailed Observation Results

Overview for this Assessment Evaluation Objective:
PGW is a unique utility being the largest publicly owned utility in the country with very few utilities to directly compare it. We compared the PGW Gas Cost Recovery (GCR) settlement agreement process with other utilities governed by the PaPUC.

Findings
In comparing PGW GCR settlement agreement process with other utilities governed by the Pa PUC it's what would be expected, in that it is very similar. In comparing PGW's GCR settlement agreement process to other utilities in other regions we found the PGW process to be more definitive than others.

Recommendations

1. Currently the regulation of the natural gas industry's local distribution segment is in flux with the decupling of rates being proposed and a large focus on conservation. As this process evolves PGW should keep a close eye on its regulatory settlement process to ensure it is inline with these trends.

MANAGEMENT RESPONSE
No response

VII. Agreed-upon formulas for least-cost purchasing contained in the PUC 1307(f) filings

Detailed Observation Results

Overview for this Assessment Evaluation Objective:
We compare PGW 's settlement agreement formulas for ensuring least-cost gas purchasing with that of others in the industry.

Findings
Most gas utilities use diversified portfolios to purchase gas supplies and protect price volatility for their customers using the following:
1. Physical storage
2. Long term contracts (1+ years)
3. Mid term contracts (1-12 months)
4. Short term contracts(1-30 days)
5. Financial Tools

The agreed upon least-cost purchasing formulas are in line with industry strategy. We do find the fixed price contracted formula of purchasing a defined amount for each month for the next 12 months to be one of the least flexible formulas seen but note that it only accounts for 14% of the purchases. We also performed a simple risk analysis of the mandatory fix purchase practice and came up with an estimate of a 3% short term risk to consumer rates if mandatory purchases were made in an abnormal market run up in rates for four months where future prices were pushed to twice post run up value.

Recommendations
1. PGW should consider running a sensitivity analysis around the currently defined approach to least gas purchasing to determine the risk and opportunity cost associated with the current practice and their potential effects on the rate payers. PGW should then decide if the effects on the rate payers are large enough and probable enough to request a change in the GCR settlement agreement with the PaPUC.
2. Under the current regulations PGW does not have approval to use financial tools. Also PGW generally does not contract for greater than one year in delivery in its portfolio approach. PGW should consider running a sensitivity analysis around the current portfolio approach to understand what risks in the process can be mitigated better using financial tools and longer term contracts without introducing any unacceptable levels of financial or supply risk into the process. If there is a clear and probable benefit to introducing longer term contracts and/or financial tools PGW should actively pursue a change to regulations with the PGC.
3. PGW is currently required to seek approval for all new gas supply contracts it enters into with the PGC. This has the potential to limit PGW's ability to take advantage of short term market opportunities in the gas markets due to the time it takes to get approval from the PGC. PGW needs to document the types of opportunities that could be lost due to timing lags and approach the PGC on developing a new delegation of authority around Gas Purchasing that allows for a faster response to acceptable market opportunities while still mitigating the risks intended by the current process.
4. PGW should consider hiring a gas pricing strategy and analysis firm that knows how to design and employ the sophisticated techniques of gas supply portfolio analysis and reporting now used in the industry. Such a specialty firm should possess knowledge of the fundamental technical and trading variables that affect gas prices and have the necessary computer aided tools designed especially to analyze the complex risks and opportunities of a gas supply portfolio. PGW should petition the PaPUC to allow for the cost of this service as well as the recommended program of modernizing its supply planning and procurement to be recovered in the Gas Cost Rates.

MANAGEMENT RESPONSE

Gas Management will investigate a comprehensive software solution that incorporates reporting tools. In addition, Gas Management will evaluate various solutions for pricing strategy analysis to further assist in the decision process.

Mr. Randy Gyory
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February 13, 2009

Dear Mr. Gyory,

Internal Audit (IA) has completed our internal audit of the processes and controls related to PGW's compliance with PA One Call and the associated cost recovery procedures.

The objectives of our review were to evaluate PGW's compliance with Pennsylvania One Call requirements; to measure how PGW encourages compliance by third parties; to ensure that PGW is effectively recovering from third parties that have damaged PGW's infrastructure; and to determine how to best publicize Pennsylvania One Call to the citizens of Philadelphia. Our fieldwork was performed during October 2008 through January 2009.

A summary of our work is contained within the attached report, as well as our detailed observations, recommendations and related management responses. This project was carried out in accordance with Statements on Standards for Consulting Services of the Institute of Internal Auditors.

We appreciate the cooperation received from all PGW personnel whom participated in this project.

Sincerely,

G Daniel Miller
Partner, Philadelphia Advisory
Practice Leader
Business Advisory Services
Grant Thornton LLP

Compliance Audit of PGW's "PA One Call" Pipeline Protection System and Associated Cost Recovery Procedures

Philadelphia Gas Works

October 2008

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Audit Scope and Objectives

At the request of the Audit Committee and management of Philadelphia Gas Works, Internal Audit performed an assessment of the processes and controls related to PGW's compliance with PA One Call and the associated cost recovery procedures. Our examination covered the overall design effectiveness of certain key controls related to these processes as of October 2008. The objectives of our review were to evaluate PGW's compliance with Pennsylvania One Call requirements; to measure how PGW encourages compliance by third parties; to ensure that PGW is effectively recovering from third parties that have damaged PGW's infrastructure; and to determine how to best publicize Pennsylvania One Call to the citizens of Philadelphia. Our audit procedures were designed to understand the areas of risk with the greatest significance to PGW, evaluate the existence and design of procedures and controls and subsequently make recommendations to help reduce business risks associated with the procedures, as well as identify operational improvement opportunities that may result in the reduction of expenses or an increase in revenue. Specifically, our review included audit procedures relating to the following areas:

- **Evaluate PGW compliance with One Call requirements**

- **Test PGW compliance with One Call Policies and Procedures – *(Compliance testing will focus on the handling of requests within the One Call system. The operations portion of the One Call response has recently been audited and received a favorable evaluation by Schumaker & Company and will not be the primary focus.)***

- **Evaluate PGW compliance with the PA One Call Procedures regarding violations and the procedures to track and report violators to the City of Philadelphia.**

- **Test PGW compliance with the PA One Call Procedures regarding violations and the procedures to track and report violators to the City of Philadelphia.**

- **Evaluate and test the PGW Third Party Reimbursement procedures for facilities damage**

- **Evaluate PGW's communication of One Call to contractors and Citizens of Philadelphia**

Assessment Procedures

The audit methods and procedures utilized to evaluate the existence and design of procedures and controls identified in the audit scope were as follows:

- **Evaluate PGW compliance with One Call requirements**
  Reviewed One Call requirements and PGW policies and procedures, including a walkthrough of the procedures followed.

- **Test PGW compliance with One Call Policies and Procedures – *(Compliance testing focused on the handling of requests within the One Call system. The operations portion of the One Call response has recently been audited and was not the primary focus.)***
  100 One Call requests were randomly sampled and tested for appropriate response.

- **Evaluate PGW compliance with the PA One Call Procedures regarding violations and the procedures to track and report violators to the City of Philadelphia.**
  Reviewed One Call requirements and PGW policies and procedures regarding violations, including a walkthrough of the procedures followed.

- **Test PGW compliance with the PA One Call Procedures regarding violations and the procedures to track and report violators to the City of Philadelphia.**
  Obtained and tested the log used to track and report violators of One Call procedures.

- **Evaluate and test the PGW Third Party Reimbursement procedures for facilities damage**
  Reviewed and walked through PGW Third Party Reimbursement procedures and tested open OARs for compliance with procedures.

- **Evaluate PGW's communication of One Call to contractors and Citizens of Philadelphia**
  Reviewed and assessed the One Call Communication program and communication Best Practices.

General Background

The Pennsylvania One Call System was established in 1972 as a non-profit Pennsylvania corporation created to protect the underground facilities of members through communication with any person(s) planning to disturb the earth. The mission of One Call is prevent damage to underground facilities and provide an efficient and effective communications network among project owners, designers, excavators, and facility owners. The company provides a toll free telephone number for anyone to call when digging in order to request the location of underground lines. The service is available 24 hours per day, every day of the year. Information is obtained from the caller and disseminated to underground facility operators via data transmission to their computers or fax machines and voice relayed to their personnel when necessary. PA One Call also maintains a statewide communication program to inform and educate designers, contractors and citizens of the One Call requirements. The communication program encompasses both advertising of the One Call program and educational forums to disseminate information on the "how-to's" of One Call.

PGW is on the Board of Directors and several committees of PA One Call and is an active participant in the program. Administration of the PA One Call program within PGW is performed by the Distribution Department under the supervision of the Manager Distribution Operations with the One Call program itself being administered by the Supervisor – Leak Survey and Dispatching.

In 2008 the Damage Prevention Program at PGW received an award from the AGA for the success of the program and the Distribution Department presented its program at an AGA Roundtable Discussion. The Field Operations associated with the One Call program also received a favorable evaluation in the Schumaker Audit Report issued in 2008. Since 2001 the Damage Prevention Program has succeeded in reducing the number of line hits from a high of 139 hits in 2001 to 59 hits in 2008: a 57% reduction in line hits. PA One Call and the Pennsylvania Department of Licenses and Inspections (L & I) only requires the reporting of violations if the violation involves damage of injury to a third party. PGW has recently undertaken a program to exceed these minimum requirements and report all violations to L & I.

The table below shows the request, response and line hit statistics.

Calendar Year	One Call Requests*	One Call Responses*	Response %	Line Hits**	Line Hit %
2008	44,251	35,859	81.0 %	59	.159%
2007	45,956	38,245	83.2 %	53	.115%

*One Call Website
**PGW records

Management believes that the 19% non-response rate reflected in the One Call Website statistics is primarily due to PGW requests which were, in fact, marked but not communicated to PA One Call. There is currently no metric to accurately measure the non-response rate.

The responsibility to collect reimbursement for the damages caused by line hits is shared by the Risk Management and Legal departments. Initial collection activities are pursued by the Risk

Management department and then turned over to the Legal department when the violator is unresponsive to requests for reimbursement. PGW has received reimbursement for 24 of the 53 line hits incurred in FYE 12/31/07 with judgments obtained by the legal department against the remaining violators.

The PGW One Call communication program utilizes newsletters, mailers and informational meetings to raise the awareness of contractors and Philadelphia citizens of the One Call requirements.

Overall observations and conclusions

Overall, the controls and procedures related to all the areas within the audit scope are adequate to effectively protect PGW facilities and assets and to mitigate the risks inherent within each area.

- PGW complies with the One Call requirements in reference to responding to requests in a timely manner. The response to One Call requests and the communications program implemented by the company has resulted in a very low number of line hits in comparison to the requests received. (59 line hits out of 44,251 requests as of 12/31/08).
- PGW is recognized by its peers in the industry as having a model Damage Prevention Program.
- PGW is proactive in reporting violators to PA L & I and exceeds the mandated requirements.
- The program to recover the costs incurred because of line hits appears to be effective in pursuing reimbursement for damages and taking legal action where appropriate.
- The communication program followed by PGW meets the minimum requirements established by One Call to publicize One Call to the contractors and citizens of Philadelphia.

Certain activities performed by PGW could be strengthened which would result in a better understanding of the reported responses to One Call requests and more effective management of the One Call reimbursement programs. The opportunity exists to increase the One Call response rate; more effectively manage the Other Accounts Receivable and strengthen the existing One Call communication program.

We identified a number of opportunities to enhance the design and effectiveness of internal controls over the One Call and reimbursement for damages. These opportunities are categorized into three primary areas, in order of significance, as follows:

- **Standardize, enhance and ensure compliance with policies and procedures**
  Level I – Moderate Risk
  The opportunity exists to standardize and enhance policies and procedures surrounding the One Call administrative processes, which would clarify the response rate metric.

- **Enhance certain accounting and related reporting activities**
  Level II – Low Risk
  The opportunity exists to enhance the accounting for open OARs and improve the file management activities surrounding the administration of OARs.

- **Enhance the One Call communication program.**
  Level II – Low Risk
  The opportunity exists to enhance the One Call communication program and reach a broader spectrum of Philadelphia citizens.

Improvement Opportunities

All of the identified control issues were presented to John Jolly, Stephen Groeber, Stephen Lipski, Jane Lamb, Wade Collough, Joseph Golden, Bernard Cummings, Derek Thomas and Lenore Clark - all of whom have reviewed and agreed to the findings. Management has agreed to evaluate the recommendations made and to address each finding in a way that most appropriately mitigates the risk associated with the finding. Details of our findings and recommendations are documented on the following pages.

Standardize, enhance and ensure compliance with policies and procedures (Level I – Moderate Risk)

Observation

The opportunity exists to standardize and enhance certain policies and procedures surrounding the administration of One Call requests, as well as perform periodic monitoring to ensure ongoing compliance. Specifically, the following improvement opportunities have been identified:

- The process surrounding the response to One.Call requests is not adequately documented through policies and procedures. The implementation and adherence to documented procedures would contribute to an improvement in the overall response rate.

- In our testing of 100 One Call requests, four (4) requests had no response and six (6) requests were not responded to on a timely basis, although they were responded to prior to excavation. Of the four (4) requests which had no response per PA One Call, further investigation disclosed that 3 of the requests were in fact marked by PGW and one (1) of the requests appeared to have been marked but Internal Audit could not document that fact. Additionally, per management, responses to PGW requests are not always documented through a One Call response. Our review of One Call responses on the One Call website (www.PA1Call.org) indicated that FYE 12/31/07 45,956 One Call Requests were received and 7,711 were not responded to resulting in a response rate of 83.2%. During the period from 1/01/08 through 12/31/08, 44,251 One Call Requests were received and 8,392 were not responded to, resulting in a response rate of 81.0%.

Recommendation

We recommend that policies, procedures and related controls over One Call compliance be reviewed and enhanced as appropriate. Specifically we recommend the following:

- Document the policies and procedures surrounding the response to One Call requests received in order to provide personnel with a clear understanding of the procedures to follow when a request is received and the appropriate response. The policies and procedures should include responses to PGW requests, no marking requests and all variations of requests that can be received.

- Implement a compliance program to monitor the responses to One Call requests on a regular basis and develop a metric to identify true "No Responses".

Management Response:

We agree with the recommendation to review our procedures looking to provide a clear understanding of how POC requests are handled.

Additionally we will look to implement a compliance program to monitor responses and develop a metric to identify true "No Responses".

One clarification needed on this study is the term "No Response" was used in reference to a One Call ticket. This is not clearly defined in the study. What this term is referencing is a positive response (phone call) back to the One Call Center which in turn allows the excavator making the mark out request to look in the One Call system to see if the lines were marked without going to the job site. The actual mark out or identification of PGW structures was completed in the field. In the sampling there were situations that were labeled No Response but PGW had in fact been on location and performed the mark out / identification of the structures.

Enhance certain accounting and related reporting activities
(Level II - Low Risk)
Observation
The opportunity exists to enhance certain accounting, cash management and reporting activities, specifically as it relates to balance write-offs and file management. Specifically, the following improvement opportunities have been identified:

- The OAR open balance listing at 9/30/08 is comprised of 183 accounts totaling $1,159,625.00 and contains five (5) balances totaling $6,700 in excess of 20 years old which is the statutory life of a judgment; three (3) totaling $7,900 which are referenced as judgment proof; and one (1) in the amount of $940 identified as bankrupt. Although these balances are fully reserved, they should be removed from the listing once active collection efforts have ceased. Additionally, collections for the years 2007 and 2008 indicate that there have been no current collections for events older than six years.

- There are no guidelines which establish parameters as to when an open OAR balance should be removed from the open OAR listing.

- The files used to support damages to facilities are copied multiple times and sent to different departments resulting in the existence of incomplete files. This may result in the expenditure of additional time in tracking down files to support the costs incurred when PGW facilities are damaged.

Recommendation
We recommend that the accounting and file management procedures be enhanced and strengthened. Specifically, we recommend the following:

- Review the OAR open balance listing and evaluate the balances to determine if future efforts will result in collection. Eliminate all balances, which do not have a likelihood of collection.

- Establish guidelines to determine the conditions under which an open OAR should be removed from the Open OAR listing.

- Retain electronic copies of all files related to the damage of facilities in one folder on the secured server accessible to all departments.

Management Response:
In 2007, PGW reactivated its Reimbursement Committee to address the variety of issues involved in OAR collection and record keeping, including those for line hits. Representatives from Finance, Legal, Risk Management, and Distribution meet monthly. Part of this process has been a complete reconciliation of all open OAR's, and a review of all judgments as well as the judgment process. Much of this reconciliation to date has involved ensuring that group settlements (multiple hits from the same contractor) were applied to the proper OAR accounts. In some cases, OARs were open because the paperwork had not been received. To that end, in early 2008, Risk Management and Treasury revamped the communication process, with documents now being scanned and circulated electronically. Also, certain other checks and balances were added.

Regarding the collection process, Risk Management partners with Legal to ensure that PGW recovers the maximum amounts available at the lowest costs to the customer. Cases are reviewed individually to determine the best approach, whether litigation is warranted, and what to do if a judgment is taken. In some instances, for example, suit would not be cost effective. The criteria used in this analysis is not formally documented because it is very factually specific.

Regarding the proposal to put all data on the share drive, PGW recognizes that record access is key, particularly as there are multiple departments involved in these cases. The new AIMS system will provide electronic access to work orders. Distribution will explore various options for access to Damage Reports.

Finally, under the auspices of the Reimbursement Committee, there will be a review of Procedure No. 646.02, Reimbursable Work. This review will consider the recommendations made above.

Enhance One Call communication program
(Level II – Low Risk)
Observation
The opportunity exists to further enhance the One Call communication program to a larger percentage of the Philadelphia citizens including those who may not be PGW customers. The current communication program meets the minimum One Call requirements however; it can be strengthened and made more effective through additional communications.

Recommendation
We recommend that the cost and associated risk offset be evaluated in reference to the following enhancements to the current One Call communication program. Specifically, we recommend the following:

Utilize advertising on public transportation and bus stops to each a broader base of the citizens of Philadelphia.

Management Response:
PGW individually, in its role on the Board of PA One Call, and through its membership in various trade groups such as the AGA and the APGA, is involved in a variety of initiatives to publicize the One Call Program. The Corporate Communications Department annually dedicates its April customer newsletter - Good Gas News - to Public Safety and Pipeline Awareness which is distributed to all 500,000 customers. In addition, Corporate Communications also annually executes a $25,000 print advertising campaign that places print ads in fifteen (15) local newspapers (English, Spanish, and Asian) in PGW's service territory.

Additionally, PGW participates in One Call Contractor events. Distribution contributes to the PA One Call Pipeline Safety Brochure. PGW's new Welcome Packet brochure for customers will include the literature on the One Call program and encourage gas safety rules. Finally, other non-gas utilities have their own advertising programs which further serve to educate the public. As a result of these initiatives, One Call tickets have arisen dramatically in recent years, so clearly the message is getting out.

PGW does not accept the specific recommendation regarding advertising on buses and in bus shelters. Our advertising agency of record annually evaluates the most cost efficient and effective way to reach our target audience. Additional advertising using bus backs would not seem the most efficient or cost effective way to advertise the program. Of course, PGW will continue to constantly reevaluate its various Public Safety educational campaigns, including One Call, to reach more citizens in more effective ways.

Appendix A - Internal Audit Reporting Criteria
In general, our findings are typically categorized into two reporting levels – Level One and Level Two; and three categories of business risk significance – High, Moderate and Low. The categorization of the business risk significance is based on the overall control environment and compliance with established PGW policies. The **Level One High** and **Moderate Risk** findings are brought to the attention of the Audit and Compliance Committee due to their significance, as well as appropriate PGW management. Other findings may be raised to the level of the Audit and Compliance Committee as deemed to be appropriate and necessary based on our discussions with management. The following is a description of criteria we use in classifying our findings:

Findings Key

Reporting Level

Level One
Identified finding occurs as a result of an internal control weakness due to either non-adherence to existing PGW policy and procedures, or a deficiency in the design or operating effectiveness of the current internal control structure. The finding represents a weakness in internal control that could adversely affect PGW's ability to initiate, record, process or report data consistent with the assertions of management, or which could result in a loss of assets, disruption of business or violation of law. The internal control weakness may also have a higher perceived likelihood of errors or irregularities which may not be promptly detected. The finding should be considered and addressed by management and the Board of Trustees.

Level Two
Identified finding either occurs as a result of non adherence to existing PGW policy and procedures or is a recommended improvement of existing internal controls and/or policies and procedures. The finding represents a weakness in internal control that has a lower perceived probability of adversely affecting the organization's ability to initiate, record, process or report data consistent with the assertions of management, or which could result in a loss of assets, disruption of business or violation of law. The internal control weakness has a lower perceived likelihood of errors or irregularities which may not be promptly detected. The finding should be considered by management to enhance the overall internal control environment as it deems appropriate.

Business Risk
We utilize three categories of business risk significance (High, Moderate and Low) in conveying our assessment of the potential consequences to PGW in terms of financial significance, operational impact, or compliance with laws and regulations. The High risk and certain Moderate risk findings are brought to the attention of the Audit and Compliance Committee due to their significance, as well as appropriate PGW management. Management is required to provide a written response and corrective action date which are incorporated into the final report. The remaining Moderate risk and all Low risk findings are brought to the attention of appropriate PGW management for their consideration in improving the overall control environment.

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Mr. Thomas Kuczynski
Senior VP of Business Transformation
Philadelphia Gas Works
800 West Montgomery Avenue
Philadelphia, PA 19122

February 13, 2009

Dear Mr. Kuczynski,

Internal Audit (IA) has completed our assessment of the implementation of the Information Technology Infrastructure Library (ITIL) framework of best practice standards for the PGW Information Services (IS) Department.

The objective of our review was to assess whether the PGW Information Services Department have incorporated the principles of the ITIL framework within the business processes for Information Services. Our fieldwork was performed during October 2008 through January 2009. A summary of our work is contained within the attached report, as well as our detailed observations and recommendations.

This project was carried out in accordance with Statements on Standards for Consulting Services of the Institute of Internal Auditors. Thus, this project did not include any controls testing within any of IS's functional areas, but rather was an assessment of the ITIL implementation relative to the Capability Maturity Model (CMM) benchmark and the desired state of ITIL implementation for the Information Services Department through a combination of inquiry/interview, observation and data collection.

We appreciate the cooperation received from all PGW personnel whom participated in this project.

Sincerely,

G Daniel Miller
Partner, Philadelphia Advisory
Practice Leader
Business Advisory Services
Grant Thornton LLP

Assessment of Implementation of ITIL Best Practice Standards Philadelphia Gas Works

February 2009

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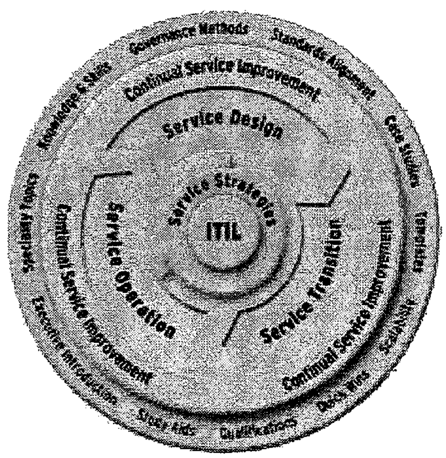
Executive Summary

An assessment of the level of implementation of 16 pre-selected Information Technology Infrastructure Library (ITIL) standards was initiated by the Internal Audit Department for Philadelphia Gas Works, who were interested in determining whether the PGW Information Services Department has built a full range of ITIL-compliant processes that are aligned to help PGW meet its strategic business objectives.

Overall, it was determined that the Philadelphia Gas Works implementation of the ITIL framework is progressing adequately through initial stages of the Capability Maturity Model (CMM). This report will now provide an overview of the ITIL framework and CMM.



Depiction of a successful best practice implementation of the ITIL framework

What is ITIL?

As demonstrated in the illustration above, ITIL is essentially a public framework that describes best practice in Information Technology (IT) service management and is designed for constant measurement and improvement to drive service optimization within an organization. It is one of the most widely accepted approaches to Information Services (IS) Management in the world today and provides the ability for an organization to act as an agent of change in order to identify opportunities for improvement. More efficient and effective IS services and service delivery strategies are a result of those improvements.

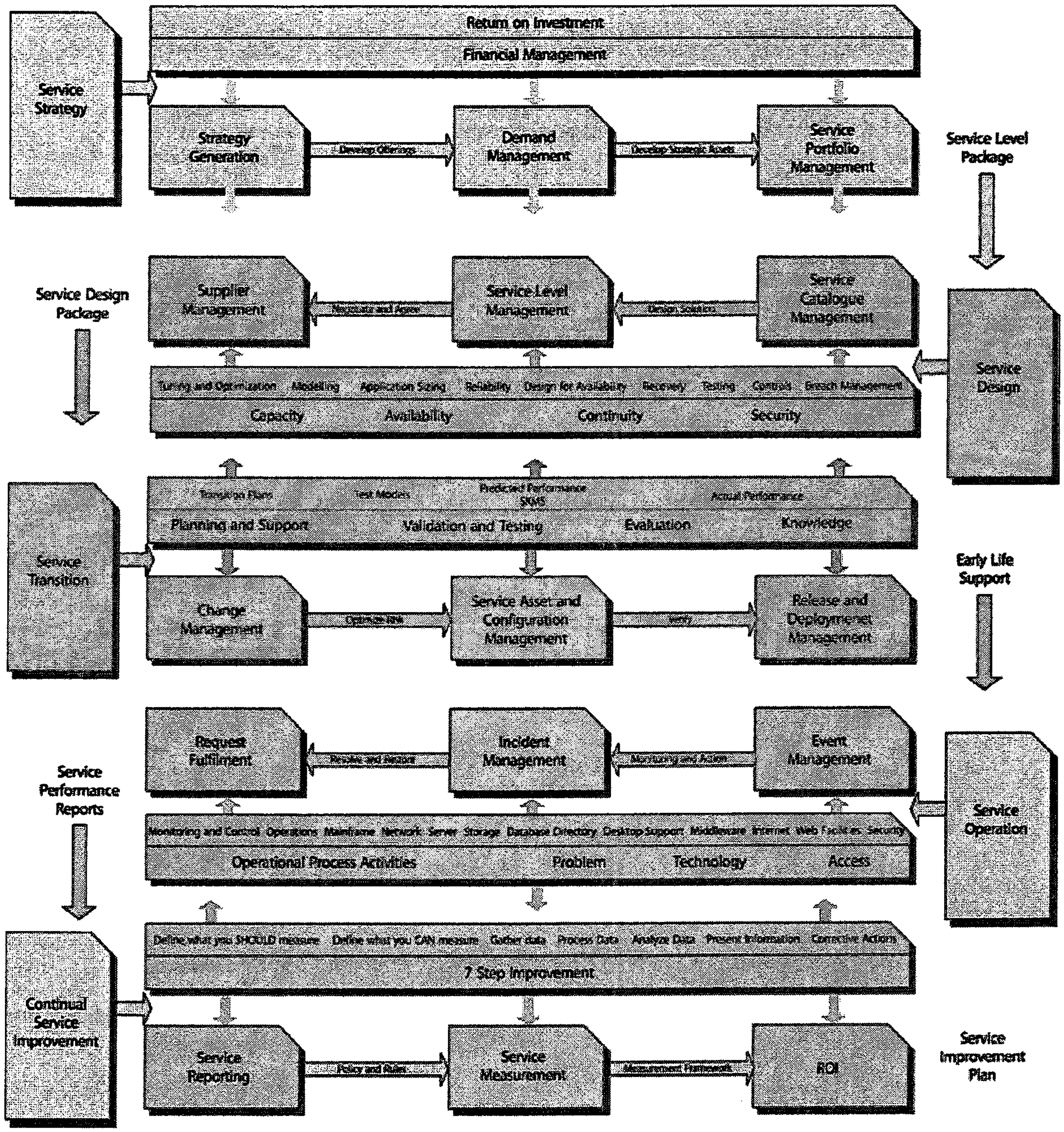
What is a Best Practice ITIL Implementation?

ITIL best practice within the context of an ITIL implementation equates to the adoption of all elements of the ITIL framework. Based on our experiences, most organizations do not attempt to implement the entirety of the ITIL best practice standards as they may not be cost-effective or reasonable from a resource perspective. Adoption of the core principles of ITIL provides an organization with the framework necessary to facilitate business transformation. The core principles of ITIL are:

- Seamless Communication
- IS Service Strategy and Design
- Service Transition
- Service Operation
- Robust Documentation and Training
- Constant Measurement
- Continuous Process Improvement

An example of this type of business transformation may be for Information Services to provide a wireless, portable, flexible scheduling technology for field technicians that, in turn, allows more appointments to be both scheduled and met; thereby improving production and efficiency, customer service and performance against KPI (key performance indicators).

The figure below illustrates a visual representation of a best practice model:



A best practice implementation requires all parts integrated to receive the best Return on Investment (ROI) possible. ITIL is a framework designed to help an organization reach a best practice model, once the core principles discussed previously are adopted and truly accepted across the entire business – from the top down.

Benefits of Implementation of the ITIL Framework

The primary focus of ITIL is the continual measurement and improvement of the quality of IS Services delivered, from both a business and a customer perspective. Businesses that have successfully adopted and deployed the techniques and processes within the ITIL framework have historically benefited from things such as:

- Improved Service Availability, which may directly lead to Increased Revenue
- Financial Savings from Reduce Re-Work, Lost Time, and Improved Resource Management and Usage
- Improved Decision-Making and Optimization of Risk
- Increased User and Customer Satisfaction with IS Services

What is the Capability Maturity Model?

The Capability Maturity Model (CMM) was used as the baseline to which the ITIL Best Practice Assessment (# 3 in the Assessments Performed section below) was measured against. CMM is a framework that describes the key elements of an effective process. It provides a foundation for process improvement. The CMM describes an evolutionary improvement path from an ad hoc, immature process to a mature, disciplined process. When followed, these key practices improve the ability of organizations to meet goals for cost, schedule, functionality, and product quality. The goal is to improve efficiency, return on investment, and effectiveness. Originally, CMM was designed for use by software developers; however its use has expanded to include businesses of all kinds. Managers from all walks of life benefit from the maturity framework provided by CMM because it establishes a context in which:

- Practices can be repeated; if you don't repeat an activity there is no reason to improve it.
- There are policies, procedures, and practices that commit the organization to implementing and performing consistently
- Best practices can be rapidly transferred across groups. Practices are defined sufficiently which allows for transfer across project boundaries, thus providing some standardization for the organization
- Variations in performing best practices are reduced. Quantitative objectives are established for tasks; and measures are established, taken, and maintained to form a baseline from which an assessment is possible
- Practices are continuously improved to enhance capability (optimizing)

Assessments Performed

To adequately assess the PGW implementation of the ITIL framework, Internal Audit conducted three unique assessments:

1. **(1) Communication Assessment** - To measure the level of communication between the Information Services Department and the Business.

   (*The results of the communication assessment are not a reflection of what is actually being accomplished within the PGW Information Services Department, but rather a reflection of how the business perceives the IS Department is currently operating.)*
2. **(2) PGW Internal ITIL Assessment Review** - To review the ITIL assessment that Information Services conducted and comment on the appropriateness of the 16 ITIL standards selected; and to assess the desired state and timelines thereof, which were established by the IS Department and ascertain if the goals have been met (for timelines in the past) or if the timelines are reasonable (for timelines in the future);
3. **(3) ITIL Best Practice Assessment** - To assess the PGW implementation of the ITIL framework against best practices, using the Capability Maturity Model as the baseline and; to compare our assessment results against the PGW Internal ITIL Assessment results to determine the validity of the PGW results.

Note: Each of these assessments has their own unique deliverables that provide the details that support the conclusions made within this report.

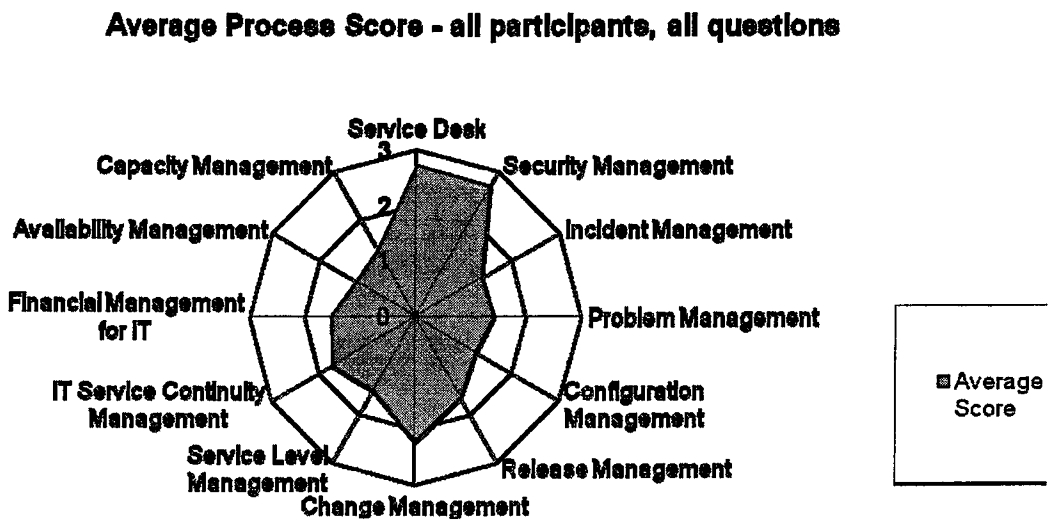
Assessment Procedures and Results

(1) Communication Assessment Procedure:

1. Information Services selected 10 appropriate management-level business process owners to disseminate a questionnaire to which inquired if the participant understood what services were being delivered by the Information Services Department and how those services were being delivered
2. Each participant answered each question with a number that corresponded to how strongly they agree with the statement/question being posed. The available responses by participants were as follows:
    - ***1 = Unsure***
    - ***2 = Strongly Disagree***
    - ***3 = Disagree***
    - ***4 = Agree***
    - ***5 = Strongly Agree***
3. The completed questionnaires were collected and the results calculated to help determine the level of communication between IS and the business as it stands in February 2009

Results:

The Radar Chart below depicts the Business Process Owners understanding of what is being accomplished in the Information Services Department:



The chart above illustrates that there is currently a lack of communication occurring between the Information Services Department and the Business it supports. This is a result of the high percentage of "Unsure" responses received from Business Process Owners when asked about the services and service delivery methods offered by the PGW IS Department.

One of the core principles of the ITIL best practice framework is open communication both within IS and from the business to IS (and vice versa). Internal Audit has seen evidence of improved communication occurring within PGW; however we recommend that initiatives are set to continue the evolvement in culture that is necessary if PGW is to receive maximum benefit from the implementation of the ITIL framework.

(2) PGW Internal ITIL Assessment Review Procedure:

1. Internal Audit obtained a copy of the PGW IS ITIL Best Practice Assessment (from May 2008) and reviewed the 16 ITIL standards selected by IS for appropriateness.
2. Internal Audit reviewed the desired state of ITIL implementation and the associated timelines set by Information Services for completion (if timelines were in the past) or reasonableness (if timelines were set in the future).

Results

1. Internal Audit has concluded that the 16 standards selected by PGW are appropriate in order to facilitate an effective implementation of the ITIL framework of best practice standards.
2. Internal Audit has concluded that 58 goals were stated within the PGW IS ITIL Best Practice Assessment and:

   Timelines set in the past (prior to 2/09):
   - 32 goals were determined to have been fully met
   - 9 goals were determined to have been partially met; additional evidence may support the improvement of this assessment to a fully met conclusion
   - 2 goals are unclear as to whether they have been completed.

   Timelines set in the future (post 2/09):
   - 3 goals were determined to have been met
   - 2 goals were determined to have been partially met; additional evidence may support the improvement of this assessment to a fully met conclusion
   - 7 timelines were assessed as being reasonable in order to achieve the stated goal
   - 3 goals remaining were assessed as having reasonable timelines as long as the work to achieve that goal has already been started. If work has not begun, these goals will be difficult to accomplish within the stated timeframe.

Internal Audit has concluded that the PGW Information Services Department has selected appropriate ITIL standards to implement in order to achieve their desired state. The majority of the goals we reviewed have either already been met or are in the process of being met.

Internal Audits recommendation is for Information Services to set goals that are easier to measure by being S.M.A.R.T. (Simple, Measureable, Achievable, Realistic and Time Bound) in nature. This will help Information Services set reasonable goals that are easily measurable and therefore simple to report progress on.

We recommend that PGW consider documenting the plan to achieve the stated goals, as well as the results of that plan. This will help upper management or any other interested parties understand:

1. The goals set
2. The plan to achieve those goals
3. The status and/or results of that plan

(3) ITIL Best Practice Assessment Procedure:

An assessment was conducted to review the current level of implementation of 16 specifically selected ITIL standards against both the desired state set by the PGW IS Department and the ITIL Best Practice standards. The following process was followed in order to complete said assessment. The exact same process was followed to accomplish the assessment of each of the 16 ITIL standards selected by PGW:

- Identify Appropriate Key Process Owners
- Conduct Interviews with Key Process Owners
- Collect Evidence for Clarification Purposes
- Develop Work Books for Documentation
- Document Work Books with Learned Information
- Produce Weighted Score Card
- Perform Quality Assurance Review
- Develop Final Report and Recommendations
- Develop Roadmap to ITIL Best Practice that consist of recommendations to achieve an ITIL best practice framework
- Compare the results of this assessment against the results of the internal PGW ITIL Assessment results

Results

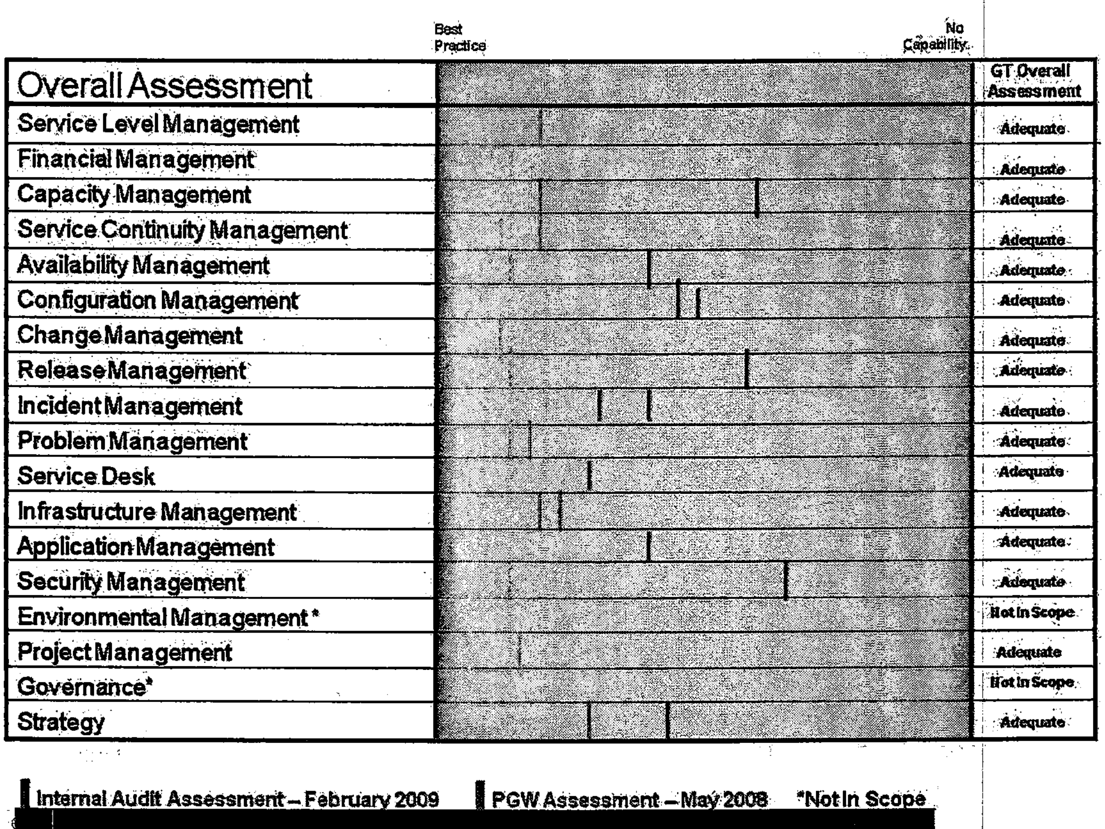
This assessment concluded that PGW is adequately implementing the ITIL framework at the current time. Internal Audit concludes that the adoption of the ITIL standards should benefit Information Services in helping them to reach their stated goals. We also have assessed current PGW IS services and service delivery methods to be sound in nature and contributing to an overall effective Information Services Department that is well on the way to implementing ITIL best practice standards. In our experiences, the implementation of the ITIL framework is best accomplished through a phased approach – and the PGW IS Department is on the right path towards compliance with initial stages of said approach. Internal Audit recommends that PGW continue down this path.

During this assessment, Internal Audit identified four (4) common themes as opportunities for improvement in order to assist Information Services in the continued and on-going adoption of the ITIL standards. These recommendations are generally more process and people-driven and therefore should not require a great deal of capital to improve:

- **Documentation**
  - Every business and IS process should be formally documented and approved within a policy and procedure
  - Study Guides and Training Materials should be developed to assist in training initiatives
- **Communication**
  - Internal Audit noted that PGW has made great strides in recent years improving lines of communication from the business to IS (and vice versa), however we feel that the PGW organization would benefit from increased levels of communication
    - A prime example of this lack of communication was identified when most of the business unit managers who we spoke with did not understand what services IS had to offer, nor how those services are being delivered
- **Key Performance Indicator Usage**
  - Internal Audit noted that five (5) IS process areas did not have Key Performance Indicator (KPI) metrics established (Capacity, Change, Configuration, and Incident Management in addition to Service Strategy and Design). We recommend that KPI are established for all IS process areas in order to ensure that constant measurement of the performance of each IS process area occurs. This will also help to align the IS Department with the direction of the business, which we have determined to be a metric-centric environment
- **Training**
  - Although Internal Audit has largely found the IS Staff to be trained, we recommend that focused training on the procedures and policies of the IS Department would benefit Information Services in helping to ensure that all IS Staff understand and follow the approved methodologies in place at Philadelphia Gas Works.

Comparison of PGW Internal Review results against this ITIL Best Practice Assessment
Internal Audit determined that the results of the PGW ITIL Implementation Assessment performed in May 2008 were reasonably accurate. The Internal Audit ITIL Implementation Assessment performed in February 2009 mostly showed a more mature implementation of ITIL than the assessment in May 2008 illustrated, which led us to the aforementioned conclusion.

The table below demonstrates the results of the February 2009 Internal Audit ITIL Best Practice Assessment (the purple bar) as compared against the results of the May 2008 PGW internal ITIL Assessment (the blue bar):



Results
The results of the February 2009 Internal Audit ITIL Implementation Assessment determined that:

- 13 out of the 16 ITIL standards had a more mature implementation of the ITIL standards as compared to the May 2008 PGW internal ITIL Implementation Assessment results
- 2 out of the remaining 3 ITIL standards (Configuration Management and Change Management) were assessed in February 2009 to be slightly less mature than when originally assessed in May 2008
- Service Strategy and Design ITIL category was assessed in February 2009 to be less mature than when originally assessed by the internal PGW ITIL Assessment in May 2008

This illustrates the reasonable accuracy of the PGW internal ITIL Implementation Assessment in May 2008. It also demonstrates how IS has continued down the path of the implementation of ITIL, reflected in the increased maturity in 81% of the respective ITIL standards selected by PGW since the May 2008 assessment.

General Background

Philadelphia Gas Works (PGW) is a municipally owned utility operated by the Philadelphia Facilities Management Corporation (hereafter referred to as "PFMC"). PGW is the largest municipally owned gas utility in the country maintaining a distribution system of approximately 6,000 miles of gas mains and service pipes serving approximately 500,000 customers.

PGW has approximately 1,700 active employees who work in three shifts and 2,000 retirees. Most processing is centralized at PGW Headquarters at 800 West Montgomery Avenue, Philadelphia, PA 19122. PGW also maintains 6 district offices, 2 plants and several outlying stations.

PGW ' s Internal Auditing Department serves PGW management and the Board of Directors of the Philadelphia Facilities Management Corporation ("PFMC") as an independent appraisal and evaluation function. Its primary purpose is to help PGW accomplish its strategic objectives by conducting audits which are designed to add value, improve operations, and evaluate and improve:

- the effectiveness of risk management;
- controls; and
- Governance processes.

In 2006, Philadelphia Gas Works decided to adopt the ITIL (Information Technology Infrastructure Library) best practice IS Service framework of standards in order to help improve the alignment between business and Information Services strategies and goals, as well as the quantity and quality of services being offered by the IS Department.

Internal Audit sought an evaluation of PGW's choice and implementation of ITIL processes to determine if the company is providing an appropriate framework for identifying, managing and enhancing all aspects of IS operations, particularly in terms of service, infrastructure, and security, while improving risk management, controls, and governance processes.

PGW Information Services Department Structure

There are currently 65 individuals that make up the PGW Information Services Department. The Department is lead by Eloise Young, the Chief Information Officer and Vice President of Information Services.

There are four main Information Services department heads that report directly to the CIO. They are:

- Administrative Services – Driscilla Wanser-Bynum - Director
    - Directs the administration of labor distribution software and responsible for producing reports for all individual employees and department as a whole to facilitate labor force management and charge back reports.
    - There are several technical writers and consultants reporting to the Director, currently

- Technical Strategy and Support – Joseph Szlanic - Director
    - Primarily responsible for overseeing Application Development
    - Have 12 full-time developers on staff, currently
    - 6 to 8 contractors on staff, currently
        - 2 Business Analysts
        - Technical Writer
        - 3 Database Analysts
        - Business Technology Consultants
            - Handle relationship management
            - Gather requirements

- Technical Services – Frank Weigert - Director
    - Oversees Release Management, Infrastructure and Service Desk Management

        - Responsible for servers, switches, desktops, telephones (configuration; desktop support)
        - Has 3 managers working for him:
            - Manager of Enterprise Network Engineering
            - Manager of Operations
            - Manager of Telecom

- Information Controls and Compliance – Michael Heron - Director
    - Oversees Disaster Recovery, Quality Assurance and Information Security Controls and Compliance

- Information Services also utilize five Business Transformation Consultants who act as liaisons between the business and Information Services in order to help identify business need and translate them into IS services which can be delivered in a cost-effective and efficient manner.

Assessment Scope

At the request of Management of Philadelphia Gas Works (PGW), an assessment was requested in order to determine how PGW's Information Systems Department is utilizing the Information Technology Infrastructure Library (ITIL) best practice framework to aid in the management of all aspects of IS operations; specifically in terms of service, infrastructure, and security.

For each of the 16 ITIL Standards (see below) implemented by PGW, Internal Audit was chartered to perform the following tasks:

1. Assess applicable IS Department policies and procedures for alignment with ITIL Standards
2. Compare PGW's adopted ITIL standards to standard Best Practices
3. Assess the appropriateness of the PGW goals and target completion dates derived from the previously performed internal PGW ITIL Assessment as they apply to achieving a best practice implementation of the ITIL framework
4. Provide recommendations to assist PGW develop a road map for reaching a best practice implementation of the ITIL framework

Information Technology Infrastructure Library	Standards Implemented by PGW
Service Desk Management	IS Service Continuity Management
Security Management	Financial Management for IS
Incident Management	Availability Management
Problem Management	Capacity Management
Configuration Management	Application Management
Release Management	Infrastructure Management
Change Management	Project Management
Service Level Management	Service Strategy and Design

The following tasks were performed in order to aid in the assessment of PGW's implementation of ITIL standards:

- Assess IS strategic objectives, assets deployed, availability and quality of resources and SMART metrics, as well as comparison to ITIL standards and best practices, whenever possible within the confines of allotted time and budget for the assessment.

Assessment Objectives

Objectives of this project included:

1. **Demonstrating whether IS has built a full range of ITIL-compliant processes and tools which are fully aligned to help PGW meet its strategic objectives;**

   Assessment Result: Internal Audit has determined that I.S. is well on the way towards implementing a full range of ITIL compliant-processes and tools. As with any implementation, it is a progressive process – and the PGW implementation of ITIL is no different. The processes and tools that are in place have been determined to be adequate for the continued implementation of ITIL. Details can be found throughout the remainder of this report to support this conclusion.

2. **Determining whether IS can demonstrate a link between its investment and the achievement of PGW goals;**

   Assessment Result: Internal Audit has determined that I.S. is able to demonstrate a link between its investment and the achievement of PGW goals via costs associated with the project-based initiatives that have been implemented (e.g. AIMS). Business need drove the requirements for the projects that have been approved and therefore are the link spoken to above.

3. **Demonstrating how PGW's information technologies investment is or can be flexible and responsive in the face of ever-increasing complexity, technology improvements, and changing business needs;**

   Assessment Result: Internal Audit has determined that the ITIL framework is flexible and responsive by nature through the core principles revolving around communication, continuous measurement and process improvement and therefore an intelligent choice by Information Services to help PGW meet business need in this rapidly changing marketplace.

4. **Determining whether IS employs Best Practices in documenting IS processes – as required for Risk Management, Internal Controls and Governance;**

   Assessment Result: Internal Audit has determined that, although documentation of policies and procedures has improved recently, there is not a best practice methodology in place for documentation of IS policies and procedures within the PGW IS Department. We recommend that PGW consider establishing and documenting a standard for how to create or modify a policy and procedure. This way a best practice approach will be established and followed to ensure that all PGW processes are appropriately documented.

5. **Demonstrating how IS identifies and undertakes "best practice" efforts that it chooses to implement;**

   Assessment Result: Internal Audit has determined that the Information Services Department conducts weekly management meetings where all IS Department heads discuss strategy and brainstorm ideas for meeting business needs. We have determined that these meetings are a good start towards reaching best practice efforts, however best practice insinuates that the solution selected is tried and true. We recommend that PGW consider the recommendations put forth in this report – and perform cost-benefit analyses wherever applicable to determine feasibility of the recommendation for PGW – as a road map to help reach a best practice Information Services model.

6. **Determining how best to apply ITIL standards in making system change implementation more effective in terms of financial resources and time and effort required;**

   Assessment Result: Internal Audit has determined that improved communication across the entire organization is required to help Information Services achieve best practice ITIL standards.

Assessment Result Quantification Process

The weighted score cards were the vehicle Internal Audit used to quantify and illustrate the assessment results for the review of the level of implementation of each respective ITIL standard selected by PGW. Each ITIL standard had up to 16 probing questions designed by the British Office of Government Commerce (OCG), the developers of the ITIL framework. Each of these questions was subjectively assigned a "weight" by Internal Audit based on their importance to a successful implementation of the respective ITIL standard. Internal Audit conducted interviews with the owners of the processes supporting each respective ITIL standard and collected or observed evidence, whenever necessary, to gain a thorough understanding to allow for a qualitative analysis of said ITIL standard.

Upon completion of each interview segment, an analysis was performed based on the information received during the aforementioned interviews and were assessed a "score" for each ITIL standard element that correlated to the current level of implementation for that particular question. This assessment relied upon the world renowned Capability Maturity Model (CMM) as the benchmark to measure the ITIL standard elements against. Possible CMM scores for each ITIL standard element were as follows:

- **0 = Absence**
  - *"There is absolutely no evidence of any activities supporting the process"*
- **1 = Initiation**
  - *"There are ad-hoc activities present, but we are not aware of how they relate to each other within a single process"*
    - Some policy statements have been made
    - Words but no documented objectives or plans
    - No dedicated resources or real commitment
- **2 = Awareness**
  - *"We are aware of the process but some activities are still incomplete or inconsistent; there is no overall measuring or control"*
    - Process driven tool rather than defined separate from tool
    - Positions are created, but roles and responsibilities are poorly defined
- **3 = Control**
  - *"The process is well defined, understood, and implemented"*
    - Tasks, responsibilities, and authorizations are well defined and communicated
    - Targets for quality are set and results are measured
    - Comprehensive management reports are produced and discussed
    - Formal planning is done
- **4 = Integration**
  - *"Inputs from this process come from other well controlled processes; outputs from this process go to other well controlled processes"*
    - Significant improvements in quality have been achieved
    - Regular, formal communication between department heads working with different processes
    - Quality and performance metrics transferred between processes
- **5 = Optimization**
  - *"This process drives quality improvements and new business opportunities beyond the process"*
    - Direct links to IS and corporate policy
    - Evidence of innovation
    - Quality management and continuous improvement activities embedded
    - Performance measurements are indicative of "world class" best practice

Once all questions for a particular ITIL standard were scored, Internal Audit calculated the outcomes within a mathematical equation (with use of the associated weights mentioned previously) to produce an overall assessment result pertaining to the level of implementation of the ITIL standard in question. The possible overall scores are illustrated in the following table:

OVERALL ASSESSMENT RESULT DESCRIPTIONS
NEEDS IMPROVEMENT
An overall assessment of NEEDS IMPROVEMENT equates to an IS Process Area that is poorly defined in the sense of: 1. There is a lack of documentation for policies, procedures, guidelines, and study guides. 2. Process area operates within a silo and does not communicate with other process and/or business areas. 3. Key Performance Indicator metrics are not established; Process is not measured to determine if it can be improved
ADEQUATE
An overall assessment of ADEQUATE equates to an IS Process Area that is operating effectively and have adopted the core principles of ITIL in the sense of: 1. Most, if not all, of the business and Information Services processes are documented, as are policies, guidelines, and study guides. 2. Process area communicates with other process areas and the business on a consistent basis. The business needs drive the IS Services offered and delivered. 3. Key Performance Indicators have been established and are in use in order to measure the performance of this process area against an established set of criteria designed to drive process improvement efforts.
BEST PRACTICE
An overall assessment of BEST PRACTICE equates to an IS Process Area that is up to world class standards on every level, including: 1. Every business and IS process policy and procedure is documented, approved, signed, and reviewed consistently to identify opportunities for improvement. 2. Study Guides, Training Materials and the like are all documented and used in order to ensure that staff is educated 2. Communication between the business and IS process areas is seamless and continuous,. 3. KPI's are used to continuously measure performance to drive process improvement. 4. A completely transparent process area operates in an efficient and effective manner to provide best practice service offerings and best practice delivery of those services.

Internal Audit has concluded that the 16 standards selected by Information Services are appropriate in order to facilitate an effective implementation of the ITIL framework. The overall results of the February 2009 ITIL Implementation Assessment show that PGW falls with the "Adequate" range at the current time for the level of implementation of the 16 pre-selected ITIL standards.

Note: Adequate is not meant to mean average within the context of this assessment, but rather a reflection of processes and service delivery methods in place that allow PGW to meet the needs of the business. There are several IS process areas that were assessed to be very close to reaching best practice levels, which illustrates the success of the ITIL implementation to date for the PGW Information Services Department. Having said that, the core principles of ITIL are continuous measurement and process improvement for IS services and service delivery methods; therefore the implementation of ITIL is an ongoing process. Internal Audit recommends that Information Services continue down the path of implementing the ITIL best practice framework of standards.

The illustration below provides an example of a weighted score card (for the Project Management ITIL category) in order to provide an example of how the scores were recorded during this assessment and used to quantify assessment results for the overall implementation of the ITIL standards in question.

ITIL ASSESSMENT WEIGHTED SCORE CARD (As of December 2008)
IS PROJECT MANAGEMENT

PROJECT MANAGEMENT	Risk Weights				Weighted Average	
	0.15	0.25	0.35	0.25	1.00	
	PM.1	PM.2	PM.3	PM.4		
Risk Rankings	**2**	**3**	**4**	**4**	3.45	ADEQUATE
	Risk Scale		<	1.6		NEEDS IMPROVEMENT
CAPABILITY MATURITY MODEL DESCRIPTIONS*	>	1.6	<	3.6		ADEQUATE
0 = ABSENCE	>	3.6				BEST PRACTICE
1 = INITIATION						
2 = AWARENESS						
3 = CONTROL						
4 = INTEGRATION						
5 = OPTIMIZATION						
	LEGEND FOR ITIL CATEGORIES					
PM.1	Does a project portfolio and project provisioning process exist?					
PM.2	Is a project review and oversight function in place to monitor projects?					
PM.3	Does the organization perform pre-implementation and post-implementation reviews to ensure that projects are executed against requirements and that they are in keeping with the organization's financial goals?					
PM.4	Is there a project management methodology and process?					

Note: The following pages in the report document the assessment results and strengths identified for each of the 16 ITIL standards that PGW selected to implement.

Note: Our recommendations are designed to bridge the gap between what PGW is currently doing and what is required to achieve best practice, world class standards. We are not recommending that PGW institute all of these recommendations, as it may not be valuable, cost-effective, or feasible. We do recommend that PGW perform cost-benefit analyses where applicable in order to decide whether adoption of each individual recommendation is feasible for this organization. We have included a section for management response after each of our recommendations to provide PGW with an opportunity to explain what they are doing in lieu of the stated suggestion or whether/why they agree/disagree with the recommendation in question.

1. Application Management

Assessment Result = ADEQUATE

Strengths

- Internal Audit noted the quality of the User Provisioning/De-Provisioning processes, although undocumented
- Internal Audit noted the quality of the Quality Assurance processes, although undocumented
- Internal Audit noted the quality of the Project Development Methodology, however it has not been updated since November 2001

Opportunities for Improvement

- All Application Management-related policies and procedures should be documented
- IS should consider communicating the details of the policies and/or procedures and the location of the approved documents to all PGW staff required to comply with the aforementioned policies and procedures
- IS should consider focused training of the policies and procedures within the Application Management ITIL domain to the PGW IS Staff that is charged with supporting the aforementioned ITIL standard
- IS should consider documenting meeting minutes for important daily, weekly, and monthly status meetings - and for any meetings that take place between process owners

Management Response: IS has engaged a Technical Writer to assist with documenting policies and procedures, as well as updating the Project Development Methodology.

2. Availability Management

Assessment Result = ADEQUATE

Strengths

- Internal Audit noted SMART (Simple, Measureable, Achievable, Realistic, Time Bound) KPI have been established and documented
- Internal Audit noted that the IS Department focuses on high service availability as one of most important success factors
- Internal Audit noted the strength of the IS Staff in this area in regards to their level of technical expertise

Opportunities for Improvement

- All Availability Management-related policies and procedures should be documented
- IS should communicate the details of the policies and/or procedures and the location of the approved documents to all PGW staff required to comply with the aforementioned policies and procedures

- IS should consider focused training of the policies and procedures within the Availability Management ITIL domain to the PGW IS Staff that is charged with supporting the aforementioned ITIL standard
- PGW Director of Technical Services for IS stated during our interview that he would like to see a single dashboard that would detail the availability metrics and results for all disparate critical systems and Internal Audit concurs
- When systems are designed or selected in the future, IS should consider performing an analysis to determine availability requirements, as well as the cost of maintaining those requirements in order to ensure that the most cost-effective choice is made
- A Downtime Schedule should be posted to the PGW Intranet to ensure that all PGW personnel are aware of any IS system downtime prior to it occurring
- IS should consider performing an ongoing trend analysis concerning availability requirements and issues in order to have the most accurate data available to help facilitate more informed decision-making
- IS should consider documenting meeting minutes for important daily, weekly, and monthly status meetings - and for any meetings that take place between process owners

Management Response: The department is putting a plan in place to implement Availability Management reporting capabilities and publish availability statistics on the Intranet.

3. Capacity Management

Assessment Result = ADEQUATE

Strengths

- Internal Audit noted that Capacity Management requirements are known well in advance - due to regular meetings and discussions about new services and changing requirements; albeit informal meetings and discussions
- Internal Audit noted that an automated process in place for monitoring capacity load for the IS computing network and associated equipment
  - Threshold limits have been designated which, when breached, automatically send a communication to appropriate members of the IS Staff in order to ensure a timely solution to the problem at hand.
- Internal Audit noted the strength of the IS Staff in this area in regards to their level of technical expertise

Opportunities for Improvement

- All Capacity Management-related policies and procedures should be documented
- IS should communicate the details of the policies and/or procedures and the location of the approved documents to all PGW staff required to comply with the aforementioned policies and procedures
- IS should consider focused training of the policies and procedures within the Capacity Management ITIL domain to the PGW IS Staff that is charged with supporting the aforementioned ITIL standard
- IS should design metrics (Key Performance Indicators) to measure the success of the capacity management process within the Information Services Department
- IS should consider the use of additional electronic tools in order to aid in the monitoring of all Capacity Management data to include things such as idle time, which PGW is unable to monitor at the current time with the current tool set
- IS should document a Capacity Plan, which should include the following elements at a minimum:
  - The documented capacity limits required by each critical system during peak and non-peak periods

    - The documented capacity threshold limits for automated communication to IS Staff
    - The documented schedule of service loads for each IS system in use
- ITIL best practice standards recommend the development of a Capacity Database in order to aid in the analysis and investigations inherent within the Capacity Management process

Management Response: IS will document all the inputs, sub-process and outputs; and manage capacity based on established baselines and standards

4. **Change Management**

Assessment Result = ADEQUATE

Strengths

- Internal Audit noted that IS has established a Change Advisory Board (CAB)
- Internal Audit noted that IS categorizes change requests according to their impact and urgency and are assessed on the value they will deliver to the business prior to their approval via the aforementioned CAB

Opportunities for Improvement

- All Change Management-related policies and procedures should be documented
- IS should communicate the details of the policies and/or procedures and the location of the approved documents to all PGW staff required to comply with the aforementioned policies and procedures
- IS should consider focused training of the policies and procedures within the Change Management ITIL domain to the PGW IS Staff that is charged with supporting the aforementioned ITIL standard
- IS should consider performing an analysis of the use of the Remedy software application (the application that is currently in use at PGW) in support of the Change Management process
- IS should consider documenting a Schedule of Impending Changes and publishing it to the Intranet, as well as communicate it to the IS Staff and end-user public via email
- Weekly Management Meetings, Change Advisory Board Meetings, and any other meeting relating to the support of the Change Management process – should have minutes of the meetings documented and saved
- Key Performance Indicator metrics should be established in order to measure the success of the Change Management process.

Management Response: IS agrees with these observations and will implement the recommendations listed here.

5. **Configuration Management**

Assessment Result = ADEQUATE

Strengths

- Relevant IS hardware, software, and electronic components are labeled appropriately
- Internal Audit noted the strength of the IS Staff in this area in regards to their level of technical expertise.

Opportunities for Improvement

- All Configuration Management-related policies and procedures should be documented

- IS should communicate the details of the policies and/or procedures and the location of the approved documents to all PGW staff required to comply with the aforementioned policies and procedures
- IS should consider focused training of the policies and procedures within the Configuration Management ITIL domain to the PGW IS Staff that is charged with supporting the aforementioned ITIL standard
- IS should consider performing a cost-benefit analysis in order to determine the feasibility of developing a Configuration Management Database (CMDB)
- In lieu of developing a Configuration Management Database, Internal Audit recommends that IS consider implementing automated, preventative controls in order to ensure that configuration parameters cannot be changed from the approved, documented configuration settings
- IS should establish key performance indicators for the Configuration Management process and document within the aforementioned policy and procedures; as well as possibly on the company Intranet

Management Response: IS will design and implement a CMDB and put processes In place to sustain the Configuration Management function with minimal labor resources.

6. **Financial Management for Information Services**

Assessment Result = ADEQUATE

Strengths

- Internal Audit noted IS compares actual costs with budgeted costs on a regular basis

Opportunities for Improvement

- Documentation of all Financial Management-related policies and procedures
- IS should communicate the details of the policies and/or procedures and the location of the approved documents to all PGW staff required to comply with the aforementioned policies and procedures
- IS should consider focused training of the policies and procedures within the Financial Management ITIL domain to the PGW IS Staff that is charged with supporting the aforementioned ITIL standard
- Internal Audit recommends that IS consider tracking the costs of each IS service offered separately in order to provide transparency into the costs of running the IS environment
- Internal Audit recommends that IS consider establishing a requirement to perform an annual review of the IS Department budget process in order to ensure that the most efficient and effective process is being utilized by the organization
- Internal Audit recommends that IS formally document Key Performance Indicator metrics within the previously recommended documentation of IS Financial Management policy and procedures, as well as posted to the PGW Intranet in order to ensure that everyone understands the KPI that the IS Finance Process is measuring it's performance against
- Internal Audit recommends that IS consider establishing an annual requirement to perform a review to check on the viability of outsourcing each aspect of the IS environment against current known costs

Management Response: IS will develop a chargeback methodology based on actual service and product allocations. We will implement a formal annual review of the budget process.

7. **Incident Management**

Assessment Result = ADEQUATE

Strengths

- Internal Audit noted quality information is gathered about incidents during the reporting process, including classification codes
- Internal Audit noted that IS has a user satisfaction survey in place which is used to record feedback from the individuals reporting the incidents, which is a valuable tool.

Opportunities for Improvement

- Documentation of all Incident Management-related policies and procedures
- IS should communicate the details of the policies and/or procedures and the location of the approved documents to all PGW staff required to comply with the aforementioned policies and procedures.
- IS should consider focused training of the policies and procedures within the Incident Management ITIL domain to the PGW IS Staff that is charged with supporting the aforementioned ITIL standard.
- IS should consider offering training sessions to the business in order to educate them on how to prevent incidents, as well as report on them properly.
- IS should establish key performance indicators within the Incident Management process and document/approve those KPI to the PGW Intranet.
- IS should design separate policy and procedures for each Incident Management and Problem Management process and communicate/train to appropriate IS Staff to ensure that they are aware of the differences.
- IS should identify, document and communicate the high-risk end-users to the Incident Management response teams in order to ensure that the most at-risk individuals within the company have their incidents expedited.

Management Response: IS will formalize and document our Incident Management process, including communications, to assure awareness of and response(s) to incidents are consistent with severity.

8. Infrastructure Management

Assessment Result = ADEQUATE

Strengths

- Internal Audit noted that when outsourcing is used, management of the infrastructure is measured and evaluated by the availability of each respective system.
- Internal Audit noted that availability and patch levels are used to measure the success of the Infrastructure Management process
- Internal Audit noted the strength of the IS Staff in this area in regards to their level of technical expertise

Opportunities for Improvement

- All Infrastructure Management-related policies and procedures should be documented
- IS should communicate the details of the policies and/or procedures and the location of the approved documents to all PGW staff required to comply with the aforementioned policies and procedures
- IS should consider focused training of the policies and procedures within the Infrastructure Management ITIL domain to the PGW IS Staff that is charged with supporting the aforementioned ITIL standard
- Internal Audit recommends that IS develops formal policies and procedures for the outsourcing process

- Internal Audit recommends that IS creates formal documentation of availability and patch level metrics (KPI – Key Performance Indicators) within the IS Infrastructure Management process that are used to measure the success of said process
- Internal Audit recommends that IS integrates their several "island" solutions that they use to store the configurations of key infrastructure components into a single, centralized database
- Internal Audit recommends that IS considers attending seminars, webinars, and other training sessions in addition to attending user group conferences for various technological solutions which they employ

Management Response: IS will develop a plan for implementing these recommendations, sustain the effort and monitor compliance with the processes.

9. **Problem Management**

Assessment Result = Adequate

Strengths

- Internal Audit noted that IS has a method for classification of problems during the reporting phase within the Remedy software application that allows for quicker routing of problems to specifically assigned individuals (i.e. "Specialists")
- Internal Audit noted that, although undocumented, the target monitoring approach being taken in conjunction with the Disaster Recovery assignment of criticality grades for IS Infrastructure components ensures that information will be shared between process areas in order to help improve service offerings and delivery to the customer
- Internal Audit noted the use of an online Wiki (a piece of server software that allows users to freely create and edit Web page content using any Web browser) knowledgebase that has workaround processes for known incidents and problems documented

Opportunities for Improvement

- All Problem Management-related policies and procedures should be documented
- IS should communicate the details of the policies and/or procedures and the location of the approved documents to all PGW staff required to comply with the aforementioned policies and procedures.
- IS should consider focused training of the policies and procedures within the Problem Management ITIL domain to the PGW IS Staff that is charged with supporting the aforementioned ITIL standard.
- IS should consider the cost-benefit of implementing a system that will allow for full trend analysis.

Management Response: IS will formalize and document Problem Management related policies and procedures.

10. **Project Management**

Assessment Result = ADEQUATE

Strengths

- Internal Audit noted that the Project Development Lifecycle was documented adequately in the following sense:
    - It includes a breakdown of all phases of the PGW Project Development process, including: Phase I - Initiate, Phase II - Analyze, Phase III - Design,

    - Phase IV - Build, Phase V - Quality Assurance/Test, Phase VI - Implement, Phase VII - Complete.
    - Requirement gathering and documentation prior to a project being approved and implemented is mandated
    - A six-month post-implementation review, as well as a sign-off from the business in addition to performance of user satisfaction surveys after projects have been deployed is required

Opportunities for Improvement

- All Project Management-related policies and procedures should be documented
- IS should communicate the details of the policies and/or procedures and the location of the approved documents to all PGW staff required to comply with the aforementioned policies and procedures
- IS should consider focused training of the policies and procedures within the Project Management ITIL domain to the PGW IS Staff that is charged with supporting the aforementioned ITIL standard

Management Response: The department is working with the Office of Business Transformation to develop a standard toolkit and to formalize, document and socialize Project Management related policies and procedures

11. Release Management

Assessment Result = ADEQUATE

Strengths

- Internal Audit noted that IS requires the development and documentation of test and back-out plans for each approved release, which is a step in the right direction for offering quality release management services to the organization
- Internal Audit determined that IS adequately separates the technical environments where change requests are developed from the live production environment in order to ensure that the integrity of data is maintained

Opportunities for Improvement

- All Release Management-related policies and procedures should be documented
- IS should communicate the details of the policies and/or procedures and the location of the approved documents to all PGW staff required to comply with the aforementioned policies and procedures
- IS should consider focused training of the policies and procedures within the Release Management ITIL domain to the PGW IS Staff that is charged with supporting the aforementioned ITIL standard
- IS should consider the cost-benefit of the development of a dynamic Change Management database tool which has features such as the ability to track the workflow and approvals inherent within the mandated policies and procedures of the Release Management process

Management Response: IS plans to build on existing Change Management process to include monthly, quarterly or semi-annual packaged releases.

12. Security Management

Assessment Result = ADEQUATE

Strengths

- Internal Audit noted that IS has implemented quality controls to protect against security threats, such as solid physical barriers to prevent unauthorized access to critical IS equipment
- Internal Audit noted that the procedure for handling security breaches is documented adequately
- Internal Audit noted the strength of the IS Staff in this area in regards to their level of technical expertise

Opportunities for Improvement

- Documentation of all Security Management-related policies and procedures
- IS should communicate the details of the policies and/or procedures and the location of the approved documents to all PGW staff required to comply with the aforementioned policies and procedures
- IS should consider focused training of the policies and procedures within the Security Management ITIL domain to the PGW IS Staff that is charged with supporting the aforementioned ITIL standard
- IS should consider formally documenting a process for reviewing contracts/agreements with external security providers, which should detail the job titles of responsible individuals in addition to the steps they take to perform said process
- IS should consider performing an analysis to identify the financial value of the information being protected by the organization
- IS should consider documenting the requirement for balancing the cost of providing security against the value of the information being protected
- IS should consider formally documenting a process for, and requirements of, performing a periodic review of security measures for PGW vendors, which should include the frequency of performing said process and the job titles of individuals responsible for following said policy and procedure. We recommend that the aforementioned policy and procedure include a segment that illustrates how/when/why a SAS70 Report should be obtained from a vendor

Management Response: The department is documenting and publishing Security Management related policies and procedures using Policy Center, including periodic vendor reviews.

13. Service Continuity Management for Information Services

Assessment Result = ADEQUATE

Strengths

- IS has adopted a robust and quality set of Disaster Recovery, Business Continuity Planning, and Business Impact Analysis procedures, most of which are documented
- IS maintains solid off-site storage procedures for critical data, which is an integral part of compliance with this ITIL standard
- Internal Audit noted the strength of the IS Staff in this area

Opportunities for Improvement

- All Service Continuity Management-related policies and procedures should be documented
- IS should communicate the details of the policies and/or procedures and the location of the approved documents to all PGW staff required to comply with the aforementioned policies and procedures

- IS should consider focused training of the policies and procedures within the Service Continuity Management ITIL domain to the PGW IS Staff that is charged with supporting the aforementioned ITIL standard
- IS should document the process that was undertaken to assign the different risk levels (e.g. Tiers) to the IS infrastructure components

Management Response: The department will formalize, document and socialize all Service Continuity Management-related policies, processes and procedures

14. **Service Desk Management**

Assessment Result = ADEQUATE

Strengths

- Internal Audit noted that the majority PGW employees interviewed feel as though the Service Desk is a good investment
- Internal Audit noted that the majority of PGW personnel interviewed recognize the Service Desk as the known contact point for any IS-related problems.
- Internal Audit noted that the IS Service Desk staff is required to receive certification to prove that they have been trained adequately to perform on the Help Desk
- Internal Audit noted that IS considers the Service Desk to be a highly demanding role; proof of which is the certification process.
- Information Services documents calls from the Service Desk through the Remedy software application and utilizes a user satisfaction survey after the closure of a Service Desk Ticket, which is automatically sent to the Initiator after a Service Desk ticket is closed.
- IS has easily accessible reports that reflect the work of the Service Desk, and the Service Desk provides customer satisfaction and trending reports to PGW management on both a daily and monthly basis.

Opportunities for Improvement

- All Service Desk Management-related policies and procedures should be documented
- IS should communicate the details of the policies and/or procedures and the location of the approved documents to all PGW staff required to comply with the aforementioned policies and procedures
- IS should consider focused training of the policies and procedures within the Service Desk Management ITIL domain to the PGW IS Staff that is charged with supporting the aforementioned ITIL standard
- Internal Audit recommends that IS considers implementing proactive triggers based on open call time which automatically sends an email to the person who reports an issue to the Service Desk reminding them that their call has been open for X amount of time
- IS should conduct a review of the Service Desk Management ITIL standard processes on an annual basis, at the minimum, in order to see if any modifications/improvements need to be made to the underlying processes

Management Response: The department will formalize, document and socialize all Service Desk Management-related policies, processes and procedures; including an annual review of standard processes.

15. **Service Level Management**

Assessment Result = ADEQUATE

Strengths

- Internal Audit noted that all agreements with IS external providers are documented and reflected within Service Level Agreements (SLA's) and that all SLA's have been accepted, approved, and signed by customers/business representatives.
- Internal Audit noted that IS has a Service Catalog that lists the services offered by IS and that PGW utilizes Business Transformation Consultant (BTC's) who facilitate communication between the business and the Information Services Department.
- Internal Audit noted that the BTC's document business requirements and provide them to IS in order to ensure that needs are being met

Opportunities for Improvement

- All Service Level Management-related policies and procedures should be documented
- IS should communicate the details of the policies and/or procedures and the location of the approved documents to all PGW staff required to comply with the aforementioned policies and procedures
- IS should consider focused training of the policies and procedures within the Service Level Management ITIL domain to the PGW IS Staff that is charged with supporting the aforementioned ITIL standard
- IS should consider developing an annual process to review the activities associated with the Service Level Management process in order to ensure that the most efficient and cost-effective approach is taken to support said processes
- IS should consider maintaining a central storage location for both internal and external SLA's, which should be documented within the associated policies and procedures for this ITIL domain

Management Response: IS will implement these recommendations.

16. **Service Strategy and Design**

Assessment Result = ADEQUATE

Strengths

- Internal Audit noted that IS has designed a service catalog and has plans to release it in the near future

Opportunities for Improvement

- All Service Strategy and Design-related policies and procedures should be documented
- IS should communicate the details of the policies and/or procedures and the location of the approved documents to all PGW staff required to comply with the aforementioned policies and procedures
- IS should consider focused training of the policies and procedures within the Service Strategy and Design ITIL domain to the PGW IS Staff that is charged with supporting the aforementioned ITIL standard
- IS should consider including information pertaining to both "chartered" and "operational" services within their service catalog in order to provide a complete picture of the service life cycle within said documentation
- IS should mandate the performance and documentation of an annual review of the IS processes for Service Strategy and Design in order to see if any modifications and/or improvements may be made

- **Management Response:** IS will assess the feasibility of including chartered services in our service catalog. Service Strategy and Design-related policies and procedures will be formalized, documented and socialized.

KPMG

PHILADELPHIA GAS WORKS

(A Component Unit of the City of Philadelphia)

Basic Financial Statements and Supplementary Information

August 31, 2008 and 2007

(With Independent Auditors' Report 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 balance sheets of Philadelphia Gas Works (the Company), a component unit of the City of Philadelphia, as of August 31, 2008 and 2007, and the related statements of revenues and expenses, cash flows, and changes in fund equity, as of and for the years then ended. These financial statements are the responsibility of the Company's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Philadelphia Gas Works as of August 31, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

The required supplementary information of management's discussion and analysis on pages 3 to 12 and the schedules of pension funding progress, other postemployment benefits funding progress, and other postemployment benefit employer contributions on pages 52 to 54 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. This supplementary information is the responsibility of the Company's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit such information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included on pages 55 to 58 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As discussed in note 1(n), the Company adopted the provisions of Governmental Accounting Standards Board Statement (GASB) No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and GASB Statement No. 50, *Pension Disclosures*, as of September 1, 2006.

KPMG LLP

December 29, 2008

The narrative overview and analysis of the financial statements of Philadelphia Gas Works (the Company or PGW) for the years ended August 31, 2008 and 2007 have been prepared by PGW's management. The information presented here is unaudited and should be read in conjunction with additional information contained in PGW's financial statements.

Financial Highlights

- The fiscal year (FY) 2008 reflected a 16.9% warmer than normal winter. The FY 2008 period was 0.7% warmer than the prior year and firm gas sales decreased by 2.4 Billion cubic feet (Bcf). In addition, the Weather Normalization Adjustment (WNA), which was in effect from October 2007 through May 2008, resulted in heating customers receiving charges totaling $12.2 million as a result of the temperatures experienced during the period. FY 2007 reflected a 16.6% warmer than normal winter. The FY 2007 period was 1.2% warmer than the prior year; however, firm gas sales increased by 2.0 Bcf. In addition, the WNA, which was in effect from October 2006 through May 2007, resulted in heating customers receiving charges totaling $6.5 million as a result of the temperatures experienced during the period.
- PGW achieved a collection rate of 95.5% in the current period, 95.8% in FY 2007 and 96.6% in FY 2006. The collection rate of 95.5% is calculated by dividing the total gas receipts collected in FY 2008 by the total gas billings that were applied to PGW customers' accounts from September 1 through August 31. The same methodology was utilized in FY 2007 and FY 2006, respectively.
- The Company adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45 (GASB 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as of September 1, 2006 and had a zero net Other Postemployment Benefits (OPEB) obligation at transition. PGW adopted the provisions of GASB 45 a year earlier than required by GASB because the Company is a component unit of the City of Philadelphia (the City) for financial reporting purposes and the Company's FY 2007 financial statements will be consolidated into the City's financial statements for the fiscal year ended June 30, 2008. The difference between the FY 2008 Annual Required Contribution (ARC) of $44.1 million and the expenses paid by the Company of $18.3 million resulted in a liability of $25.8 million which has been recorded in other liabilities and deferred credits and expensed in FY 2008. The difference between the FY 2007 ARC of $45.2 million and the expenses paid by the Company of $18.8 million resulted in a liability of $26.4 million which was recorded in other liabilities and deferred credits and expensed in FY 2007.
- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (GASB 49), is effective for the Company's fiscal year beginning September 1, 2008; however, the Company has chosen to implement the provisions of GASB 49 a year earlier than required by GASB because the Company is a component unit of the City for financial reporting purposes and the Company's FY 2008 financial statements will be consolidated into the City's financial statements for the fiscal year ended June 30, 2009. This statement establishes a framework for the recognition and measurement of pollution remediation liabilities. A pollution remediation obligation addresses the current or potential detrimental effects of existing pollution by participation in pollution remediation activities.

(Continued)

Prior to the implementation of GASB 49, the Company recognized liabilities related to its voluntary participation in remediation activities under Pennsylvania Act 2, *Land Recycling and Environmental Remediation Standards Act of 1995*, which established the land recycling program, and its mandatory participation in activities under Pennsylvania Act 32, *Storage Tank and Spill Prevention Act of 1989*, which established a comprehensive program to prevent leaks and spills from underground and above ground tanks in accordance with existing U.S. generally accepted accounting principles (U.S. GAAP) related to the accrual of liabilities.

The Company revised its methodology for estimating its pollution remediation obligations to conform with GASB 49 in the current year, which resulted in an additional $8.3 million liability which is reflected in other liabilities and deferred credits at August 31, 2008. GASB 49 requires pollution remediation liabilities to be measured at the beginning of the first period presented in the financial statements. The Company has not restated prior periods and instead recognized the effect of GASB 49 implementation in the current year, because the increase in the liability related to the implementation of GASB 49 is not material.

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.

Overview of the Financial Statements

The discussion and analysis are intended to serve as an introduction and overview of PGW's basic financial statements. PGW's financial statements are comprised of:

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

The notes to financial statements provide additional information that is essential to a full understanding of the data presented in PGW's financial statements. The notes can be found immediately following the basic financial statements.

The financial statements report information about PGW as a whole using accounting methods similar to those used by private sector business. The four statements presented are:

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

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

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

The statement of changes in fund equity provides a rollforward of the fund equity balance of PGW based upon the results from the statement of revenues and expenses.

Condensed Statements of Revenues and Expenses

(Thousands of dollars)

		Years ended August 31		
		2008	**2007**	**2006**
Total gas revenues	$	831,428	840,105	929,961
Other revenues		18,199	19,246	24,007
Total operating revenues		849,627	859,351	953,968
Total operating expenses		794,246	819,748	880,040
Operating income		55,381	39,603	73,928
Interest and other income		15,732	13,073	8,518
Total interest expense		(68,006)	(68,780)	(65,687)
Excess (deficiency) of revenues over (under) expenses	$	3,107	(16,104)	16,759

Operating Revenues

Operating revenues in FY 2008 were $849.6 million, a decrease of $9.8 million or 1.1% from the FY 2007 level. The decrease in FY 2008 was due to a milder winter. Operating revenues in FY 2007 were $859.4 million, a decrease of $94.6 million or 9.9% from the FY 2006 level. The decrease in FY 2007 was principally due to lower fuel costs which are a component of operating revenues through the gas cost rate (GCR). Please see the discussion of the cost of fuel in the Operating Expenses section below.

Total sales volumes, including gas transportation deliveries, in FY 2008 increased by 2.5 Bcf to 66.3 Bcf or 3.9% from FY 2007 sales volumes of 63.8 Bcf. In FY 2007 total sales volumes increased by 4.4 Bcf to 63.8 Bcf or 7.4% from FY 2006 sales volumes of 59.4 Bcf. Firm gas sales of 45.5 Bcf were 2.4 Bcf or 5.0% lower than FY 2007 firm gas sales of 47.9 Bcf were 1.7 Bcf or 3.7% higher than FY 2007. Interruptible customer sales decreased by 0.9 Bcf compared to FY 2007 and increased by 0.3 Bcf compared to FY 2006. Gas transportation sales in FY 2008 increased by 5.9 Bcf to 19.0 Bcf from the 13.1 Bcf level experienced in FY 2007. In FY 2007, the volume increased by 2.4 Bcf to 13.1 Bcf from the 10.7 Bcf level experienced in FY 2006.

The number of customers served by PGW at the end of FY 2008 decreased by 0.2% from the previous year to approximately 505,000 customers. The number of customers served by PGW at the end of FY 2007 and FY 2006 were approximately 506,000 and 486,000, respectively. Commercial accounts were approximately 25,000, reflecting no change from the previous two fiscal years. Industrial accounts decreased by 11.1% from the prior year's level to 800. Industrial accounts were 900 and 1,000 customers in FY 2007 and FY 2006, respectively.

(Continued)

Residential customers decreased to 479,000 customers, a decrease of 1,000 from the prior year. The number of residential customers in FY 2007 increased to approximately 480,000 customers, an increase of 20,000 over the FY 2006 level.

Operating Expenses

Total operating and maintenance expenses, including fuel costs, in FY 2008 were $794.2 million, a decrease of $25.5 million or 3.1% from FY 2007. Total expenses decreased by $60.3 million or 6.9% from FY 2007 compared to FY 2006. The decrease for FY 2008 reflects substantially lower natural gas utilization and an increase in refunds received from pipeline suppliers. The decrease for FY 2007 reflects substantially higher natural gas prices from FY 2006.

Cost of Fuel – The cost of natural gas utilized decreased by $27.3 million or 5.1% to $512.0 million in FY 2008 compared with $539.3 million in FY 2007. The average commodity price per Thousand cubic feet (Mcf) increased by $0.25 or $13.5 million, while the volume of gas utilized decreased by 4.6 Bcf, 7.9% or $37.6 million. In addition, pipeline supplier refunds in FY 2008 increased by $10.0 million while demand charges increased by $6.8 million, compared to FY 2007.

The cost of natural gas utilized decreased by $85.8 million or 13.7% to $539.3 million in FY 2007 compared with $625.1 million in FY 2006. The average commodity price per Mcf decreased by nearly $2.02 or $117.2 million, while the volume of gas utilized increased by 3.0 Bcf, 5.4% or $30.6 million, in FY 2007 despite a 1.2% decrease in degree days from FY 2006. In addition, pipeline supplier refunds in FY 2007 decreased by $0.2 million while demand charges increased by $0.7 million, compared to FY 2006.

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 current assets or current liabilities, thereby eliminating the effect that recovery of gas costs would otherwise have on net income.

The average natural gas commodity prices for utilized gas for FY 2008, FY 2007, and FY 2006 were $8.48, $8.23, and $10.25 per Mcf, respectively.

Other Operating Expenses – Expenditures for street operations, infrastructure improvements, and plant operations in FY 2008 were $68.9 million, down from the FY 2007 total of $69.5 million as a result of lower labor costs and up from the FY 2006 total of $66.1 million as a result of an increase in the value of gas used from the time customers request shutoff to the occupancy of the premise by a subsequent customer. This cost was partially reduced by lower operating expenses due to warmer weather conditions. In addition, the cost for customer services, collection and account management, marketing, and the administrative area increased by $4.9 million or 5.7% in FY 2008 primarily due to costs related to the business transformation initiative and a decrease in the gas used by the utility. This category decreased by $4.1 million or 4.5% in FY 2007, which was offset somewhat by higher premiums for active and retired employee health insurance coverage. Pension costs decreased by $1.0 million and $2.3 million in FY 2008 and FY 2007, respectively, based on the most recent actuarial valuation of the pension plan.

Provision for Uncollectible Accounts – The provision for uncollectible accounts in FY 2008 totaled $37.0 million, a decrease of $3.0 million or 7.5% lower than FY 2007, which totaled $40.0 million, a decrease of $0.1 million or 0.3% compared to FY 2006 based on the most recent accounts receivable collectibility evaluation. The accumulated provision for uncollectible accounts at August 31, 2008 reflects a balance of $140.4 million, compared to the $150.2 million balance in FY 2007 and $168.9 million in FY 2006. 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.

Depreciation Expense – Depreciation expense increased by $3.1 million in FY 2008 compared with FY 2007. Depreciation expense increased by $1.7 million in FY 2007 compared with FY 2006. The effective composite depreciation rates for FY 2008, FY 2007 and FY 2006 were 2.4%, 2.3% and 2.3%, respectively. Cost of removal is charged to expense as incurred.

Interest and Other Income – Interest and other income was $2.7 million greater than FY 2007 as the result of increased earnings on higher restricted fund balances. Interest and other income in FY 2007 was $4.6 million greater than FY 2006 as the result of increased earnings rates on higher restricted fund balances.

Interest Expense – Total interest expense decreased by $0.8 million or 1.1% in FY 2008 compared with FY 2007 and increased by $3.1 million or 4.7% in FY 2007 compared with FY 2006. Interest on long-term debt was $3.9 million higher than the FY 2007 level as a result of the full year effect of the FY 2007 issuance of revenue bonds in May 2007. Other interest costs decreased by $4.8 million or 28.0% in FY 2008 principally due to the reduction in the borrowing cost of the commercial paper program. Other interest costs increased by $2.2 million or 14.6% in FY 2007 and increased by $4.0 million or 36.4% in FY 2006 reflecting additional costs associated with PGW's commercial paper program and the amortization of the loss on reacquired debt.

(Continued)

Excess (Deficiency) of Revenues Over (Under) Expenses – In FY 2008, the Company's excess of revenues over expenses was $28.9 million prior to recording the expense of $25.8 million related to OPEB. As a result, the Company ended with an excess of revenues over expenses of $3.1 million. The Company had an excess of revenues over expenses of $10.3 million in FY 2007 prior to recording the expense of $26.4 million related to OPEB and $16.8 million in FY 2006.

Condensed Balance Sheets

(Thousands of dollars)

Assets		August 31 2008	2007	2006
Utility plant, net	$	1,062,095	1,040,373	1,007,648
Restricted investment funds		219,788	277,139	135,625
Current assets:				
Accounts receivable (net of accumulated provision for uncollectible accounts of $140,435, $150,231, and $168,889 for 2008, 2007, and 2006, respectively)		99,304	88,618	74,360
Other current assets and deferred debits, cash and cash equivalents, gas inventories, materials, and supplies		242,503	205,083	181,394
Total current assets		341,807	293,701	255,754
Other assets and deferred debits		105,975	103,727	106,983
Total assets	$	1,729,665	1,714,940	1,506,010
Fund Equity and Liabilities				
Fund equity	$	226,408	223,301	239,405
Total long-term debt		1,127,163	1,201,792	1,076,131
Current liabilities:				
Note payable		90,000	51,600	55,000
Current portion of long-term debt		76,030	86,995	39,591
Other current liabilities and deferred credits		126,235	103,276	73,854
Total current liabilities		292,265	241,871	168,445
Other liabilities and deferred credits		83,829	47,976	22,029
Total fund equity and liabilities	$	1,729,665	1,714,940	1,506,010

(Continued)

Assets

Utility Plant – Utility plant, net of depreciation, totaled $1,062.1 million in FY 2008, an increase of $21.7 million or 2.1% compared with the FY 2007 balance of $1,040.4 million. The FY 2007 balance of $1,040.4 million, increased by $32.8 million or 3.3% compared with the FY 2006 balance of $1,007.6 million. Capital expenditures for construction of distribution facilities, purchase of equipment, information technology enhancements, and other general improvements were $61.2 million in FY 2008 compared to $69.1 million in FY 2007 and $60.7 million in FY 2006. PGW funded capital expenditures through drawdowns from the Capital Improvement Fund in the amounts of $60.9 million, $60.7 million and $63.1 million in FY 2008, FY 2007 and FY 2006, respectively. The major capital expenditures are associated with PGW's gas supply infrastructure, namely, gas mains and customer service lines.

Restricted Investment Funds – Restricted investment funds decreased by $57.4 million in FY 2008 primarily due to the drawdown from its Capital Improvement Fund offset by interest income. Interest income on these funds, to the extent not drawn, is reflected as an increase and approximated $2.7 million in FY 2008 and $6.8 million in FY 2007. A drawdown from the Sinking Fund's capitalized interest account in the amount of $0.1 million was utilized to offset the debt service payment in FY 2007. In FY 2006, this amount was $6.0 million.

Accounts Receivable – In FY 2008 accounts receivable (net) of $99.3 million increased by $10.7 million, or 12.1% from FY 2007 due to firm transportation suppliers' billings and an increase in participation in the Customer Responsibility Program (CRP). Accounts receivable (net) increased by $14.3 million, or 19.2% in FY 2007 compared to FY 2006. The accumulated provision for uncollectible accounts, totaling $140.4 million decreased by $9.8 million in FY 2008 and totaled $150.2 million in FY 2007 and $168.9 million in FY 2006.

Other Current Assets and Deferred Debits, Cash and Cash Equivalents, Gas Inventories, Materials, and Supplies – In FY 2008 cash and cash equivalents were $49.3 million, a decrease of $2.4 million from FY 2007, and totaled $51.7 million in FY 2006. Gas storage increased by $41.4 million or 29.9%. The increase in gas inventory reflects an increase in the gas cost per Mcf plus an increase in the amount of storage at year-end. Materials and supplies of $187.5 million, which principally include gas inventory, maintenance spare parts, and material, increased by $39.7 million and were $147.8 million in FY 2007 and $149.4 million in FY 2006. Other current assets and deferred debits totaled $5.6 million in FY 2008, up $0.1 million from FY 2007. In FY 2007 other current assets and deferred debits totaled $5.6 million, down $19.6 million from FY 2006, primarily due to the recovery of under-recovered GCR amounts from the prior year.

Other Assets and Deferred Debits – In FY 2008 other assets and deferred debits including unamortized bond issuance costs, unamortized loss on reacquired debt, and a deferred regulatory asset for environmental expenses totaled $106.0 million, an increase of $2.3 million from FY 2007, mainly due to an increase in the workers' compensation injuries and damages reserve. In FY 2007 the total was $103.7 million and reflected an increase of $3.3 million from FY 2006. The major portion of this change was related to the bond issuance costs on the $313.4 million of debt issued in FY 2006, offset partially by deferred environmental costs.

Liabilities

Long-Term Debt – Long-term debt, including the current portion and unamortized discount and premium, totaled $1,203.2 million in FY 2008, $85.6 million less than the previous year as a result of the Company paying off the City Loan and normal debt principal payments. This represents 84.2% of total capitalization in FY 2008. Long-term debt, including the current portion and unamortized discount, premium, and note payable – City Loan totaled $1,288.8 million in FY 2007, $173.1 million greater than the previous year as a result of principal payments on outstanding debt and the issuance of the Seventh Series and Nineteenth Series revenue bonds during FY 2007. This represents 85.2% of total capitalization in FY 2007 The total long-term debt for FY 2006 totaled $1,115.7 million, which represented 82.3% of total capitalization.

Debt Service Coverage Ratio and Ratings – PGW has a mandatory debt service coverage ratio of 1.50 times debt service on the 1975 Ordinance Bonds and the 1998 Ordinance Bonds, respectively. In FY 2008, the debt service coverage was at 4.28 times debt service on the outstanding 1975 Ordinance Bonds and 1.88 times debt service on the Senior 1998 Ordinance Bonds compared to debt service coverage ratios of 3.70 and 2.00 times, respectively, in FY 2007 and 3.36 and 1.94 times, respectively, in FY 2006. PGW's current bond ratings are "Baa2" from Moody's Investors Service (Moody's), "BBB-" from Standard and Poor's Ratings Service (S&P), and "BBB-" from Fitch Ratings.

Short-Term Debt – Due to the highly seasonal nature of PGW's business, short-term debt is utilized to meet working capital requirements. PGW, pursuant to the provisions of the City of Philadelphia Note Ordinance, may sell short-term notes in a principal amount, which together with interest, may not exceed $200.0 million outstanding at any one time as compared to $150.0 million in FY 2006. The letter of credit supporting PGW's commercial paper program fixed the maximum level of outstanding notes plus interest at $150.0 million in FY 2008 and FY 2007, respectively. These notes are intended to provide additional working capital and are supported by an irrevocable letter of credit and a security interest in PGW's revenues. The notes outstanding at August 31, 2008 had a weighted average interest rate of 1.63% and a remaining weighted average time to maturity of 61 days. The principal amounts outstanding at August 31, 2008 and 2007 were $90.0 million and $51.6 million, respectively. In addition, the City provided PGW with a $45.0 million, 0.0% interest loan in FY 2001. In FY 2007, PGW paid $2.0 million of the loan leaving an outstanding balance of $43.0 million. In FY 2008, PGW paid $20.5 million and $22.5 million in December 2007 and August 2008, respectively to completely repay the remaining balance of the loan.

Liquidity/Cash Flow – At December 18, 2008, $2.0 million was available from the Commercial Paper Program. Additionally, PGW had $111.7 million available in its Capital Improvement Fund to be utilized for construction expenditures. These funding sources may be utilized during the fall and early winter period to provide liquidity until billings from the winter heating season are collected. The cash balance at December 18, 2008 was $65.5 million.

Accounts Payable – In FY 2008 accounts payable increased $6.9 million or 11.4% compared with FY 2007 primarily due to an increase in natural gas payables. In FY 2007 accounts payable increased $3.1 million or 7.8% compared with FY 2006 reflecting a $3.3 million increase in accounts payables associated with natural gas partially offset by a $0.2 million decrease in trade payables.

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Other Liabilities and Deferred Credits – In FY 2008 other liabilities and deferred credits totaling $83.8 million increased $35.8 million compared to FY 2007. In FY 2007 other liabilities and deferred credits totaling $48.0 million increased $26.0 million compared to FY 2006. The increase in FY 2008 is the effect of recording the change in the liability for OPEB in the amount of $25.8 million, an increase in the injuries and damages reserve and an increase in the environmental remediation liability. The increase in FY 2007 is the effect of recording the liability for OPEB in the amount of $26.4 million.

Other Financial Factors

The City has made a major commitment to PGW by granting back its annual $18.0 million payment, in each of the last three fiscal years, thereby improving PGW's overall liquidity position. PGW must continue to focus its efforts on becoming a competitive utility in the deregulated marketplace. PGW remains committed to achieving its tradition of providing high-quality service to customers, while continuing as a valuable enterprise of the City.

The Company's total OPEB actuarial accrued liability as of August 31, 2008 was $591.6 million if the Company continued to provide for its OPEB obligations on a pay-as-you-go basis. The Company's actuarial accrued liability would be reduced to $382.7 million if the Company adopted a policy of funding its ARC. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of 30 years. The actuarial valuation utilized a discount rate of 8.25% for purposes of developing the liabilities and ARC to demonstrate the effect of funding the Plan. This rate is based on the investment return expected on investments segregated in a funded trust.

The annual OPEB cost was $52.3 million for the fiscal year ended August 31, 2008 and is projected to increase to $70.2 million per year over the ensuing 20-year period on a pay-as-you-go basis. The annual OPEB cost was $45.2 million for the fiscal year ended August 31, 2007.

On December 22, 2006, PGW filed for a $100.0 million base rate increase with the Public Utility Commission (PUC). On September 28, 2007, the PUC approved a rate increase of $25.0 million. PGW appealed this decision to Commonwealth Court on or about October 18, 2007 and this matter is still pending in the courts. The $25.0 million rate increase was implemented in November 2007.

In November 2008, the Company filed for an extraordinary or emergency base rate increase of approximately $60.0 million or 5.2% and simultaneously requested an $85.0 million or 7.4% decrease in the GCR for a net 2.2% overall rate decrease of approximately $25.0 million. The proposed base rate increase will serve several purposes. First, the increase will cover the additional financing costs that the Company anticipates it will incur in the next few months. Second, the increase will improve the Company's financial position so as to enhance its ability to access the financial markets and maintain its bond rating. Third, the increase will provide additional liquidity and financial flexibility in this tight credit market. On December 18, 2008, the PUC issued its decision approving a base rate increase of $60.0 million or 5.2% and a decrease in the GCR of $107.0 million for a net decrease in rates of $47.0 million or 4.2%. These rates are effective as of January 1, 2009.

The Company had $90.0 million of commercial paper that was outstanding at August 31, 2008. Subsequent to year-end, all outstanding commercial paper matured, and additional commercial paper was issued. As of December 18, 2008, $148.0 million of commercial paper was outstanding which matures on February 12, February 13 and March 12, 2009.

As of December 18, 2008, $271.4 million of the Sixth Series Bonds are held by the providers of the Standby Bond Purchase Agreement as bank bonds. The providers of the Standby Bond Purchase Agreement continue, on a weekly basis, to remarket the bonds in accordance with the bond authorization. The Standby Bond Purchase Agreement expires on January 26, 2009. If the Standby Bond Purchase Agreement is not renewed, and no substitute liquidity facility is provided, any bank bonds held at that time will be amortized in ten payments payable the first business day of July and the first business day of December for the next five years. The Company has therefore recorded as current debt at August 31, 2008 one tenth of the outstanding Sixth Series Bonds as of August 31, including $1.9 million due to mature in 2009 under the original amortization schedule and an additional $29.3 million for a total of $31.2 million.

The fair value of the interest rate swap as of December 18, 2008 was negative $72.6 million. This means that the Company would have to pay this amount to terminate the swap. Per the swap agreement, the refunding or defeasance of the Sixth Series Bonds, in whole or in part, without the prior written consent of both the counterparty and the insurer, may constitute an event of termination unless certain conditions are met. There is a termination risk related to the interest rate swap agreement if PGW's bond rating falls below Baa2 or BBB (Moody's/S&P). Because the City's swap payments are insured by Financial Security Assurance Inc. (FSA) as long as FSA is rated at or above A2 or A (Moody's/S&P) the termination event based on the City's rating is stayed. Neither the Company's credit rating nor FSA's credit rating has declined below the levels required in the agreement as of December 18, 2008.

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, 2008 and 2007

(Thousands of dollars)

Assets		**2008**	**2007**
Utility plant, at original cost:			
In service	$	1,685,593	1,633,300
Under construction		46,969	48,013
Total		1,732,562	1,681,313
Less accumulated depreciation		670,467	640,940
Utility plant, net		1,062,095	1,040,373
Restricted investment funds:			
Sinking fund, revenue bonds		106,198	102,438
Capital improvement fund		111,207	172,134
City of Philadelphia		—	643
Workers' compensation escrow fund		2,383	1,924
Total restricted investment funds		219,788	277,139
Current assets:			
Cash and cash equivalents		49,338	51,698
Accounts receivable (net of provision for uncollectible accounts of $140,435 and $150,231 for 2008 and 2007, respectively)		99,304	88,618
Gas inventories, materials, and supplies		187,539	147,770
Other current assets and deferred debits		5,626	5,615
Total current assets		341,807	293,701
Unamortized bond issuance costs		38,738	42,086
Unamortized losses on reacquired debt		47,902	53,359
Other assets and deferred debits		19,335	8,282
Total assets	$	1,729,665	1,714,940

See accompanying notes to financial statements.

(Continued)

PHILADELPHIA GAS WORKS

(A Component Unit of the City of Philadelphia)

Balance Sheets

August 31, 2008 and 2007

(Thousands of dollars)

Fund Equity and Liabilities		**2008**	**2007**
Fund equity:			
Deficiency of capital assets, net of related debt	$	(4,466)	(5,690)
Restricted		108,581	105,005
Unrestricted		122,293	123,986
Total fund equity		226,408	223,301
Long-term debt:			
Revenue bonds		1,127,163	1,201,792
Total long-term debt		1,127,163	1,201,792
Current liabilities:			
Note payable		90,000	51,600
Current portion of revenue bonds		76,030	43,995
Note payable – City Loan		—	43,000
Accounts payable		67,508	60,615
Customer deposits		7,325	9,049
Other current liabilities and deferred credits		32,581	15,524
Accrued accounts:			
Interest, taxes, and wages		15,821	15,088
Distribution to the City		3,000	3,000
Total current liabilities		292,265	241,871
Other liabilities and deferred credits		83,829	47,976
Total fund equity and liabilities	$	1,729,665	1,714,940

See accompanying notes to financial statements.

PHILADELPHIA GAS WORKS

(A Component Unit of the City of Philadelphia)

Statements of Revenues and Expenses

Years ended August 31, 2008 and 2007

(Thousands of dollars)

	2008	2007
Operating revenues:		
Gas revenues:		
Nonheating	$ 78,687	90,798
Gas transport service	19,215	12,949
Heating	733,526	736,358
Total gas revenues	831,428	840,105
Appliance and other revenues	8,607	9,398
Other operating revenues	9,592	9,848
Total operating revenues	849,627	859,351
Operating expenses:		
Natural gas	511,976	539,300
Gas processing	14,436	16,240
Field services	37,126	36,100
Distribution	17,319	17,119
Collection and account management	15,447	15,221
Provision for uncollectible accounts	37,000	40,000
Customer services	12,305	11,783
Marketing	2,628	2,418
Administrative and general	60,716	56,819
Pensions	14,258	15,217
Other postemployment benefits	25,834	26,421
Taxes	5,677	6,730
Total operating expenses before depreciation	754,722	783,368
Depreciation	42,868	39,708
Less depreciation expense included in operating expenses above	3,344	3,328
Total depreciation	39,524	36,380
Total operating expenses	794,246	819,748
Operating income	55,381	39,603
Interest and other income	15,732	13,073
Income before interest expense	71,113	52,676
Interest expense:		
Long-term debt	56,075	52,146
Other	12,269	17,042
Allowance for funds used during construction	(338)	(408)
Total interest expense	68,006	68,780
Excess (deficiency) of revenues over (under) expenses	$ 3,107	(16,104)

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended August 31, 2008 and 2007

(Thousands of dollars)

		2008	2007
Cash flows from operating activities:			
Receipts from customers	$	834,000	863,658
Payments to suppliers		(659,969)	(631,475)
Payments to employees		(105,596)	(106,018)
Claims paid		(2,691)	(2,958)
Other receipts		24,500	28,800
Net cash provided by operating activities		90,244	152,007
Cash flows from noncapital financing activities:			
Interest		3,548	4,766
Interest payments on notes payable		(4,099)	(8,098)
Net repayments of notes payable		38,400	(3,400)
Loan from City of Philadelphia		(43,000)	(2,000)
Restricted, City Loan deposit		643	(643)
Distribution to the City of Philadelphia		(18,000)	(18,000)
Grant back of distribution from the City of Philadelphia		18,000	18,000
Net cash used in noncapital financing activities		(4,508)	(9,375)
Cash flows from capital and related financing activities:			
Proceeds from long-term debt issued		—	245,350
Redemption of long-term debt		—	(45,450)
Long-term debt issuance costs		—	(5,652)
Long-term debt premium, discount, and issuance losses		—	(4,133)
Purchases of capital assets		(61,244)	(69,105)
Principal paid on long-term debt		(41,830)	(38,045)
Interest paid on long-term debt		(54,076)	(46,913)
Capital improvement fund deposits		—	(193,170)
Drawdowns on capital improvement fund		60,926	60,672
Interest income on capital improvement fund		8,089	4,497
Interest income on sinking fund		3,460	1,996
Sinking fund (deposits)		(3,759)	(8,086)
Other investment income		338	408
Net cash used in capital and related financing activities		(88,096)	(97,631)
Net increase (decrease) in cash and cash equivalents		(2,360)	45,001
Cash and cash equivalents at the beginning of the year		51,698	6,697
Cash and cash equivalents at the end of the year	$	49,338	51,698
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	55,381	39,603
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization expense		39,812	36,732
Change in assets and liabilities:			
Receivables, net		(11,215)	3,387
Inventories		(39,769)	1,668
Accounts payable		6,892	3,133
Other liabilities and deferred credits		50,879	31,366
Other assets and deferred debits		(11,736)	36,118
Net cash provided by operating activities	$	90,244	152,007

See accompanying notes to financial statements.

PHILADELPHIA GAS WORKS

(A Component Unit of the City of Philadelphia)

Statements of Changes in Fund Equity

Years ended August 31, 2008 and 2007

(Thousands of dollars)

		2008	2007
Fund equity balance, beginning of the year	$	223,301	239,405
Excess (deficiency) of revenues over (under) expenses		3,107	(16,104)
Distribution to the City of Philadelphia		(18,000)	(18,000)
Grant back of distribution from the City of Philadelphia		18,000	18,000
Fund equity balance, end of the year	$	226,408	223,301

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

The accounting methods employed by the Philadelphia Gas Works (the Company) are in conformity with U.S. generally accepted accounting principles (U.S. GAAP) and are in accordance with City of Philadelphia (the City) reporting requirements.

As described in note 2, the Company, is a component unit of the City, and consequently follows accounting principles promulgated by the Governmental Accounting Standards Board (GASB) as they apply to proprietary fund-type activities. In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Company does not apply accounting standards promulgated by the Financial Accounting Standards Board (FASB) issued after November 30, 1989. FASB Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*, is applicable to the Company. Under FASB Statement No. 71, certain assets or liabilities may be created by actions of regulatory bodies.

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

(a) Regulation

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

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

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

(b) Operating Budget

On May 29, 2008, the Company filed its fiscal year (FY) 2009 Operating Budget. The PGC conducted informal discovery concerning this budget in July and August 2008 and public hearings in September 2008. The PGC authorized interim spending authority of $88,140,000 for the period September 1, 2008 through December 31, 2008, pursuant to a Motion, dated September 23, 2008. A final Order approving interim spending was approved by the Commission at its September 23, 2008 meeting. Briefs were filed on October 15, 2008, a Recommended Decision was received on October 27, 2008 and a final budget approval was granted by the Commission on December 2, 2008.

On July 13, 2007, the Company filed its FY 2008 Operating Budget. The PGC conducted hearings concerning this budget in August 2007 and approved the Company's proposed operating revenues and expenses with net adjustments of $4,197,000.

(c) Capital Budget

On April 21, 2008, the Philadelphia Facilities Management Corporation (PFMC) Board approved the Company's Request to file an amendment to the FY 2008 budget in the amount of $2,300,000 for funding to support the Risk-Based Collections and Field operations projects. These projects are critical efforts in support of the Company's Business Transformation effort. The Commission, after review and evaluation, approved a recommendation to City Council supporting the Company's amendment on July 2, 2008. City Council approved the Commission's recommendation on October 23, 2008 and the Mayor signed the ordinance on November 5, 2008.

On January 2, 2008 the Company filed a proposed FY 2009 Capital Budget in the amount of $73,436,000. After review and evaluation, the PGC on April 30, 2008 approved a recommendation to City Council for a budget of $71,956,000. The Gas Commission's recommendation was approved by City Council on June 19, 2008 and the ordinance signed by the Mayor on July 2, 2008.

On September 27, 2007 the Company filed with the PGC a proposal to amend the approved FY 2008 Capital Budget for two new lines items totaling $1,433,000. These line items were Supplemental Funding – Consolidate Fire Protection System – Richmond Plant for $1,171,000 and Disaster Recovery for Richmond and Passyunk Plants for $262,000. On October 23, 2007 the Company filed a proposal to further amend the budget by adding another new line item. Partial Reauthorization – Customer Service Data Warehouse for $169,000. Concurrently, the Company proposed a reduction of $1,523,000 in FY 2008 budget authorization to compensate for the additional funding requested. The Commission, after review and evaluation, recommended that City Council approve an amended budget for FY 2008 in the amount of $70,727,000. Subsequently, City Council approved the PGC's recommendation on March 6, 2008, with the Mayor signing the budget ordinance on March 12, 2008.

On January 2, 2007, the Company filed with the PGC its FY 2008 Capital Budget requesting spending authority in the amount of $118,243,000. This budget request was amended by the Company to reflect the deferral of two projects, Construction of Phase II Liquefied Natural Gas (LNG) Replacement and Implementation of Billing Collection Customer Service (BCCS) for a reduction of $47,300,000. The PGC conducted hearings concerning this budget in February 2007. Briefs were filed on March 13, 2007. The Hearing Examiner issued a Recommended Decision on March 27, 2007 for consideration by the Commissioners further reducing the budget by $295,000. The PGC's Resolution and Order recommending approval of the FY 2008 Capital Budget to City Council was passed on April 25, 2007. This recommendation of $70,648,000 was approved by City Council on June 15, 2007. The Mayor of the City signed the Ordinance approving the FY 2008 Capital Budget on September 20, 2007.

(d) Base Rates

In November 2008, the Company filed for an extraordinary or emergency base rate increase of approximately $60,000,000 or 5.2% and simultaneously requested an $85,000,000 or 7.4% decrease in the GCR for a net 2.2% overall rate decrease of approximately $25,000,000. The base rate increase will serve several purposes. First, the increase will cover the additional financing costs that the Company anticipates it will incur in the next few months. Second, the increase will improve the Company's financial position so as to enhance its ability to access the financial markets and maintain its bond rating. Third, the increase will provide additional liquidity and financial flexibility in this tight credit market. On December 18, 2008, the PUC issued its decision approving a base rate increase of $60,000,000 or 5.2% and a decrease in the GCR of $107,000,000 for a net decrease in rates of $47,000,000, or 4.2%. These rates are effective as of January 1, 2009.

On December 22, 2006, the Company filed for a $100,000,000 base rate increase with the PUC. The funds provided by this increase in base rates were to be used to pay increased operating and maintenance costs, establish an adequate level of working capital, repay the $45,000,000 City loan, reduce the outstanding level of short-term commercial paper, provide a source of internal funds for capital expenditures, meet bond covenant requirements in each fiscal year, and provide funds for long-term debt reduction. On September 28, 2007, the PUC approved a rate increase of $25,000,000 which was effective in November 2007. The Company appealed this decision to Commonwealth Court on or about October 18, 2007 and this matter is pending in the courts.

The previous increase in base rates of $36,000,000 was approved by the PUC on April 12, 2002.

(e) Weather Normalization Adjustment Clause

The Weather Normalization Adjustment Clause (WNA) was approved by PUC Order dated August 8, 2002. The purpose of the WNA is to neutralize the impact of weather on the Company's revenues. This allows the Company to achieve the recovery of appropriate costs as authorized by the PUC. The WNA results in neither a rate increase nor a rate decrease, but acts as a billing adjustment. The main benefits of the WNA are the stabilization of cash flow and the reduction of the need for short-term borrowing from year to year. The WNA is applied to customer invoices rendered during the period of October 1 through May 31 of each year for each billing cycle. The WNA will continue in place unless the PUC issues an order directing that it be discontinued. The Company cannot predict when the PUC will complete its review of the WNA, and the review was not completed as of August 31, 2008. The adjustments for the years ended August 31, 2008 and 2007 were an increase in billings of $12,238,000 and $6,498,000, respectively.

(f) Gas Cost Rate

The Company's single greatest operating expense is the cost of natural gas. The rate charged to the Company's customers to recover these costs is called the gas cost rate (GCR) factor. The GCR reflects the increases or decreases in natural gas costs and the cost of other raw materials. 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 are compared to the actual cost of fuel and other specific costs. Customers are then credited or charged for over-recovery or under-recovery of costs. The GCR may be adjusted 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 and operating expenses, but do not affect operating income or net income. The Company at August 31, 2008 deferred approximately $15,494,000 for GCR under-recovery.

GCR effective dates and rates

Effective date		GCR rate per Mcf*	Change
September 1, 2008	$	12.6527	(0.3709)
June 1, 2008		13.0236	2.3010
March 1, 2008		10.7226	0.1447
December 1, 2007		10.5779	0.4671
September 1, 2007		10.1108	(0.6143)
June 1, 2007		10.7251	0.2913
March 1, 2007		10.4338	(0.4781)
December 1, 2006		10.9119	(0.3439)
September 1, 2006		11.2558	(1.3074)
Prior		12.5632	—

* Mcf - Thousand cubic feet

(g) Utility Plant

Utility plant is stated at original cost. The cost of additions, replacements, and betterments of units of property are capitalized and included in the utility plant accounts. The cost of property sold or retired is removed from the utility plant accounts and charged to accumulated depreciation. Normal repairs, maintenance, the cost of minor property items, and expenses associated with retirements are charged to operating expenses as incurred.

In a previous rate order, the PGC disallowed the accrual of the net negative salvage component in depreciation. Cost of removal in the amounts of $2,847,000 and $2,542,000 was charged to expense as incurred in FY 2008 and FY 2007, respectively, and is included in depreciation expense in the statements of revenues and expenses. Depreciation is calculated on an asset-by-asset basis on the estimated useful lives of plant and equipment on a straight-line method. The composite rate for FY 2008 and FY 2007 was 2.4% and 2.3%, respectively. The composite rates are supported by a depreciation study of utility plant as of August 31, 2004. The effective composite depreciation rates, as a percentage of cost, for FY 2008 were as follows:

Production plant	0.14% – 4.39%
Transmission, distribution, and storage	0.18% – 4.07%
General plant	1.62% – 9.97%

The next depreciation study is scheduled to be completed in FY 2010.

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 4.96% in FY 2008 and FY 2007, respectively.

The following is a summary of utility plant activity for the fiscal years ended August 31, 2008 and 2007, respectively (thousands of dollars):

		August 31, 2008			
		Beginning balance	**Additions and transfers**	**Retirements and transfers**	**Ending balance**
Land	$	5,267	328	—	5,595
Distribution and collection systems		1,221,067	52,803	(2,474)	1,271,396
Buildings and equipment		406,966	9,792	(8,156)	408,602
Total utility plant, at historical cost		1,633,300	62,923	(10,630)	1,685,593
Under construction		48,013	61,879	(62,923)	46,969
Less accumulated depreciation for:					
Distribution and collection systems		(556,620)	(28,609)*	2,768	(582,461)
Buildings and equipment		(84,320)	(11,412)*	7,726	(88,006)
Utility plant, net	$	1,040,373	84,781	(63,059)	1,062,095

* Cost of removal in the amounts of $2,847 and $2,542 was charged to expense as incurred in FY 2008 and FY 2007, respectively, and is not included in accumulated depreciation.

	August 31, 2007			
	Beginning balance	Additions and transfers	Retirements and transfers	Ending balance
Land	$ 5,267	—	—	5,267
Distribution and collection systems	1,161,705	61,537	(2,175)	1,221,067
Buildings and equipment	388,697	25,500	(7,231)	406,966
Total utility plant, at historical cost	1,555,669	87,037	(9,406)	1,633,300
Under construction	65,122	70,055	(87,164)	48,013
Less accumulated depreciation for:				
Distribution and collection systems	(532,763)	(26,261)*	2,404	(556,620)
Buildings and equipment	(80,380)	(10,905)*	6,965	(84,320)
Utility plant, net	$ 1,007,648	119,926	(87,201)	1,040,373

* Cost of removal in the amounts of $2,847 and $2,542 was charged to expense as incurred in FY 2008 and FY 2007, respectively, and is not included in accumulated depreciation.

(h) Revenue Recognition

The Company is primarily a natural gas distribution company. Operating revenues include revenues from the sale of natural gas to residential, commercial, and industrial heating and nonheating customers. The Company also provides natural gas transportation service. Appliance and other revenues primarily consist of revenue from the Company's parts and labor repair program. Revenue from this program is recognized on a monthly basis for the life of the individual parts and labor plans. Additional revenue is generated from collection fees and reconnection charges. Other operating revenues primarily consist of finance charges assessed on delinquent accounts.

Operating expenses include the cost of natural gas and the related costs incurred through the processing, distribution, and delivery of natural gas to residential, commercial, and industrial heating and nonheating customers.

Revenue includes amounts related to gas that has been used by customers but has not yet been billed. Revenues are recognized as gas is distributed. Estimated revenues from gas distributed and unbilled, less estimated uncollectible amounts, are accrued and included in operating revenues.

(i) Customers (Unaudited)

The Company's service territory encompasses the City. Of the Company's approximately 505,000 customers at August 31, 2008, nearly 95.0% were residential. Of the Company's approximately 506,000 customers at August 31, 2007, nearly 94.3% were residential.

The Company offers a discounted payment plan for current receivables with a possible forgiveness of arrearages in three years. The total number of customers with discounted payment plans as of August 31, 2008 and 2007 was approximately 77,000 and 78,000, respectively.

The Senior Citizen Discount also provides customers with a discounted payment plan. The total number of customers receiving the discount as of August 31, 2008 and 2007 was approximately 40,000 and 44,000, respectively.

(j) *Provision for Uncollectible Accounts*

The Company estimates its accumulated provision for uncollectible accounts based on a financial analysis and a collectibility study performed at the fiscal year-end. The methodology used in performing the collectibility study has been reviewed with the PGC. For FY 2008 and FY 2007, 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 $19,014,000 and $17,166,000 for FY 2008 and FY 2007, respectively, have been reclassified to accounts payable at year end.

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

Gas inventories, materials, and supplies, consisting primarily of fuel stock, gases stored to meet peak demand requirements, and spare parts, are stated at average cost at August 31, 2008 and 2007, as follows (thousands of dollars):

		2008	2007
Gas inventory	$	179,751	138,388
Material and supplies		7,788	9,382
Total	$	187,539	147,770

(l) *Bond Issuance Costs, Debt Discount, and Premium*

Discounts or premiums and bond issuance costs arising from the sale of revenue bonds are amortized using the interest method over the term of the related bond issue.

(m) *Losses on Reacquired Debt*

Losses on reacquired debt are deferred 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

The Company sponsors a public employee retirement system (PERS), a single-employer defined-benefit plan, to provide pension benefits for all of its employees. The pension plan (the Pension Plan) is noncontributory, covering all employees and providing for retirement payments for vested employees at age 65 or earlier under various options, which includes a disability pension provision, a preretirement spouse or domestic partner's death benefit, a reduced pension for early retirement, various reduced pension payments for the election of a survivor option, and a provision for retirement after 30 years of service without penalty for reduced age. In accordance with Resolutions of the PGC, Ordinances of City Council, and as prescribed by the City's Director of Finance, the Pension Plan is being funded with contributions by the Company to the Sinking Fund Commission of the City. Management believes that the Pension Plan is in compliance with all applicable laws.

The Company sponsors a single employer defined benefit healthcare plan and provides postemployment healthcare and life insurance benefits to approximately 1,920 and 1,935 participating retirees and their beneficiaries and dependents for FY 2008 and FY 2007, respectively, in accordance with their retiree medical program. The Company also provides such benefits to approximately 1,699 and 1,720 active employees and their dependents for FY 2008 and FY 2007, respectively, by charging the annual insurance premiums to expense.

GASB Statement No. 45 (GASB 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, becomes effective for the Company's fiscal year beginning September 1, 2007. This Statement requires the Company to account for and report the value of its future other postemployment benefit (OPEB) obligations currently rather than on a pay-as-you-go basis. The Company adopted the provisions of GASB 45 as of September 1, 2006. The Company had a zero net OPEB obligation at transition. As discussed in note 11, the difference between the FY 2008 annual OPEB expense of $44,114,000 and the expenses paid by the Company of $18,280,000 resulted in an increase in the liability of $25,834,000 which has been recorded in other liabilities and deferred credits and expensed in FY 2008.

Additionally, the Company adopted the provisions of GASB Statement No. 50, *Pension Disclosures*, which more closely aligns the financial reporting requirements for pensions with those of OPEB, as of September 1, 2006.

(o) Cash Equivalents

For the purpose of reporting cash equivalents, all nonrestricted highly liquid investments with original maturities of three months or less are considered cash equivalents.

(p) Reserve for Injuries and Damages

The Company is principally insured through insurance carriers; however, the Company is required to cover settlement of claims, which are excluded under the provisions of such insurance policies. An estimated liability has been established, in accordance with PGC regulations, for settlements to be paid by the Company in the next fiscal year.

Estimated losses from claims for occurrences not covered by insurance, which will not be paid in the next fiscal year, have been accrued and deferred. Such liabilities have been established based upon Company history and consultation with counsel. Such expenses are expected to be recovered through future rates. Charges against the reserve are made as claims are settled.

(q) Segment Information

All of the Company's assets and operations are employed in only one segment, local transportation and distribution of natural gas in the City.

(r) Estimates

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

(s) Pollution Remediation

GASB Statement No. 49 (GASB 49), *Accounting and Financial Reporting for Pollution Remediation Obligations*, is effective for the Company's fiscal year beginning September 1, 2008, however, the Company has chosen to implement the provisions of GASB 49 a year earlier than required by GASB because the Company is a component unit of the City for financial reporting requirements and the FY 2008 financial statements will be consolidated into the City's financial statements for the fiscal year ended June 30, 2009. This statement establishes a framework for the recognition and measurement of pollution remediation liabilities. A pollution remediation obligation addresses the current or potential detrimental effects of existing pollution by participation in pollution remediation activities.

Prior to the implementation of GASB 49, the Company recognized liabilities related to its voluntary participation in remediation activities under Pennsylvania Act 2, *Land Recycling and Environmental Remediation Standards* Act of 1995 (Act 2), which established the "land recycling program, and related to its mandatory participation in activities under Pennsylvania Act 32, *Storage Tank and Spill Prevention Act of 1989 (Act 32)*, which established a comprehensive program to prevent leaks and spills from underground and above ground tanks in accordance with existing U.S. GAAP related to the accrual of liabilities.

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

In accordance with GASB 49, the Company revised its methodology for estimating its pollution remediation obligations to the effective cash flow method, in which measurement is based on the outlays expected to be incurred as a sum of probability-weighted amounts in a range of possible

(Continued)

estimated amounts. The Company's liability is based on a combination of internal and external cost estimates for the specific remediation activities agreed to as part of Act 2 and Act 32 remediation efforts, adjusted as additional information becomes available.

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, price changes, changes in technology, or changes in applicable regulations.

The implementation of GASB 49 resulted in an additional $8,300,000 liability which is reflected in other liabilities and deferred credits at August 31, 2008. Although GASB 49 requires pollution remediation liabilities to be measured at the beginning of the first period presented in the financial statements, because the increase in the liability related to the implementation of GASB 49 is not material, the Company has not restated prior periods and instead recognized the effect of GASB 49 implementation in the current year.

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.

(t) Reclassifications

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

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

The Company is a component unit of the City. As of January 1, 1973, under the terms of a two-year agreement automatically extended for successive two-year periods unless canceled upon 90 days' notice by the City, the Company is being managed by the 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 2008, the applicable maximum amount was calculated to be $1,011,000. In FY 2007, the applicable maximum amount was calculated to be $976,000. The agreement requires the Company to make annual payments of $18,000,000 to the City. In FY 2008 and FY 2007, the Company made the annual payment of $18,000,000 to the City. The City then granted the $18,000,000 back to the Company in both years.

The Company engages in various other transactions with the City. The Company provides gas service to the City. Operating revenues include $13,914,000 and $17,245,000 in FY 2008 and FY 2007, respectively, relating to sales to the City. Water and sewer services and licenses are purchased from the City. Such purchases totaled $616,000 and $615,000 in FY 2008 and FY 2007, respectively. Net amounts receivable from the City were $375,000 and $240,000 at August 31, 2008 and 2007, respectively.

Certain activities of the PGC are paid for by the Company. Such payments totaled $788,000 and $684,000 in FY 2008 and FY 2007, respectively.

(3) Cash, Cash Equivalents, and Investments

(a) Cash and Cash Equivalents

Cash and cash equivalents consist primarily of bank deposits, money market accounts, and repurchase agreements. Bank balances of such deposits and accounts at August 31, 2008 and 2007 were $52,504,000 and $54,892,000, respectively. Book balances of such deposits and accounts at August 31, 2008 and 2007 were $49,338,000 and $51,698,000, respectively. Federal depository insurance on these balances at August 31, 2008 and 2007 was $158,000 and $222,000, respectively. The remaining balances are not insured.

For the Company's cash equivalents, the Company's cash balances fluctuate significantly during the year. Excess cash balances are usually invested in money market accounts and repurchase agreements.

The highest balance of money market accounts during the fiscal years ended August 31, 2008 and 2007 were $135,200,000 and $157,200,000, respectively. Money market accounts with a carrying amount (at fair value) of $51,200,000 and $53,702,000 at August 31, 2008 and 2007, respectively, are included in the balances presented above.

The highest balance of repurchase agreements during the fiscal year ended August 31, 2008 was $62,600,000. There were no repurchase agreements outstanding at August 31, 2008 and 2007.

(b) Restricted Investment Funds

The investments in the Company's Sinking Fund, Capital Improvement Fund, Workers' Compensation Escrow Fund, and City Loan Escrow Account consist primarily of a Guaranteed Investment Contract (GIC), U.S. Treasury and government agency obligations, corporate obligations, and money market accounts. These investments are maintained by the City or in the Company's name by its agent. The balance of the Capital Improvement Fund at August 31, 2008 and 2007 was $111,207,000 and $172,134,000, respectively. The unexpended Capital Improvement Fund proceeds are restricted to the purchase of utility plant. In FY 2008 and FY 2007, the Company utilized the Capital Improvement Fund to provide liquidity for the additions to utility plant.

Investments are recorded at fair value except for certain money market funds recorded at amortized cost. The adjustment to market value for the Capital Improvement Fund resulted in a loss of $71,500 at August 31, 2008. The adjustment to market value for the Capital Improvement Fund resulted in a gain of $8,000 at August 31, 2007. The adjustment to market value for the Sinking Fund resulted in gains of $242,000 and $214,000 at August 31, 2008 and 2007, respectively.

Pursuant to the Pennsylvania Department of Labor and Industry Bureau of Workers' Compensation Self-Insurance policy, the Company has to establish and maintain a restricted trust account. As of August 31, 2008 and 2007, the trust account balances were $2,383,000 and $1,924,000, respectively.

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

Investment type	August 31, 2008 Fair value	Weighted average maturity (years)	Credit rating	Rating agency
U.S. government agencies and instrumentalities:				
Federal Home Loan Mortgage Corporation medium term notes	$ 32,244	0.4608	Aaa/AAA	Moody's/S&P
Federal Home Loan Mortgage gold partner certificate	491	1.6694	N/A	
Federal National Mortgage Association global benchmark notes	7,129	0.2794	Aaa/AAA	Moody's/S&P
Federal National Mortgage Association medium term notes	1,248	1.8506	Aaa/AAA	Moody's/S&P
Federal Home Loan Banks	9,405	0.8250	Aaa/AAA	Moody's/S&P
Total U.S. government agencies and instrumentalities	50,517			
Corporate obligations:				
Goldman Sachs Group senior unsubordinate	968	0.7083	Aa-/AA3	Moody's/S&P
Prioca Global	997	0.2917	Aa/AA3	Moody's/S&P
Societe Generale National Association commercial paper	4,950	1.6694	N/A/A-1+	S&P
HSBC Finance Corporation commercial paper	985	0.2403	P1/A-1+	Moody's/S&P
American Express commercial paper	985	0.2403	P1/A-1+	Moody's/S&P
Banco Santander PR San Juan certificate of deposit	98	0.0280	FDIC Insured	
Bank of Florida certificate of deposit	99	0.1043	FDIC Insured	

	August 31, 2008			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Bridgewater Savings Bank certificate of deposit	$ 98	0.0208	FDIC Insured	
Countrywide Bank certificate of deposit	99	0.0180	FDIC Insured	
Eurobank Hato Rey certificate of deposit	99	0.0205	FDIC Insured	
First Suburban National Bank certificate of deposit	98	0.1876	FDIC Insured	
Ironstone Bank certificate of deposit	98	0.1298	FDIC Insured	
Mutual Bank certificate of deposit	99	0.0745	FDIC Insured	
Ravenswood Bank certificate of deposit	97	0.1835	FDIC Insured	
Total corporate obligations	9,770			
Total fair value of investments	60,287			
Cash and cash equivalents:				
Citigroup Funding Inc. commercial paper	4,966	0.1474	N/A/A-1+	S&P
UBS Finance Delaware LLC commercial paper	2,988	0.0595	N/A/A-1+	S&P
Total cash and cash equivalents	7,954			
Money market:				
Morgan Stanley Prime Portfolio Institutional Class Funds	21,772	N/A	N/A	
First American Government Obligations Fund Class Z	13,884	N/A	N/A	
First American Prime Obligations Class Z	6,847	N/A	N/A	
Total money market	42,503			
Accrued interest	463			
Total fair value of investments, including cash deposits	$ 111,207			
Portfolio weighted modified duration		0.5898		

(Continued)

	August 31, 2007			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
U.S. government agencies and instrumentalities:				
Federal Home Loan Banks discount note	$ 2,369	0.1917	Aaa/AAA	Moody's/S&P
Federal National Mortgage Association note	3,293	0.4194	Aaa/AAA	Moody's/S&P
Total U.S. government agencies and instrumentalities	5,662			
Corporate obligations:				
American Express commercial paper	492	0.2861	P1/A1	Moody's/S&P
General Electric commercial paper	1,004	0.2889	P1/A1	Moody's/S&P
HSBC Finance commercial paper	1,003	0.2972	P1/A1	Moody's/S&P
JP Morgan Chase & Co Global Sr Holding Co note	992	0.4194	Aa2/AA-	Moody's/S&P
Goldman Sachs Group global note	994	0.3750	Aa3/AA-	Moody's/S&P
Total corporate obligations	4,485			
Total fair value of investments	10,147			
Money market:				
First American Prime Obligations Fund Class Z	161,965	N/A	N/A	
Total money market	161,965			
Accrued interest	22			
Total fair value of investments, including cash deposits	$ 172,134			
Portfolio weighted modified duration		0.3304		

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

		August 31, 2008			
Investment type		**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Guaranteed investment contracts	$	48,129	12.5000	*	*
U.S. government obligations:					
U.S. Treasury notes		16,806	2.5158	Aaa/AAA	Moody's/S&P
Total U.S. government obligations		16,806			
U.S. government agencies and instrumentalities:					
Federal Home Loan Mortgage Corporation medium term notes		10,176	2.0177	Aaa/AAA	Moody's/S&P
Federal National Mortgage Association medium term notes		5,152	2.1446	Aaa/AAA	Moody's/S&P
Federal Home Loan Banks		16,514	1.9511	Aaa/AAA	Moody's/S&P
Total U.S. government agencies and instrumentalities		31,842			
Corporate obligations:					
Wells Fargo note		2,688	0.5861	Aa1/AA+	Moody's/S&P
Associates Corp National Association		2,610	0.1694	Aa3/AA-	Moody's/S&P
Procter & Gamble Company		1,293	0.2917	Aa3/AA-	Moody's/S&P
Total corporate obligations		6,591			
Total fair value of investments		103,368			
Cash and cash equivalents:					
U.S. Treasury bills		1,860	0.0111	Aaa/AAA	Moody's/S&P
Total cash and cash equivalents		1,860			
Money market:				N/A	N/A
Fidelity Institutional Government Portfolio Class II		970			
Total money market		970			
Total fair value of investments, including cash deposits	$	106,198			
Portfolio weighted modified duration			1.9002		

* The credit rating of this investment is unrated.

(Continued)

Investment type		August 31, 2007		
	Fair value	Weighted average maturity (years)	Credit rating	Rating agency
Guaranteed investment contracts	$ 49,504	13.5000	*	*
U.S. government obligations:				
U.S. Treasury notes	7,294	1.6153	Aaa/AAA	Moody's/S&P
Total U.S. government obligations	7,294			
U.S. government agencies and instrumentalities:				
Federal National Mortgage Corporation debentures	6,973	2.0417	Aaa/AAA	Moody's/S&P
Federal Farm Credit Bank bonds	4,680	1.3717	Aaa/AAA	Moody's/S&P
Federal Home Loan Mortgage Corporation bonds	10,396	1.9650	Aaa/AAA	Moody's/S&P
Federal Home Loan Mortgage Corporation debentures	8,810	1.8329	Aaa/AAA	Moody's/S&P
Federal National Mortgage Association notes	5,861	2.3328	Aaa/AAA	Moody's/S&P
Federal Home Loan Mortgage Corporation notes	6,358	1.3568	Aaa/AAA	Moody's/S&P
Total U.S. government agencies and instrumentalities	43,078			
Corporate obligations:				
Procter & Gamble note	1,265	1.2917	Aa3/AA-	Moody's/S&P
U.S. Bank National Association	1,105	0.8750	Aa2/AA	Moody's/S&P
Total corporate obligations	2,370			
Total fair value of investments	102,246			
Money market:				
Fidelity Institutional Government Portfolio Class II	192	N/A	N/A	
Total money market	192			
Total fair value of investments, including cash deposits	$ 102,438			
Portfolio weighted modified duration		1.7806		

* The credit rating of this investment is unrated.

(Continued)

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

Investment type		August 31, 2008			
		Fair value	Weighted average maturity (years)	Credit rating	Rating agency
Money market:					
First American Treasury Obligations Fund	$	2,383	N/A	N/A	N/A
Total money market		2,383			
Total fair value of investments, including cash deposits	$	2,383			

Investment type		August 31, 2007			
		Fair value	Weighted average maturity (years)	Credit rating	Rating agency
Money market:					
First American Treasury Obligations Fund	$	1,924	N/A	N/A	N/A
Total money market		1,924			
Total fair value of investments, including cash deposits	$	1,924			

(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 interest rate risk. Investments shall be diversified as to maturities, and as to kind of investment to eliminate 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.

(Continued)

(d) ***Credit Risk***

The City has adopted an investment policy relating to the investments of the Company. Per the investment policy, the Company's allowable investments are: (1) bonds or notes of the U.S. government; (2) U.S. Treasury obligations, including STRIPs; receipts indicating an undivided interest in such U.S. Treasury obligations; and stripped coupons held under book-entry with the New York Federal Reserve Bank; (3) U.S. agency obligations rated Aaa/AAA by Moody's Investor Services or Standard & Poor's; (4) collateralized certificates of deposit; (5) bankers acceptances, Eurodollars deposits, and Euro certificates of deposit that are collateralized; (6) commercial paper rated M1G1 or A1+ by Moody's Investor Services and Standard & Poor's, respectively; (7) general obligation bonds of corporations rated AA or better by Moody's Investor Services or Standard & Poor's, with a maturity of two years or less (except the Sinking Fund); (8) collateralized mortgage obligations and pass-through securities rated AA or better by Moody's Investor Services or Standard & Poor's or collateralized with securities that meet the Company's own investment criteria, with a maturity of two years or less (except the Sinking Fund); (9) money market mutual funds, as defined by the Securities and Exchange Commission; (10) repurchase agreements collateralized either through actual delivery of eligible collateral or through segregation of collateral by a depository that is holding the counterparty's securities, provided such collateral meets the Company's own investment criteria; and (11) obligations of the Commonwealth of Pennsylvania (the Commonwealth) or any municipality or other political subdivision of the Commonwealth, registered or otherwise as to principal and interest, with a maturity of two years or less (except the Sinking Fund).

Authorized investments for Sinking Fund Portfolios are dictated by the First Class City Revenue Bond Act. This also includes any investment vehicle permitted for any Commonwealth of Pennsylvania state agency.

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

The Company has selected custodian banks that are members of the Federal Reserve System to hold its investments. Delivery of the applicable investment documents (e.g., contracts, securities, and safekeeping receipts) 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.

(f) ***Concentration of Credit Risk***

More than 5.0% of the Company's investments are in the First American Government Obligations Fund Class Z, U.S. Treasury notes, Morgan Stanley Prime Portfolio Institutional Class Fund, Federal Home Loan Banks, Federal Home Loan Mortgage Corporation medium term notes and the GIC with Financial Security Assurance Inc. (FSA) Capital Markets Services, LLC. These investments represent 6.32% and 7.65%, 9.91%, 11.79%, 19.30% and 21.90%, respectively, of the Company's total investments.

(4) Deferred Costs

In compliance with orders issued by the PGC, the cost of projects that produce benefits over an extended period is deferred. Such costs are being amortized to expense over a period matching their useful lives, which range from two to ten years. There is no return on the asset being charged to the customers. During FY 2008, there were costs of $157,000 incurred for rate case expenses and $437,000 incurred for the PUC's management audit that will be amortized over a four-year period and a seven-year period, respectively. The unamortized costs included in other assets and deferred debits were $607,000 and $324,000 as of August 31, 2008 and 2007, respectively. The unamortized costs included in other current assets and deferred debits were $210,000 and $397,000 as of August 31, 2008 and 2007, respectively.

In accordance with U.S. GAAP for regulated entities, the Company has recognized the long-term portion of its environmental remediation liability as a regulatory asset because based on available evidence it is probable that the previously incurred costs will be recovered through rates. As a result of settlements during FY 2008 by the Company's insurance carriers associated with environmental remediation costs, the Company received $1,100,000. Environmental remediation costs of approximately $652,000 in FY 2008 were offset by these insurance settlements, and the remainder was deferred. The Company estimates additional expenditures to be approximately $21,600,000 as discussed in note 12.

(5) Deferred Compensation Plan

The Company offers its employees a deferred compensation plan (the Plan) created in accordance with Internal Revenue Code Section 457. The Plan, available to all Company employees with six months of service, permits them to defer a portion of their salary until future years. The Company provides an annual 10.0% matching contribution up to $500 that immediately vests to the employee. The Company contributed $361,000 and $365,000 for the years ended August 31, 2008 and 2007, respectively.

(6) Notes Payable

Pursuant to the provisions of certain ordinances and resolutions of the City, the Company may sell short-term notes in a principal amount that, together with interest, may not exceed $200,000,000 outstanding at any one time. These notes are intended to provide additional working capital. They are supported by an irrevocable letter of credit and a subordinated security interest in the Company's revenues.

A new Series E of the tax-exempt commercial paper program was instituted on January 18, 2006, concurrently with the expiration of Series D. Under the new credit agreement, the commitment amount was increased from $100,000,000 to $150,000,000. The credit agreement was further amended and restated as of May 22, 2007 to reflect a new term and rate structure. The expiration of the credit agreement was extended to May 29, 2010.

The notes outstanding at August 31, 2008 had a weighted average interest rate of 1.63% and remaining weighted average time to maturity of 61 days. The principal amount outstanding at August 31, 2008 and 2007 was $90,000,000 and $51,600,000, respectively.

Commercial paper activity for the years ended August 31, 2008 and 2007 was as follows (thousands of dollars):

	Year ended August 31, 2008			
	Beginning balance	Additions	Deletions	Ending balance
Commercial paper	$ 51,600	87,900	49,500	90,000

	Year ended August 31, 2007			
	Beginning balance	Additions	Deletions	Ending balance
Commercial paper	$ 55,000	94,900	98,300	51,600

See note 8(e) for detail of the Note Payable – City Loan.

(7) GCR Tariff Reconciliation

During the fiscal years ended August 31, 2008, 2007, and 2006, the Company's actual gas costs were below its billed gas costs by approximately $30,503,000, $24,904,000, and $8,466,000, respectively.

Natural Gas Pipeline Supplier Refund

The Company received refunds including interest in FY 2008 in the amount of $10,660,000 related to Federal Energy Regulatory Commission (FERC)/Pipeline Rate Cases. This amount was utilized as a reduction in the cost of gas for reconciliation purposes in the calculation of the GCR for FY 2008.

The Company received refunds including interest in FY 2007 in the amount of $648,000 related to FERC/Pipeline Rate Cases. This amount was utilized as a reduction in the cost of gas for reconciliation purposes in the calculation of the GCR for FY 2007.

(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, 2008 and 2007 (thousands of dollars):

	August 31, 2008			August 31, 2007		
	Current portion	Long-term	Total	Current portion	Long-term	Total
Revenue bonds	$ 73,941	1,103,828	1,177,769	41,830	1,176,368	1,218,198
Unamortized discount	(482)	(4,469)	(4,951)	(511)	(4,951)	(5,462)
Unamortized premium	2,571	27,804	30,375	2,676	30,375	33,051
Total revenue bonds	76,030	1,127,163	1,203,193	43,995	1,201,792	1,245,787
Note Payable – City Loan	—	—	—	43,000	—	43,000
Total	$ 76,030	1,127,163	1,203,193	86,995	1,201,792	1,288,787

The following is a summary of activity related to revenue bonds and other liabilities and deferred credits and the respective balances for the fiscal years ended August 31, 2008 and 2007 (thousands of dollars):

	Year ended August 31, 2008			
	Beginning balance	Additions	Reductions	Ending balance
Revenue bonds	$ 1,218,198	—	(40,429)	1,177,769
Other liabilities and deferred credits:				
Forward rate agreement	$ 8,431	—	(624)	7,807
Claims and judgments	3,111	2,966	—	6,077
Environmental clean-up	10,013	7,677	—	17,690
Other postemployment benefits	26,421	25,834	—	52,255
Total other liabilities and deferred credits	$ 47,976	36,477	(624)	83,829

	Year ended August 31, 2007			
	Beginning balance	Additions	Reductions	Ending balance
Revenue bonds	$ 1,055,038	246,655	(83,495)	1,218,198
Other liabilities and deferred credits:				
Forward rate agreement	$ 9,056	—	(625)	8,431
Claims and judgments	3,899	—	(788)	3,111
Environmental clean-up	9,074	939	—	10,013
Other postemployment benefits	—	26,421	—	26,421
Total other liabilities and deferred credits	$ 22,029	27,360	(1,413)	47,976

Liability amounts due within one year are reflected in the other current liabilities and deferred credits line of the balance sheet.

Principal maturities and scheduled interest payments for revenue bonds are as follows (thousands of dollars):

	Revenue bonds			
	Principal	Interest	Net swap amount	Total
Fiscal year ending August 31:				
2009*	$ 44,625	53,233	(5,717)	92,141
2010	46,365	50,965	(5,682)	91,648
2011	46,977	48,677	(5,648)	90,006
2012**	41,787	46,915	(5,611)	83,091
2013	45,055	45,269	(5,573)	84,751
2014 – 2018	229,865	192,562	(25,374)	397,053
2019 – 2023	242,520	137,093	(19,042)	360,571
2024 – 2028	244,915	81,657	(9,787)	316,785
2029 – 2033	140,565	35,093	(976)	174,682
2034 – 2038	95,095	8,175	—	103,270
Total	$ 1,177,769	699,639	(83,410)	1,793,998

* This does not include $29,317,000 of Sixth Series Bonds that is included in current liabilities due to the scheduled expiration of the Standby Bond Purchase Agreement as described in note 15. This amount is included in the years in which principal matures according to the original maturity schedule.

Future debt service is calculated using rates in effect at August 31, 2008 for variable rate bonds. The net swap payment amounts were calculated by subtracting the future variable rate interest payments subject to swap agreements from the synthetic fixed-rate amount intended to be achieved by the swap amount.

** Tax Exempt Capital Accumulator (TECA) accretions for the 11 "C" Series in the amount of $4,643,000 are not included in the principal amount in FY 2012.

(a) ***Bond Issuances***

2007 Ordinances

On March 21, 2007, the Mayor signed two bills into law authorizing the City to issue revenue bonds. The first bill signed by the Mayor constituted the Nineteenth Supplemental Ordinance to the General Gas Works Revenue Bond Ordinance of 1975 (the 1975 General Ordinance). This ordinance authorizes the City to issue revenue bonds for the following purposes: (a) the current refunding of a portion of the outstanding City of Philadelphia, Pennsylvania Gas Works Revenue Bonds, Fifteenth Series (1975 Refunded Bonds); (b) paying the costs of issuing the Nineteenth Series Bonds; and (c) paying any other Project Costs (as defined in the Act).

The second bill signed by the Mayor constituted the Eight Supplemental Ordinance to the General Gas Works Revenue Bond Ordinance of 1998 (the 1998 General Ordinance). This ordinance authorizes the City to issue revenue bonds for the following purposes: (a) providing funding for the capital projects included in the capital program of the Company as from time to time included in the capital budgets of the Company, as approved by City Council; (b) advance refunding of the 1998 Refunded Bonds, which were issued under the 1998 General Ordinance; (c) paying the costs of issuing the Seventh Series Bonds and the required deposits to the 1998 Ordinance Sinking Fund Reserve; and (d) paying any other Project Costs (as defined in the Act).

1998 Ordinance Seventh Series Bonds

On May 15, 2007, the Company issued $230,900,000 of Seventh Series Bonds for the purpose of providing funds for the financing of the capital projects included in the capital program of the Company, and for the purpose of redeeming and refunding, on a current basis, a portion of the outstanding Second Series B, Third Series and Fourth Series Bonds. The refunded par amounts of the Second Series B, Third Series and Fourth Series Bonds were: $7,500,000, $3,145,000, and $20,005,000, respectively. The Seventh Series Bonds contained new money debt issued in the amount of $200,000,000. This new debt was issued under the 1998 Ordinance. The interest rate on the $137,720,000 of Serial Bonds ranged from 4.0% to 5.0%. The interest rate on the $93,180,000 of Term Bonds was 5.0%. The bonds, consisting of Serial Bonds and Term Bonds, have maturity dates through 2037.

1975 Ordinance Nineteenth Series Bonds

On May 15, 2007, the Company issued $14,450,000 of Nineteenth Series Bonds for the purpose of redeeming and refunding, on a current basis, the outstanding Fifteenth Series Bonds previously issued under the 1975 Ordinance. This new debt was issued under the 1975 Ordinance. The interest rate on the Serial Bonds was 5.0%. The bonds, consisting of Serial Bonds, have maturity dates through 2023.

2006 Ordinances

On December 22, 2005, the Mayor signed an ordinance into law authorizing the City to issue revenue bonds for the purpose of (a) refunding all or a portion of the following Series of Gas Works Revenue Bonds (the 1998 General Ordinance): First Series B, Second Series A, Third Series, Fourth Series, and Fifth Series; (b) paying the costs of issuing the bonds and making any required deposits to the Sinking Fund Reserve; and (c) paying any other Project Costs, which may include, without limitation, the repayment to any fund of the City or to accounts of the Company of amounts advanced for Project Costs.

1998 Ordinance Sixth Series Bonds

On January 26, 2006, the Company issued $313,390,000 of Sixth Series Bonds, maturing at various dates through 2031, for the purpose of redeeming and refunding, on a current basis, all of the First Series B and a portion of the outstanding Second Series A, Third Series, and Fourth Series City of Philadelphia, Pennsylvania, Gas Works Revenue Bonds previously issued under the 1998 Ordinance. The refunded par amounts of the First Series B, Second Series A, Third Series, and Fourth

Series Bonds were: $103,550,000, $79,355,000, $99,915,000, and $2,295,000, respectively. As of August 31, 2007, there were no Fifth Series Bonds refunded. The $313,390,000 of Serial Bonds have a variable rate set through a weekly reset mode and are paid monthly and are secured with a Standby Bond Purchase Agreement, which expires January 26, 2009. As discussed in note 15, substantially all of the Sixth Series Bonds are held by banks under the Standby Bond Purchase Agreement at December 18, 2008.

The Bonds were issued on a parity with other Senior 1998 Ordinance Bonds issued under the 1998 General Ordinance, but are subordinated in right of payment and security to all bonds issued and outstanding under the General Gas Works Revenue Bond Ordinance of 1975, approved on May 30, 1975, Bill No. 1871, as amended and supplemented from time to time (the 1975 General Ordinance and together with the 1998 General Ordinance). The Bonds were also issued on parity with the Obligations of the City to make periodic payments due under a Qualified Swap being entered into between the City and the counterparty in connection with the issuance of the bonds.

(b) Debt Coverage and Sinking Fund Requirements

Under the terms of both general ordinances, the City is required to maintain rates to allow the Company to satisfy 1975 and 1998 revenue bond debt coverage ratio requirements. The Company has satisfied the debt coverage requirements in FY 2008 and FY 2007.

Also provided by both general ordinances is the establishment of a sinking fund into which deposits are made sufficient to meet all principal and interest requirements of the bonds as they become due. Both general ordinances also provide that sinking fund reserves be maintained as part of the Sinking Fund, which have previously been funded from the proceeds of each series of bonds in an amount equal to the maximum annual debt service requirement on the bonds of each respective General Ordinance in any fiscal year.

Monies in the Sinking Fund reserves are to be applied to the payment of debt service if, for any reason, other monies in the Sinking Fund should be insufficient.

The revenue bonds are, and will be, equally and ratably collateralized by a security interest in all of the Company's project revenues, as defined in the general ordinances, and monies in the Sinking Fund.

Portions of certain revenue bonds were issued as zero-coupon securities. Interest on these securities is accrued and compounded on the payment dates of the current interest bonds within the issue. The accrued interest is reported as long-term debt.

(c) Interest Rate Swap Agreement

Objective - In January 2006, the City entered into a swap to synthetically refund all or a portion of several series of outstanding bonds. The swap structure was used as a means to increase the City's savings, when compared with fixed-rate bonds at the time of issuance. The intention of the swap was to create a synthetic fixed rate structure.

Terms – The swap, executed with the counterparty, commenced on January 26, 2006 and will mature on August 1, 2031. Under the swap, the City pays a fixed rate of 3.6745% and receives a variable rate computed as the lesser of (i) the actual bond rate and (ii) the SIFMA Municipal Swap Index until September 1, 2011 on which date the variable interest rate received will switch to 70% of one month LIBOR until maturity. The rates are based on an amortizing notional schedule (with an initial notional amount of $313,390,000). As of August 31, 2008, rates were as follows:

	Terms	Rates
Interest Rate Swap		
Fixed payment to counterparty under Swap	Fixed	3.6745%
Variable payment from counterparty under Swap	SIFMA	(1.8400)
Net interest rate swap payments		1.8345
Variable rate bond coupon payments	Weekly resets	2.0400
Synthetic interest rate on bonds		3.8745

As of August 31, 2008, the swap had a notional amount of $311,615,000 and the associated variable rate bond had a $311,615,000 principal amount. The bonds and the related swap agreement mature on August 1, 2031.

Fair value – As of August 31, 2008, the swap had a negative fair value of $14,285,000. This means that the Company would have to pay this amount to terminate the swap. Subsequently, the negative fair value has increased as discussed in note 15.

Risks - As of August 31, 2008, the City is not exposed to credit risk because the swap had a negative fair value. Should interest rates change and the fair value of the swap become positive, the City would be exposed to credit risk in the amount of the swap's fair value. The swap includes an additional termination event based on credit ratings. The swap may be terminated if the ratings 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 swap.

A termination event may also occur if the rating on the Company's Bonds falls below Baa2 or BBB (Moody's/S&P). However, because the City's swap payments are insured by FSA, as long as FSA is rated at or above A2 or A (Moody's/S&P), the termination event based on the City's ratings is stayed. As of December 18, 2008, neither the Company's nor FSA's credit ratings have fallen below these levels.

The City is subject to traditional basis risk should the relationship between SIFMA and the bonds change; if SIFMA resets at a rate below the variable rate bond coupon payments, the synthetic interest rate on the bonds will increase. In addition, after September 1, 2011, the City would be exposed to (i) basis risk, as reflected by the relationship between the rate payable on the bonds and 70% of one month LIBOR received on the swap, and (ii) tax risk, a form of basis risk, where the City is exposed to a potential additional interest cost in the event that changes in the federal tax system or in marginal tax rates cause the rate paid on the outstanding bonds to be greater than the 70% of one month LIBOR received on the swap.

(d) Forward Rate Agreement and Guaranteed Investment Contracts

On August 23, 2002, the City entered into GICs in connection with a portion of its 1975 and 1998 Ordinance Sinking Fund Reserves for the Company. At settlement, approximately 65.0% of the Sinking Fund Reserves, from the two ordinances, totaling $61,396,000 were invested in the GICs. In exchange for this investment, the Company received an up-front payment of $21,800,000 in lieu of receiving interest payments over the life of the GICs. The life of the Forward Rate Agreement is 18½ years, with 12½ years remaining at August 31, 2008.

The GICs are recorded at fair value in the Sinking Fund and had fair values of $48,129,000 and $49,504,000 at August 31, 2008 and 2007, respectively.

The Company also paid $1,650,000 to terminate an existing Forward Rate Agreement as part of this transaction. Of the remaining net proceeds of $20,150,000, $8,596,000 was allocated to the 1975 Sinking Fund Reserve and $11,554,000 was allocated to the 1998 Sinking Fund Reserve. For debt service coverage purposes, the $20,150,000 was considered "project revenues" in FY 2002. For financial statement purposes, the $8,596,000 was recorded as revenue in FY 2002 in the category of interest and other income. This amount is nonrefundable and was granted to the Company by the City.

Under the 1998 Ordinance, the Company is entitled to the earnings on the portion of the Sinking Fund allocated to bonds issued under the 1998 Ordinance. Therefore, the $11,554,000 received under the 1998 ordinance was deferred and is being amortized on a straight-line basis over the life of the agreement. The unamortized balance of the proceeds was $7,807,000 and $8,431,000 at August 31, 2008 and 2007, respectively.

(e) Note Payable – City Loan

On November 15, 2000, the Mayor signed an ordinance authorizing the City to advance in whole or in part, up to $45,000,000 to the Company, to provide liquidity in the winter of 2000-2001. The loan from the City carried no interest. The loan repayment period was extended to August 2008.

The loan from the City was subordinate to the Company's other repayment obligations on its revenue bonds and commercial paper program. The outstanding balance of the City loan was $43,000,000 at August 31, 2007. The remaining balance of the City loan was remitted to the City in payments of $20,500,000 and $22,500,000 in December 2007 and August 2008, respectively.

(9) Defeased Debt

Defeased debt of the Company (bonds issued by the Company payable from the proceeds of irrevocably pledged assets) at August 31, 2008 was as follows:

	Latest date maturing to	Interest rate	Bonds outstanding
7th Series	3/15/13	6.00%	$ 10,675,000
12th Series B	5/15/20	7.00	47,910,000
2nd Series	7/1/29	5.00	84,640,000
3rd Series	8/1/31	5.50	99,445,000
4th Series	8/1/32	5.25	20,005,000

The Company issued $230,900,000 of Seventh Series Bonds during FY 2007. The proceeds of $30,900,000 from the sale were utilized to refund a portion of the Second Series B, Third Series, and Fourth Series Bonds, in the amounts of $7,500,000, $3,145,000, and $20,005,000, respectively. The refunding of this existing debt resulted in an accounting loss of $2,218,000. This loss is being deferred and amortized as interest expense over the life of the new bonds. The refunding generated a present value savings of $2,146,000.

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

The assets pledged, primarily noncallable U.S. government securities, had a market value of $278,271,000 at August 31, 2008, bearing interest on face value from 4.30% to 5.89%.

(10) Pension Costs

(a) Plan Description

The Company sponsors a public employee retirement system (PERS), a single-employer defined-benefit plan, to provide pension benefits for all of its employees, whose annual covered payroll (which was substantially equal to total payroll) was $105,596,000 and $106,018,000 at August 31, 2008 and 2007, respectively.

At September 1, 2007, the beginning of the plan year of the last actuarial valuation, the Pension Plan membership consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving them	$	2,151
Current employees:		
Vested		1,395
Nonvested		270
Total current employees		1,665
Total membership	$	3,816

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% of the highest annual earnings during the last 10 years of credited service, or
- 2% of total earnings received during the period of credited service plus 22.5% of the first $1,200 annual amount, applicable only to participants who were employees on or prior to March 24, 1967.

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

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

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

(Continued)

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

		Normal cost	Amortization of the underfunded balance	Contributions
Fiscal year:				
2008	$	8,085,000	6,173,000	14,258,000
2007		7,693,000	7,524,000	15,217,000
2006		7,617,000	9,946,000	17,563,000

Withdrawals from pension assets of $18,564,000 and $16,776,000 in FY 2008 and FY 2007, respectively, were utilized to meet beneficiary payment obligations.

The Company's annual pension cost is equal to its annual required contribution (ARC). The ARCs were determined based on an actuarial study, or updates thereto, using the projected unit credit method. Significant actuarial assumptions used for the above valuation include a rate of return on the investment of present and future assets of 8.25% per year compounded annually; projected salary increases of 3.0% of the salary at the beginning of the next three years, then 4.25% of the salary at the beginning of the fourth and subsequent year; and retirements that are assumed to occur prior to age 62, at a rate of 10.0% at ages 55 to 61 and 100% at age 62. The assumptions did not include postretirement benefit increases. These actuarial assumptions are consistent with the prior fiscal year.

The actuarial asset value is equal to the value of the fund assets as reported by the City with no adjustments. The unfunded actuarial accrued liability is being amortized over 10 years.

The Pension Plan funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay benefits when due. Level percentages of payroll employer contribution rates are determined using the Projected Unit Credit actuarial funding method. The Pension Plan had an actuarial value of assets of $416,183,000 and an actuarial accrued liability of $482,380,000 resulting in a funded ratio of 86.28% based on a biennial actuarial valuation of the pension fund as of September 1, 2007. The resulting unfunded actuarial accrued liability of $66,197,000 was 62.69% of covered payroll of $105,596,000.

(c) Historical Trend Information (Unaudited)

Historical trend information reflecting funding progress and contributions made by the Company is presented in the supplemental schedule of pension funding progress (unaudited).

(11) Other Postemployment Benefits

(a) Plan Description

The Company sponsors a single employer defined benefit healthcare plan and provides postemployment healthcare and life insurance benefits to approximately 1,920 and 1,935 participating retirees and their beneficiaries and dependents for FY 2008 and FY 2007, respectively, in accordance with their retiree medical program. The Company also provides such benefits to approximately 1,699 and 1,720 active employees and their dependents for FY 2008 and FY 2007, respectively, by charging the annual insurance premiums to expense. The annual covered payroll (which was substantially equal to total payroll) was $105,596,000 and $106,018,000 at August 31, 2008 and 2007, respectively.

The Company pays 100.0% of premiums for basic medical, hospitalization, and prescription drugs incurred by retirees and their dependents. The Company also pays a portion of the premium for life insurance for each eligible retiree. Currently, the Company provides for the cost of healthcare and life insurance benefits for retirees and their beneficiaries on a pay-as-you-go basis.

Total expense incurred for healthcare amounted to $34,226,000 and $36,111,000 in FY 2008 and FY 2007, respectively, of which approximately 48.1% and 52.0%, respectively, represents payments on behalf of retired employees and their dependents. Employees and retirees contributed $1,477,000 and $1,470,000 in FY 2008 and FY 2007, respectively, towards their healthcare. These contributions represent the additional cost of healthcare plans chosen by employees and retirees above the basic plan offered by the Company. Total premiums for group life insurance were $2,103,000 and $2,080,000 in FY 2008 and FY 2007, respectively. The amount attributed to retirees was approximately 71.0% and 76.3% in FY 2008 and FY 2007, respectively. The contribution requirements of nonunion plan members are established by management and may be amended. The contribution requirements for union plan members are subject to collective bargaining.

The Plan does not issue a stand-alone report and therefore the Company has included the schedule of employer contributions as a supplemental schedule (unaudited).

(b) Actuarial Valuation and Assumptions

The Company engaged an actuarial consulting firm to provide an actuarial valuation of the Company's OPEB obligations as of August 31, 2007. The actuarial valuations involve estimates of the value of reported amounts and the assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision, as actual results are compared to past expectations, and new estimates are made about the future. The calculations were based on the types of benefits provided under the terms of the substantive plan at the time of the valuation.

The projected unit cost method was utilized in the valuation to develop the actuarial accrued liability and normal cost. Under the projected unit cost method, the present value of benefits is allocated uniformly over the employee's expected working lifetime. The actuarial accrued liability is that portion of the present value of projected benefits, which has been accrued during the employee's working lifetime from hire to valuation date. The normal cost represents the amount charged for services earned during the current reporting period. The normal cost is calculated by dividing the present value of projected benefits for an employee by the total service.

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

- Economic assumptions – the discount rate and healthcare cost trend rates

  The report utilized a 5.0% discount rate for purposes of developing the liabilities and ARC on the basis that the Plan would not be funded. This rate is based on the investment return expected on the Company's general investments, because the Company has not funded the Plan for FY 2008.

	Healthcare Cost Trend Rates		
	Medical	**Prescription**	**Dental**
Year:			
1	10.0%	10.0%	4.5%
2	9.0	9.0	4.5
3	8.0	8.0	4.5
4	7.0	7.0	4.5
5	6.0	6.0	4.5
6	5.0	5.0	4.5
7	4.5	4.5	4.5
8 and beyond	4.5	4.5	4.5

- Benefit assumptions – the initial per capita cost rates for medical coverage, and the face amount of Company-paid life insurance
- Demographic assumptions – including the probabilities of retiring, dying, terminating (without a benefit), becoming disabled, recovery from disability, election (participation rates), and coverage levels

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

The ARC for FY 2008 is estimated to be $44,114,000 which is also the annual OPEB cost. The amount paid by the Company for retiree benefits in FY 2008 was $18,280,000, consisting of $16,788,000 of healthcare expenses and $1,492,000 of life insurance expenses. The difference between the ARC and the expenses paid resulted in an increase in the OPEB liability of $25,834,000. This amount has been recorded in other liabilities and deferred credits and has been expensed in FY 2008.

As of August 31, 2008, the actuarial accrued liability for benefits was $591,599,000, all of which was unfunded and the ratio of the unfunded actuarial accrued liability to the covered payroll was 560.3%. Historical trend information reflecting funding progress and contributions made by the Company is presented in the Schedule of Other Postemployment Benefits Funding Progress (unaudited).

(d) Other Coverage Information

Also, the Company has entered into several one-year contracts to provide healthcare for both active and retired employees that are experience rated, and premiums are adjusted annually; in addition, the Company has in place approximately $161,320,000 of group life insurance coverage for both active and retired employees, which is retrospectively rated on a monthly basis. The Company also has in place approximately $120,807,000 of accidental death and dismemberment insurance coverage for active employees.

(12) Pollution Remediation

Total pollution remediation obligations at August 31, 2008 are $21,600,000, which reflect the implementation of GASB 49 as described in note 1(t). The Company's prior year liability was $13,349,000 as measured prior to the implementation of the effective cash flow method under GASB 49.

(13) Risk Management

The Company is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. While self insured for many risks, the Company purchases insurance coverage where appropriate. The Company's real and personal property is insured against the risk of loss or damage in the amount of $250,000,000, subject to a $500,000 per accident deductible at the Richmond and Passyunk Plants and a $100,000 deductible per accident 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 boiler and machinery, blanket crime, and other forms of property insurance.

The Company maintained $210,000,000 in liability (including terrorism) coverage, insuring against the risk of damage or injury to the public with a per occurrence self insured retention of $500,000; however, effective September 1, 2007, the self insured retention was increased to $1,000,000.

The Company maintains statutory limits for Workers' Compensation (including terrorism) with a $500,000 per occurrence self insured retention.

The Company maintains a $10,000,000 Public Officials Liability (Directors and Officers Liability) policy with a $500,000 retention.

Claims and settlement activity for occurrences excluded under the provisions of insurance policies for injuries and damages are as follows (thousands of dollars):

		Beginning of year reserve	Current year claims and adjustments	Claims settled	End of year reserve	Current liability amount
Fiscal year ended August 31:						
2008	$	8,468	7,757	(2,691)	13,534	7,456
2007		8,059	3,367	(2,958)	8,468	5,357
2006		8,510	2,808	(3,259)	8,059	4,159

(14) Commitments and Contingencies

Commitments for major construction and maintenance contracts were approximately $8,727,000 as of August 31, 2008.

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

Fiscal year ending August 31:		
2009	$	440
2010		79
2011		42
2012		6

Rent expense for the fiscal years ended August 31, 2008 and 2007 amounted to $910,000 and $932,000, 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 $5,100,000 per month.

The Company has entered into seasonal contracts with suppliers providing the Company the ability to fix the price of the purchase of natural gas during the period from November 1, 2008 through March 31, 2009.

The Company's FY 2009 Capital Budget was approved by City Council in the amount of $71,956,000. Within this approval, funding is provided to continue the implementation of an 18-mile Cast Iron Main Replacement Program. Main replacement cost for this program in FY 2009 is expected to be $15,606,000. The total six-year cost of the Cast Iron Main Replacement Program is forecasted to be approximately $99,256,000.

The FY 2009 Capital Budget also includes $2,486,000 for the purchase of replacement Automatic Meter Reading (AMR) units. The total six-year cost of this program to replace AMR units is approximately $7,889,000.

(15) Subsequent Events

(a) Commercial Paper

As discussed in note 6, $90,000,000 of commercial paper was outstanding at August 31, 2008. Subsequent to year-end, all outstanding commercial paper matured, and additional commercial paper was issued. As of December 18, 2008, $148,000,000 of commercial paper was outstanding which matures on February 12, February 13 and March 12, 2009.

(b) Emergency Rate Relief

As discussed in note 1(d), in November 2008 the Company filed for an extraordinary or emergency base rate increase of approximately $60,000,000 or 5.2% and simultaneously requested an $85,000,000 or 7.4% decrease in the GCR for a net 2.2% overall rate decrease of $25,000,0000. On December 18, 2008, the PUC issued its decision approving a base rate increase of $60,000,000 or 5.2% and a decrease in the GCR of $107,000,000 for a net decrease in rates of $47,000,000 or 4.2%. These rates are effective as of January 1, 2009.

(c) Sixth Series Bonds

As discussed in note 8(b), as of December 18, 2008, $271,370,000 of the Sixth Series Bonds are held by the providers of the Standby Bond Purchase Agreement as bank bonds. The providers of the Standby Bond Purchase Agreement continue, on a weekly basis, to remarket the bonds in accordance with the bond authorization. The Standby Bond Purchase Agreement expires on January 26, 2009. If the Standby Bond Purchase Agreement is not renewed, and no substitute liquidity facility is provided, any bank bonds held at that time will be amortized in ten payments payable the first business day of July and the first business day of December for the next five years. The Company has therefore recorded as current debt at August 31, 2008 one tenth of the outstanding Sixth Series Bonds as of August 31, including $1,900,000 due to mature in 2009 under the original amortization schedule and an additional $29,300,000 for a total of $31,200,000.

(d) Swap – Sixth Series Bonds

As discussed in note 8(c), the City entered into a swap related to the Sixth Series Bonds. The fair value of the interest rate swap as of December 18, 2008 was negative $72,600,000. This means that the Company would have to pay this amount to terminate the swap. Per the swap agreement, the refunding or defeasance of the Sixth Series Bonds, in whole or in part, without the prior written consent of both the counterparty and the insurer, may constitute an event of termination unless certain conditions are met.

Additionally, note 8 identifies a termination risk related to the interest rate swap agreement if the Company's bond rating falls below Baa2 or BBB (Moody's/S&P). Because the City's swap payments are insured by FSA as long as FSA is rated at or above A2 or A (Moody's/S&P) the termination event based on the City's rating is stayed. Neither the Company's credit rating nor FSA's credit rating has declined below the levels required in the agreement as of December 18, 2008.

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Required Supplementary Information (Unaudited)
Schedule of Pension Funding Progress
(Thousands of dollars)

Actuarial valuation date	(a) Actuarial value of assets	(b) Actuarial accrued liability (AAL)	(b)-(a) Unfunded (overfunded) AAL (UAAL [OAAL])	(a/b) Funded ratio	Covered payroll	UAAL (OAAL) as a percent of covered payroll
September 1, 2003*	$356,000	$427,006	$71,006	83.37%	$101,200	70.16%
September 1, 2004**	366,783	436,255	69,472	84.08	102,500	67.78
September 1, 2005+	383,517	450,866	67,349	85.06	102,544	65.68
September 1, 2006++	411,886	474,250	62,364	86.85	106,018	58.82
September 1, 2007+++	416,183	482,380	66,197	86.28	105,596	62.69

* The required supplementary information is based on a biennial actuarial valuation of the pension fund for the plan year September 1, 2003 through August 31, 2004.

** The required supplementary information is based on a biennial actuarial valuation of the pension fund as updated for the plan year September 1, 2004 through August 31, 2005.

\+ The required supplementary information is based on a biennial actuarial valuation of the pension fund for the plan year September 1, 2005 through August 31, 2006.

++ The required supplementary information is based on a biennial actuarial valuation of the pension fund as updated for the plan year September 1, 2006 through August 31, 2007.

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

See accompanying independent auditors' report.

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

Required Supplementary Information (Unaudited)

Schedule of Other Postemployment Benefits Funding Progress

(Thousands of dollars)

Actuarial valuation date	(a) Actuarial value of assets	(b) Actuarial accrued liability (AAL)	(b)-(a) Unfunded (overfunded) AAL (UAAL [OAAL])	(a/b) Funded ratio	Covered payroll	UAAL (OAAL) as a percent of covered payroll
August 31, 2007	—	$573,734	$573,734	—	$106,018	541.17%
August 31, 2008	—	591,599	591,599	—	105,596	560.25

See accompanying independent auditors' report.

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

Required Supplementary Information (Unaudited)

Schedule of Other Postemployment Benefits Employer Contributions

(Thousands of dollars)

Year-end		Annual required contribution	Percentage contributed
August 31, 2007	$	45,237	41.60%
August 31, 2008		44,114	41.44

See accompanying independent auditors' report.

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

Supplemental Statements of Net Assets (City Format)

August 31, 2008 and 2007

(Thousands of dollars)

	2008	2007
Assets:		
Cash on deposit and on hold	$ 49,332	51,692
Equity in pooled cash and investments	—	—
Equity in treasurer's account	—	—
Investments	—	—
Internal balances	—	—
Amounts held by fiscal agent	6	6
Notes receivable	—	48
Taxes receivable	—	—
Accounts receivable – net	99,304	88,570
Interest and dividends receivable	—	—
Due from other governments	—	—
Restricted assets	219,788	277,139
Inventories	187,539	147,770
Unamortized loss and discount	52,852	58,818
Other assets	63,699	55,982
Property, plant, and equipment	1,732,562	1,681,313
Accumulated depreciation	(670,467)	(640,940)
Total assets	$ 1,734,615	1,720,398
Liabilities:		
Notes payable	$ 90,000	94,600
Vouchers and accounts payable	67,508	60,615
Salaries and wages payable	3,430	2,797
Accrued expenses	107,484	67,425
Funds held in escrow	—	—
Due to other governments	—	—
Deferred revenue	31,641	20,411
Current portion of long-term obligations	73,942	41,830
Noncurrent portion of long-term obligations	1,103,827	1,176,368
Unamortized gain and premium	30,375	33,051
Total liabilities	$ 1,508,207	1,497,097
Net assets:		
Invested in capital assets, net of related debt	$ (4,466)	(5,690)
Restricted for:		
Capital projects	—	—
Debt service	108,581	105,005
Community development projects	—	—
Behavioral health programs	—	—
Intergovernmental financing	—	—
Emergency phone system	—	—
Rate stabilization	—	—
Unrestricted	122,293	123,986
Total net assets	$ 226,408	223,301

See accompanying independent auditors' report.

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Supplemental Statements of Activities (City Format)
Years ended August 31, 2008 and 2007
(Thousands of dollars)

		August 31, 2008			
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Total
Gas services	$ (740,819)	840,035	25,324*	—	124,540
Interest on debt	(56,075)	—	—	—	(56,075)
Unallocated depreciation	(39,524)	—	—	—	(39,524)
Other postemployment benefits	(25,834)	—	—	—	(25,834)
Total	$ (862,252)	840,035	25,324*	—	3,107

* Includes $15,732 of interest and other income and $9,592 of other operating revenues.

		August 31, 2007			
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Total
Gas services	$ (773,581)	849,503	22,921*	—	98,843
Interest on debt	(52,146)	—	—	—	(52,146)
Unallocated depreciation	(36,380)	—	—	—	(36,380)
Other postemployment benefits	(26,421)	—	—	—	(26,421)
Total	$ (888,528)	849,503	22,921*	—	(16,104)

* Includes $13,073 of interest and other income and $9,848 of other operating revenues.

See accompanying independent auditors' report.

PHILADELPHIA GAS WORKS

(A Component Unit of the City of Philadelphia)

Supplemental Statements of Revenues, Expenses, and Changes in Fund Net Assets (City Format)

Years ended August 31, 2008 and 2007

(Thousands of dollars)

		2008	2007
Operating revenues:			
Charges for goods and services	$	831,428	840,105
Sales of land and improvements		—	—
Rentals and concessions		—	—
Miscellaneous operating revenues		18,199	19,246
Total operating revenues		849,627	859,351
Operating expenses:			
Personal services		73,351	74,054
Purchase of services		75,640	76,299
Material and supplies		6,216	4,290
Employee benefits		41,488	41,863
Indemnities and taxes		—	—
Depreciation and amortization		42,868	39,708
Cost of goods sold		511,976	539,300
Other		—	—
Total operating expenses		751,539	775,514
Operating income		98,088	83,837
Nonoperating revenues (expenses):			
Operating grants		—	—
Passenger facility charges		—	—
Other income		1,834	1,262
Interest income		13,897	11,811
Debt service – interest		(56,075)	(52,146)
Other expenses		(54,637)	(60,868)
Total nonoperating expenses		(94,981)	(99,941)
Income (loss) before transfers		3,107	(16,104)
Transfer in		18,000	18,000
Transfer out		(18,000)	(18,000)
Capital contributions		—	—
Change in net assets		3,107	(16,104)
Net assets – beginning of year		223,301	239,405
Net assets – end of year	$	226,408	223,301

See accompanying independent auditors' report.

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

Supplemental Schedule of Interfund Transfers

Year ended August 31, 2008

(Thousands of dollars)

Due to the City, September 1, 2007	$	3,000
Accrued distributions		18,000
Payments to the City		(18,000)
Due to the City, August 31, 2008	$	3,000

See accompanying independent auditors' report.

III. BALANCE SHEET AND OPERATING STATEMENT

III.A.47—III.A.49

RESPONSE: Not applicable.

Philadelphia Gas Works' Base Rate Filing

III. BALANCE SHEET AND OPERATING STATEMENT

III.A.50. Provide a schedule of federal and Pennsylvania taxes, other than income taxes, calculated on the basis of test year per books, pro forma at present rates, and pro forma at proposed rates, to include the following categories:

a. social security
b. unemployment
c. capital stock
d. public utility realty
e. P.U.C. assessment
f. other property
g. any other appropriate categories

RESPONSE:

a. social security

PGW's Employer Share of Social Security and Medicare Taxes is as follows:

Fiscal Year Ended August 31, 2008	$8,016,531
Fiscal Year Ended August 31, 2009	$8,166,227
Fiscal Year Ended August 31, 2010	$8,477,000

b. unemployment

PGW's Employer Pennsylvania Unemployment Tax Reimbursable is as follows:

Fiscal Year Ended August 31, 2008	$132,358
Fiscal Year Ended August 31, 2009	$150,954
Fiscal Year Ended August 31, 2010	$140,000

c. capital stock – Not applicable

d. public utility realty – Not applicable

e. PUC Assessment – Not applicable

f. other property – Not applicable

g. any other appropriate categories – Not applicable