MEETING THE NEEDS OF OUR COMMUNITIES

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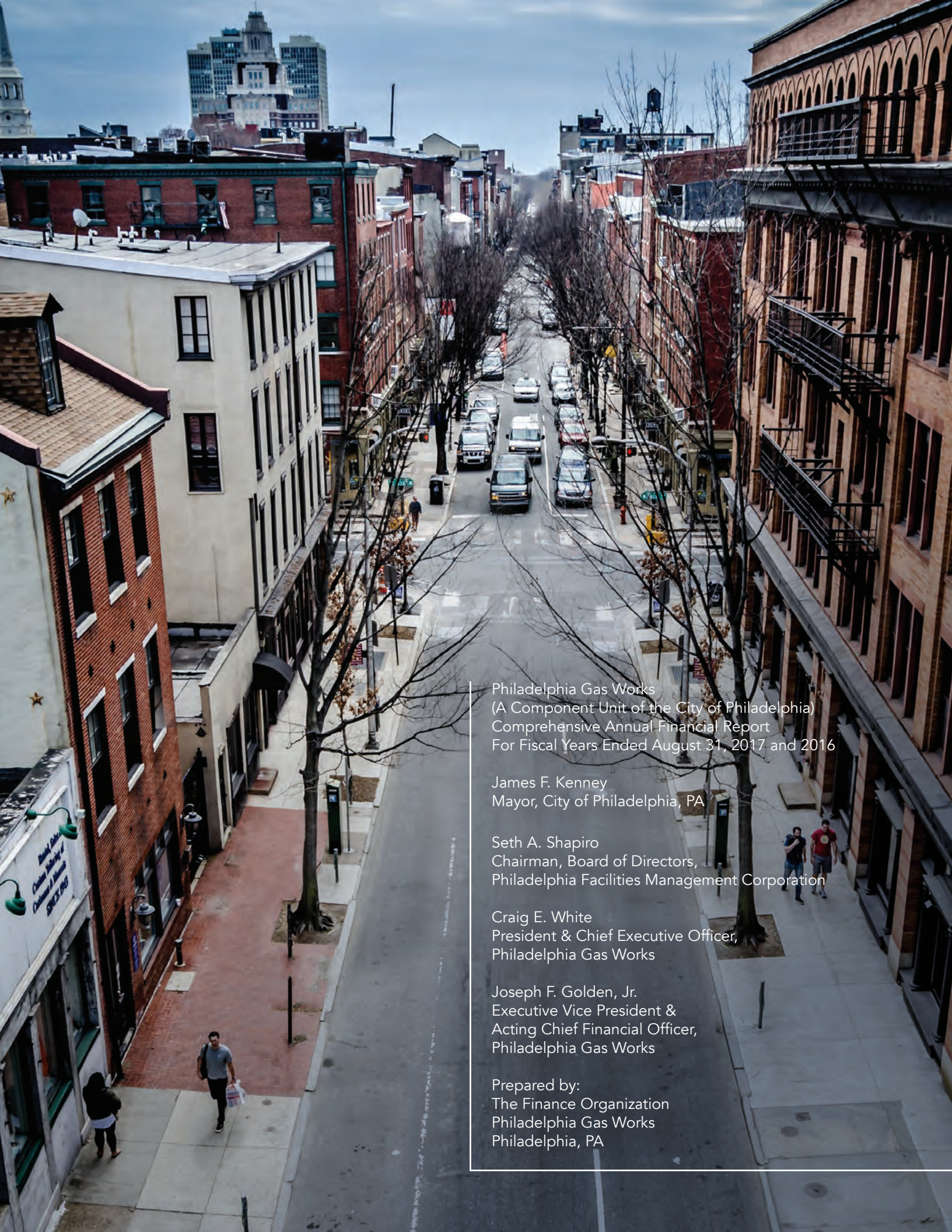
800 West Montgomery Avenue
Philadelphia, PA 19122

Philadelphia Gas Works
(A Component Unit of the City of Philadelphia)
Comprehensive Annual Financial Report
For Fiscal Years Ended August 31, 2017 and 2016



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Comprehensive Annual Financial Report
For Fiscal Years Ended August 31, 2017 and 2016

James F. Kenney
Mayor, City of Philadelphia, PA

Seth A. Shapiro
Chairman, Board of Directors,
Philadelphia Facilities Management Corporation

Craig E. White
President & Chief Executive Officer,
Philadelphia Gas Works

Joseph F. Golden, Jr.
Executive Vice President &
Acting Chief Financial Officer,
Philadelphia Gas Works

Prepared by:
The Finance Organization
Philadelphia Gas Works
Philadelphia, PA

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

PGW was named a **'Most Trusted Brand'** in a 2017 Cogent Reports study of 130 utilities and 59,823 utility customers, which measured and assessed brand performance on a quarterly basis.

PHILADELPHIA GAS WORKS
Joseph F. Golden, Jr. • Executive Vice President and Acting Chief Financial Officer
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Dear Customers & Stakeholders,

The Comprehensive Annual Financial Report (CAFR) of the Philadelphia Gas Works (PGW) for the years ended August 31, 2017 and 2016 is attached hereto. The financial statements were prepared in accordance with Generally Accepted Accounting Principles in the United States of America (U.S. GAAP). Responsibility for both the accuracy and completeness of the data rests with PGW management.

The financial statements were audited by KPMG LLP (KPMG), a firm of licensed certified public accountants. The annual audit was conducted in accordance with auditing standards generally accepted in the United States of America. Those standards require that KPMG plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PGW's internal control over financial reporting. Accordingly, no such opinion was expressed. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

KPMG's opinion was unmodified and states that the financial statements present fairly, in all material respects, the financial position of PGW as of August 31, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

PGW management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud. The internal controls are subject to periodic evaluation by management in order to determine their adequacy. This evaluation recognizes that: (1) the cost of a control should not exceed the benefits to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

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

PROFILE OF PHILADELPHIA GAS WORKS

Since February 8, 1836, when the first employees of the newly formed Gas Works lit forty-six gas lights along Second Street, PGW has been serving the people and businesses of Philadelphia 24 hours a day, 365 days a year. Today, PGW is the largest municipally owned gas utility in the country.

PGW manages and maintains a system of almost 6,000 miles of gas mains and service pipes that deliver annually, approximately 80 billion cubic feet of safe, reliable natural gas, to our approximately 505,000 customers.

Since July 1, 2000 PGW has operated under the regulatory jurisdiction of the Pennsylvania Public Utility Commission (PAPUC). In addition, the Philadelphia Gas Commission has general oversight authority, which includes review and/or approval of certain of PGW's operations, approval of PGW's Operating Budget and review of its Capital Budget. PGW's Capital Budget must also be approved by the City Council of the City of Philadelphia (City). PGW is operated and managed on behalf of the City by the non-profit Philadelphia Facilities Management Corporation.

The last decade has brought real change to America's natural gas industry. What was once thought of as staid has morphed into a fast-paced industry where competition thrives and where being nimble and creative is increasingly vital for success. Vast new sources of natural gas are fueling this transformation and driving the development of new processes to bring it to market. At the same time, newer natural gas technologies are increasing the resilience of the nation's energy supply while reducing dependence on an aging grid and offering cleaner alternatives to traditional electricity generation.

At PGW, the safe and reliable delivery of natural gas is still job one. Today, however, we recognize that organizations like PGW must do more to be successful in the evolving energy marketplace. That's why we're introducing new products and services, upgrading the customer experience and moving to capture new sources of revenue while at the same time enhancing the quality of life locally and promoting business development, by meeting the City's energy needs.

MISSION AND VISION

Changes in the energy industry and the broader environment we operate within are challenging PGW to adapt faster. To continue to thrive, PGW needed to re-assess what it stands for, and develop new ways of operating that match the rapidly moving world we live in.

Part of that change involved updating our company mission, and the vision to which we aspire. These elements form the foundation that the PGW of tomorrow will be built upon. They are a reminder of what we stand for, and a touchstone to help in shaping and defining our strategy.

A good Mission can determine a company's direction, and remind us why a company even exists. It is a summary of who we are, what we do and what we stand for. It is, in effect, our business strategy. Our new Mission statement, *"enhance the quality of life and promote business development in our community by meeting Philadelphia's energy needs",* makes sure everyone at PGW knows the direction the organization is headed.

If a Mission statement is a statement of purpose, a Vision statement describes the outcome of completing that mission, describing both the road we need to travel, and the destination.

Our new Vision statement, "*provide a pathway to a thriving and cleaner future through innovative energy solutions"*, outlines what PGW wants to be in an ever-changing energy market.

CHANGES IN PGW'S MARKET

Philadelphia continues to be a city in transition. The population continues to grow, reversing a long-time local trend, driven in large measure by the growth in immigrant communities and the movement into the city of younger adults.

That net increase in residents has resulted in positive economic impact to the City. Philadelphia continues to have a large low-income population. This situation presents some unique challenges to PGW. Philadelphia's large low-income population largely depends on natural gas for heat. Many struggle to afford the cost. Recognizing the challenges faced by our low-income customers, PGW provides a discounted payment plan. There were approximately 49,000 customers enrolled in this program at the end of FY 2017.

MARKETING & NEW CUSTOMER ACQUISITION

In March 2017, PGW represented the natural gas industry at GLOBALCON 2017. Presented by the Association of Energy Engineers, the conference brought together decision makers from business, industry, and government to share innovations in the energy field. PGW President & CEO Craig E. White kicked off the two-day conference and expo at the Pennsylvania Convention Center with his talk, "The 180-year-old startup."

At PGW we are hard at work promoting the benefits of natural gas for business. Hospitals, hotels, universities and more are adopting technologies like Combined Heat and Power (CHP) that increase resilience, cut energy costs, and reduce dependence on the grid. These market opportunities offer real revenue potential – PGW already has over 25,000 business and commercial customers, and we are looking to gain even more, thanks to the compelling benefits of our natural gas services.

During the summer, several members of PGW's Marketing department were honored by the non-profit Energy Solutions Center with the Partnership Award for their work bringing new customers and new projects onto the natural gas system. The highlighted projects included:

Jefferson Torresdale Hospital which added a CHP unit that provides one-third of the 258-bed facility's power needs. Using natural gas, the installed unit will generate 8.5 million kWh of electricity annually.

Cathedral Village, a retirement community that installed a CHP unit to offset its heating costs, will reduce its carbon footprint by approximately 350 metric tons of carbon dioxide annually.

FMC Tower at Cira Centre South became the first high-rise in the City to utilize CHP technology. The 47-story, 830,000 square foot building will use two 65 kW microturbines.

Toll Brothers residential development of 68 townhomes and condominiums that use all natural gas appliances, including heaters, water heaters, ranges and dryers.

Cancer Treatment Centers of America added CHP to their 427,000 square foot state-of-the-art treatment facility. Incorporating CHP has reduced their annual operating expenses by $500,000.

FY 2017 saw PGW leaders invited to participate at several industry events. PGW delivered opening remarks at the Energy Association of Pennsylvania's Gas Transmission & Distribution Seminar held in Harrisburg, PA. The remarks focused on PGW's ongoing project to modernize our infrastructure.

PGW led a presentation at the Technology and Market Assessment Forum in Philadelphia sponsored by The Energy Solution Center. The Forum focused on new technology and was the Center's largest to date. PGW's presentation explored new opportunities and leveraging resources while also focusing on the benefits and challenges of automatic meter reading technology. PGW also sponsored a micro-CHP workshop at the event to showcase the benefits of this newer natural gas technology.

Finally, at a meeting organized by the PENJERDEL Council and held at the American Revolution Museum, PGW discussed the innovative work and new technologies being used to make natural gas more energy efficient.

FACTORS AFFECTING FINANCIAL CONDITION

On February 27, 2017, PGW filed a base rate case with the PAPUC – the first such filing in seven years. In its filing, PGW sought a rate increase for delivery rates. PGW reached a settlement with respect to rates with the other parties in the case, which was approved by the PAPUC. The settlement provided for a 6.8% rate increase, or an estimated $42.0 million increase in annual revenue. Under the settlement, the monthly bill for a typical residential customer is expected to increase by approximately 6.3%. The increase in base rates was implemented in December 2017.

In August 2017, the City issued Gas Works Revenue Bonds, Fifteenth Series (1998 General Ordinance) in the par amount of $273.1 million. A portion of the proceeds from the sale of the Fifteenth Series Bonds was utilized to refund a portion of the Seventh Series Bonds and redeem the City's outstanding Capital Project Notes. The Fifteenth Series Bonds also provided new money to finance a portion of PGW's ongoing Capital Improvement Program and funds to pay the costs of issuing the Bonds and provide a deposit to the Sinking Fund Reserve. The Fifteenth Series Bonds, with fixed interest rates that range from 2.0% to 5.0%, have maturity dates through 2047.

Moody's Investors Service has upgraded PGW's bond rating to A3 from Baa1, citing PGW's sound fiscal management and credit supportive regulatory environment that will continue to yield stable and more predictable financial and operating results. Standard & Poor's Financial Services affirmed PGW's bond rating of A and views the outlook for this rating as stable. Fitch Ratings maintained PGW's bond rating at BBB+.

CORPORATE SOCIAL RESPONSIBILITY

PGW works for Philadelphia. Most PGW employees live in the City and many take a keen interest in helping to alleviate community hardship. In FY 2017, PGW employees collected coats and toys for St. Christopher's Hospital for Children, The Ronald McDonald House, the Salvation Army Red Shield Family Residence, St. Francis Inn, Stenton Family Manor and the Rock Ministries of Philadelphia.

PGW also 'adopted' the freshman class at Kensington High School as part of the Adopt-A-School program in partnership with the Urban League of Philadelphia and The School District of Philadelphia. PGW was one of ten area businesses selected in the city to motivate students to graduate from high school and enroll in college, start a business or pursue a trade. PGW employees visited Kensington High School to conduct a series of career exploration activities and provided leadership and self-development mentoring.

PGW also broke new ground in its annual United Way campaign, raising almost $100,000 in support of local organizations working to increase the quality of life in our community.

Of course, for us, Corporate Social Responsibility also means providing opportunity where it's needed. That's why, in FY 2017, PGW partnered with other companies and a consortium of local community colleges to launch a new Gas Distribution Pipeline Mechanic course. It was developed collaboratively to meet the needs of people in search of good, reliable jobs. The program will also provide a pool of trained, capable, professional employees that companies need now, and will need far into the future.

The desire to improve the capacity of our community to advance is also why we assisted the organizations Enroll America and Cognosante to help reduce the number of uninsured Philadelphia residents. PGW hosted trained advisors at its six district offices so customers and residents had convenient locations to go and sign up for Affordable Care Act health coverage during its open enrollment period.

We undertake this work because Philadelphia is our home. At the same time, we see our efforts reflected in the perceptions people have of us. In FY 2017, PGW was named a '*Most Trusted Brand*' by our residential customers, according to a Cogent Reports study by Marketing Strategies International, a leading provider of research and consulting services to utilities. PGW was one of 130 electric, gas and combo utilities included in the study. To identify the 44 Most Trusted Brands, the study measures and assesses brand performance on a quarterly basis by surveying 59,823 utility customers.

One of our most important responsibilities is to the environment. Every time someone uses natural gas in preference to another fossil fuel, they are making a cleaner, greener choice. Beyond the value of our products, our employees and PGW lead by example when it comes to the environment.

That's why PGW partnered with the Philadelphia Phillies and the Pennsylvania Horticultural Society to support Home Runs for Trees. Every home run hit by a Phillies player meant a tree planted in a Philadelphia area park, neighborhood or watershed area. Home Runs for Trees is part of Plant One Million, the nation's largest multi-state tree campaign. Locally, the program is working to grow the area of land shaded by trees in the Greater Philadelphia region by 30%. To date, Plant One Million has planted 537,000 trees, bringing us closer to the one million tree goal.

And it's why so many employees from across PGW gathered at PGW headquarters to kick off Earth Day. Hundreds of employees met with local organizations like the Clean Air Council, Farm Share/The Common Market, and the Pennsylvania Horticultural Society to learn new ways to be better stewards of the community we all share.

STRATEGIC PLANNING

During FY 2017, PGW developed and launched a new strategic planning process, culminating in the publication of its FY 2018 Strategic Plan. In order to thrive in a changing industry, PGW is moving with intent and commitment to transform itself. The new strategic plan is a product of that initiative.

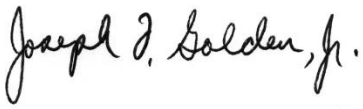
Beginning with the recasting of PGW's Mission and Vision, the company then established the processes by which it could identify areas of strategic need, set in place the mechanisms to prioritize projects and optimize finite resources, define goals, and develop measurable objectives. The City, the industry and the world are changing so PGW must also change. The FY 2018 Strategic Plan represents the manner in which PGW will change.

ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to PGW for its CAFR for the fiscal year ended August 31, 2016. This was the fifth straight year that PGW received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish a CAFR that satisfies both U.S. GAAP and legal requirements. The Certificate of Achievement is valid for a period of one year only. PGW believes our current report continues to conform to the Certificate of Achievement program requirements and is submitting it to the GFOA for consideration for another certificate. This report for FY 2017 is PGW's sixth submission to the program. The preparation of the CAFR on a timely basis was made possible by the dedicated service of the entire staff of the Finance organization as well as various other departments within PGW. Each has my sincere appreciation for their valuable contributions.

On behalf of PGW, which has proudly served the needs of Philadelphia, its residents and its businesses since 1836, I am pleased to present PGW's CAFR, for the fiscal year ended August 31, 2017.

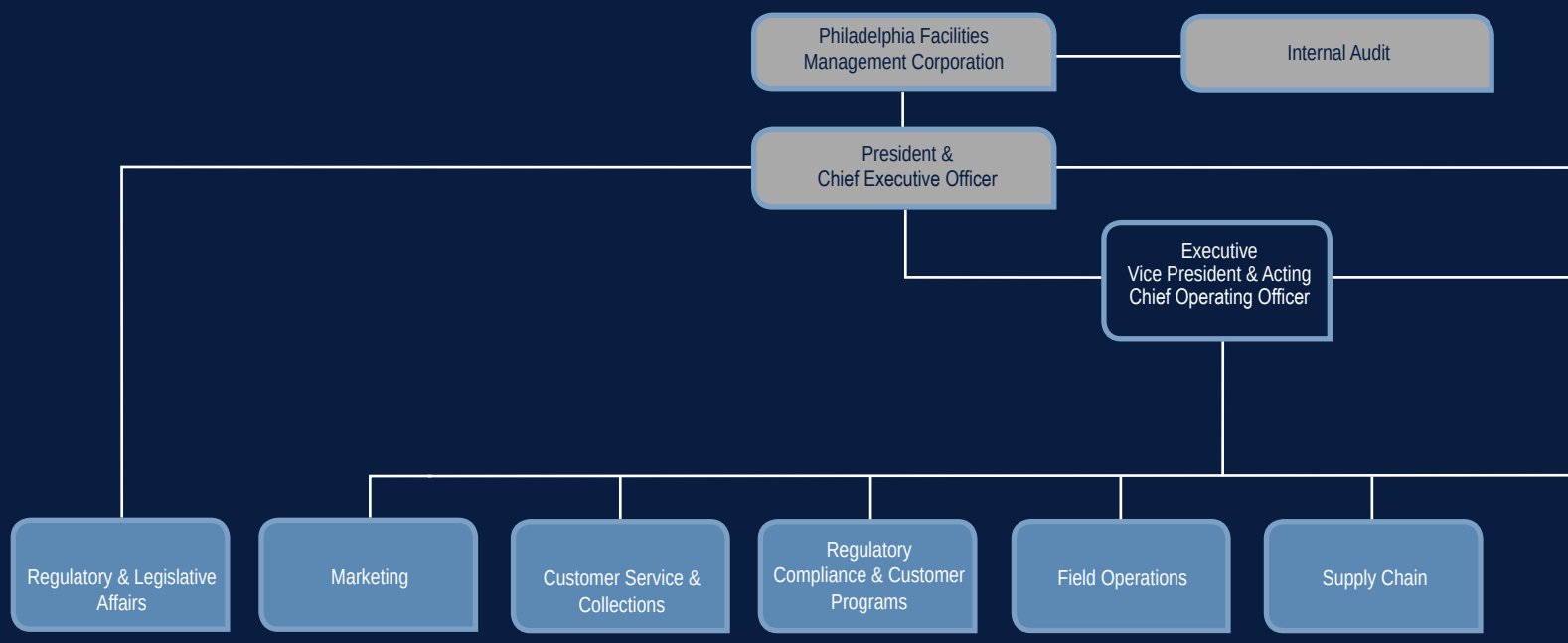
Respectfully submitted,



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

February 26, 2018

PHILADELPHIA GAS WORKS ORGANIZATIONAL CHART



LEADERSHIP

Craig E. White
President & Chief Executive Officer

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

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

Charles J. Grant
Senior Vice President,
Human Resources, Labor, &
Corporate Communications

Raymond M. Snyder
Senior Vice President,
Gas Management

Eloise N. Young
Senior Vice President,
Strategic Planning &
Information Services

Denise Adamucci
Vice President,
Regulatory Compliance &
Customer Programs

Bernard L. Cummings
Vice President,
Customer Service & Collections

Kenneth S. Dybalski
Vice President,
Energy Planning &
Technical Compliance

William J. Gallagher
Vice President,
Budget & Strategic Development

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

Daniel E. Leonard, Jr.
Controller

Anthony P. Mauro
Vice President,
Supply Chain

Gregory Stunder
Vice President,
Regulatory & Legislative
Affairs

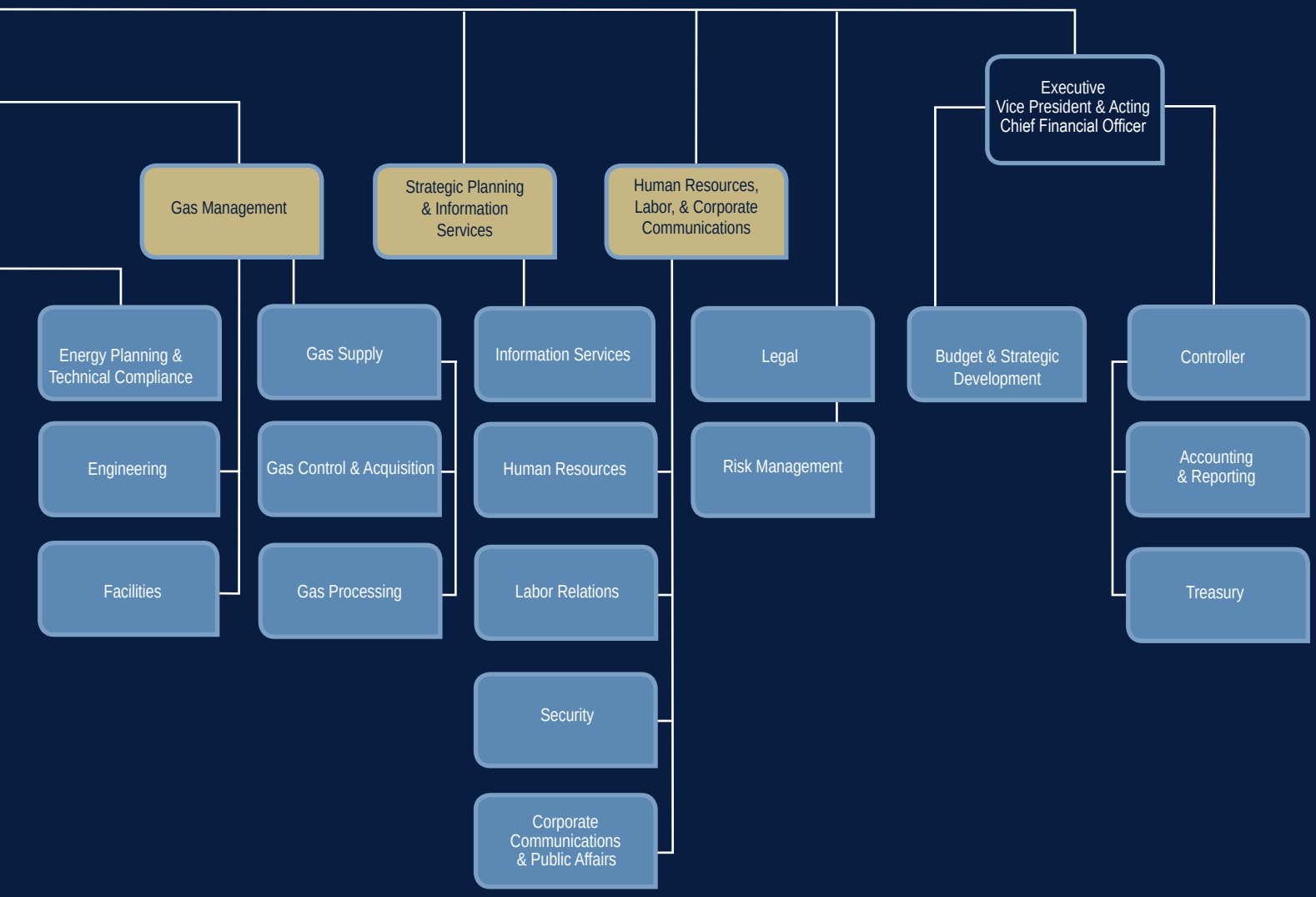
Florian Teme
Vice President,
Marketing

Lorraine S. Webb
Vice President,
Human Resources &
Organizational
Development

Frank Weigert
Chief Information Officer
& Vice President,
Information Services

Raymond J. Welte
Vice President,
Field Operations

John C. Zuk
Vice President,
Gas Supply



BOARD OF DIRECTORS

Seth A. Shapiro

Chief Operating Officer, The Goldenberg Group
Board Chairman
Audit/Finance Committee

Marian B. Tasco

Former Majority Leader, Philadelphia City Council
Board Vice Chair
Workforce Development Committee

Catherine M. Paster

First Deputy Director of Finance, City of Philadelphia
Board Treasurer
Audit/Finance Committee

Leigh Whitaker, Esq.

Director for City Relations, University of Pennsylvania
Board Secretary
Chair, Workforce Development Committee

James Engler, Esq.

Deputy Mayor for Policy and Legislation, City of Philadelphia
Workforce Development Committee

Louis A. Rodriguez

President, Rodriguez Consulting LLC
Workforce Development Committee

Albert Mezzaroba, Esq.

Of Counsel, Genova Burns
Chair, Audit/Finance Committee

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Philadelphia Gas Works

Pennsylvania

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

August 31, 2016

Christopher P. Morrill

Executive Director/CEO

FINANCIAL SECTION

PGW received the Energy Solution Center's **Partnership Award** for implementing innovative, energy-efficient technology solutions on behalf of customers.

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

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

We have audited the accompanying financial statements of Philadelphia Gas Works (the Company), a component unit of the City of Philadelphia, Pennsylvania, as of and for the years ended August 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Philadelphia Gas Works, as of August 31, 2017 and 2016, and the changes in its financial position, and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP is a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 3-15 and the schedules of changes in net pension liability and related ratios, pension contributions, and other postemployment benefits funding progress on pages 68-70 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

KPMG LLP

Philadelphia, Pennsylvania
December 29, 2017

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

Management's Discussion and Analysis

August 31, 2017 and 2016

(Unaudited)

The narrative overview and analysis of the financial statements of Philadelphia Gas Works (the Company or PGW) for the years ended August 31, 2017 and 2016 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) 2017 reflected a 16.2% warmer than normal winter. However, the FY 2017 period was 5.8% colder than the prior year and firm gas sales increased by 2.3 Billion Cubic Feet (Bcf). The Weather Normalization Adjustment (WNA) Clause, which was in effect from October 2016 through May 2017, resulted in heating customers receiving charges totaling $29.6 million as a result of the warmer than normal temperatures experienced during the period. The FY 2016 reflected a 20.8% warmer than normal winter. The FY 2016 period was 24.5% warmer than the prior year and firm gas sales decreased by 10.7 Bcf. In addition, the WNA Clause, which was in effect from October 2015 through May 2016, resulted in heating customers receiving charges totaling $41.5 million as a result of the temperatures experienced during the period.
- PGW achieved a 24-month collection rate of 96.5% in FY 2017, 97.7% in FY 2016, and 96.0% in FY 2015. The collection rate is calculated by dividing the total gas receipts collected in FY 2017 and FY 2016 by the total gas billings that were applied to PGW customers' accounts from September 1, 2015 through August 31, 2017. The same methodology was utilized in FY 2016 and FY 2015.
- PGW continues to have various business initiatives that pertain to improving collections, productivity, and operational efficiencies throughout the Company. PGW, at the end of FY 2017, had no Gas Works Revenue Capital Project Commercial Paper Notes (Capital Project Notes) or Gas Works Revenue Notes outstanding. At the end of FY 2016 and FY 2015, there was $71.0 million and $30.0 million, respectively, of Capital Project Notes outstanding. The cash balances at the end of FY 2017 and FY 2016 were $88.5 million and $91.7 million, respectively. PGW had a cash balance of $114.3 million at the end of FY 2015.
- At December 12, 2017, $120.0 million was available from the commercial paper program. The cash balance at December 12, 2017 was $36.7 million. At December 15, 2016, $49.0 million was available from the commercial paper program. The cash balance at December 15, 2016 was $68.9 million.
- The Company's FY 2018 Capital Budget was approved by the City Council of the City of Philadelphia in an amount not to exceed $114.4 million and funding was provided to continue the implementation of an 18-mile Cast Iron Main Replacement (CIMR) Program. The CIMR Program cost for FY 2018 is expected to be $24.5 million. The total six-year cost of the CIMR Program is forecasted to be $155.6 million.
- On August 16, 2017, the City of Philadelphia (the City) issued Gas Works Revenue Bonds, Fifteenth Series (1998 General Ordinance) in the par amount of $273.1 million. A portion of the proceeds from the sale of the Fifteenth Series Bonds was utilized to refund a portion of the Seventh Series Bonds and redeem the City's outstanding Capital Project Notes. The Fifteenth Series Bonds also contained new money debt issued to finance a portion of PGW's ongoing Capital Improvement Program, pay the costs of issuing the bonds, and provide a deposit to the Sinking Fund Reserve. The Fifteenth Series Bonds, with fixed interest rates that range from 2.0% to 5.0%, have maturity dates through 2047. The loss on this refunding of $0.3 million will be amortized over the life of the Fifteenth Series Bonds. This transaction provided net present value debt service savings of $0.7 million utilizing an arbitrage yield of 2.98%. The savings as a percentage of refunded bonds was 10.11%.

- In FY 2015, the Company retrospectively adopted pension accounting standards, Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68), and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* (GASB 71), as of September 1, 2013. The adoption of these standards resulted in the following:
  - Recognition of a net pension liability for the single-employer Philadelphia Gas Works Pension Plan (Pension Plan) of $239.9 million at August 31, 2015, which increased to $296.1 million at August 31, 2016, and decreased to $261.9 million at August 31, 2017. The net pension liability represents the total actuarially determined liability less the Pension Plan's fiduciary net position.
  - Recognition of deferred inflows and outflows related to the pension resulted in no deferred inflows and $27.1 million and $88.0 million in deferred outflows at August 31, 2017 and 2016, respectively. These deferred inflows and outflows of resources are related to differences between actual and expected investment returns, assumption changes, differences between expected and actual experience, and pension contributions made after the measurement date. GASB 68 requires changes in expected versus actual investment returns to be amortized into pension expense over five years, and actuarial assumption changes and experience differences to be amortized over the average remaining years of active employment for Pension Plan participants.
  - Pension expense was $54.8 million for the year ended August 31, 2017 as compared to $62.3 in FY 2016 and $43.7 million in FY 2015.

Overview of the Financial Statements

The discussion and analysis are intended to serve as an introduction and overview of PGW's basic financial statements. PGW's financial statements comprise the following:

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

The notes to basic financial statements provide additional information that is essential to a full understanding of the data presented in PGW's financial statements. The notes can be found immediately following the basic financial statements.

The financial statements report information about PGW as a whole using accounting methods similar to those used by private sector business. The three statements presented are as follows:

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

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

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

Condensed Statements of Revenues and Expenses and Changes in Net Position

(Thousands of U.S. dollars)

		Years ended August 31		
		2017	**2016**	**2015**
Total gas revenues	$	618,406	572,348	676,027
Other revenues		17,797	18,889	21,220
Total operating revenues		636,203	591,237	697,247
Fuel expense		179,230	146,524	252,169
All other operating expenses		360,467	370,433	354,357
Total operating expenses		539,697	516,957	606,526
Operating income		96,506	74,280	90,721
Interest and other income		1,989	1,393	3,784
Total interest expense		(41,008)	(47,619)	(56,523)
Distribution to the City of Philadelphia		(18,000)	(18,000)	(18,000)
Excess of revenues over expenses		39,487	10,054	19,982
Net position, beginning of year		288,038	277,984	258,002
Net position, end of year	$	327,525	288,038	277,984

Operating Revenues

Operating revenues in FY 2017 were $636.2 million, an increase of $45.0 million, or 7.6%, from FY 2016. The increase resulted from higher natural gas sendout, which was approximately 3.9% higher in FY 2017 when compared to FY 2016 and from a higher Gas Cost Rate (GCR) driven by increased commodity prices. Operating revenues in FY 2016 were $591.2 million, a decrease of $106.0 million or 15.2% from FY 2015. The decrease was caused by lower natural gas sendout, which was approximately 17.2% lower in FY 2016 when compared to FY 2015. Please see the discussion of the cost of fuel in the *Operating Expenses* section below.

Total sales volumes, including gas transportation deliveries, in FY 2017 increased by 2.7 Bcf, or 4.2%, to 68.7 Bcf from the FY 2016 sales volumes of 65.9 Bcf. In FY 2017, firm gas sales of 40.0 Bcf were 2.3 Bcf or 6.1% higher than FY 2016 and interruptible gas sales approximated the FY 2016 level. The volume of natural gas transported for gas transportation customers increased by 0.5 Bcf to 28.7 Bcf from the 28.2 Bcf level experienced in FY 2016. Total sales volumes, including gas transportation deliveries, in FY 2016 decreased by 13.3 Bcf, or 16.8%, to 65.9 Bcf from the FY 2015 sales volumes of 79.2 Bcf. In FY 2016, firm gas sales of 37.7 Bcf were 10.7 Bcf or 22.1% lower than FY 2015. Interruptible customer sales decreased by 0.5 Bcf compared to FY 2015. The decrease in FY 2016 interruptible sales was caused by decreased opportunities for Liquefied Natural Gas (LNG) sales. Gas transportation sales in FY 2016 decreased by 2.1 Bcf to 28.2 Bcf from the 30.3 Bcf level experienced in FY 2015.

In FY 2017, the number of customers served by PGW increased from the previous year and was approximately 505,000 customers. The number of customers served by PGW at the end of FY 2016 and FY 2015 was approximately 502,000 and 501,000, respectively. There were approximately 25,000 Commercial accounts, reflecting no change from the previous two fiscal years. Industrial accounts were unchanged from the previous two fiscal years at approximately 700 customers. The number of residential accounts in FY 2017 increased to approximately 479,300 customers, an increase of 3,000 customers from the FY 2016 level, and 4,000 customers from the FY 2015 level.

Operating Expenses

Total operating expenses, including fuel costs, in FY 2017 were $539.7 million, an increase of $22.7 million or 4.4% from FY 2016. The increase for FY 2017 was mainly caused by increased natural gas utilization and higher natural gas commodity prices. These increases were partially offset by lower healthcare costs and a decrease in the amortization of the unfunded actuarial determined pension expense. Total operating expenses, including fuel costs, in FY 2016 were $517.0 million, a decrease of $89.5 million or 14.8% from FY 2015. The decrease for FY 2016 was mainly caused by lower natural gas volumes and lower natural gas commodity prices, which was partially offset by higher costs associated with the pension.

Cost of Fuel – The cost of natural gas utilized increased by $32.7 million or 22.3% to $179.2 million in FY 2017 compared with $146.5 million in FY 2016. The average commodity price per Thousand Cubic Feet (Mcf) increased by $0.54 or $23.3 million and the volume of natural gas utilized increased by 3.3 Bcf, 8.1% or $7.2 million. The pipeline supplier refunds in FY 2017 and FY 2016 were less than $0.1 million but demand charges increased by $2.2 million compared to FY 2016. The cost of fuel includes all commodity charges and demand charges net of pipeline refunds.

The cost of natural gas utilized decreased by $105.7 million or 41.9% to $146.5 million in FY 2016 compared with $252.2 million in FY 2015. The average commodity price per Mcf decreased by $1.64 or $66.2 million, while the volume of gas utilized decreased by 10.3 Bcf, 20.2% or $39.4 million. There were less than $0.1 million of pipeline supplier refunds in FY 2016 and no pipeline supplier refunds in FY 2015 while demand charges increased by $0.1 million compared to FY 2015.

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

The average natural gas commodity prices for utilized natural gas for FY 2017, FY 2016, and FY 2015 were $2.73, $2.20, and $3.84 per Mcf, respectively.

Other Operating Expenses – Expenditures for street operations, infrastructure improvements, and plant operations in FY 2017 were $95.8 million, a $4.4 million or 4.8% increase from the FY 2016 total of $91.4 million. The increase in FY 2017 was caused by higher labor costs associated with the Distribution department. The FY 2016 total of $91.4 million was $2.3 million lower than the FY 2015 total of $93.7 million as a result of lower labor costs associated with the Distribution department.

Additionally, expenses of $116.9 million related to collection and account management, customer services, marketing, and the administrative area decreased by $9.8 million or 7.7% in FY 2017 primarily due to lower administrative and healthcare expenses. This category increased by $2.9 million or 2.3% in FY 2016 compared to FY 2015 primarily due to higher healthcare expenses, offset by lower expenses associated with marketing.

Pension costs decreased by $7.5 million or 12.0% to $54.8 million in FY 2017 as compared to FY 2016 due to higher than anticipated earnings. Pension costs increased by $18.6 million or 42.6% to $62.3 million in FY 2016 as compared to FY 2015 due to a number of factors including a decrease in the discount rate from 7.65% to 7.30%, and lower than anticipated earnings in FY 2016.

Other Postemployment Benefits (OPEB) costs decreased $2.6 million in FY 2017 when compared to FY 2016. OPEB costs decreased in FY 2017 due to decreased normal costs and decreased benefit payments. Additionally, higher OPEB Trust Fund (the Trust) balances created higher investment income and lower unfunded liabilities. These factors lowered OPEB costs. OPEB costs increased $3.2 million in FY 2016 when compared to FY 2015. For FY 2017, FY 2016, and FY 2015, the Company utilized a discount rate of 7.95%.

The annual OPEB cost is recorded in the statements of revenues and expenses and changes in net position. For the year ended August 31, 2017, approximately $7.3 million was recorded to other postemployment benefits expense and $29.6 million was allocated to administrative and general expense. For the year ended August 31, 2016, approximately $9.9 million was recorded to other postemployment benefits expense and $31.1 million was allocated to administrative and general expense. For the year ended August 31, 2015, approximately $6.7 million was recorded to other postemployment benefits expense and $30.3 million was allocated to administrative and general expenses.

Provision for Uncollectible Accounts – The provision for uncollectible accounts in FY 2017 totaled $30.0 million, an increase of $2.9 million or 10.7% from FY 2016. The provision for uncollectible accounts in FY 2016 totaled $27.1 million, a decrease of $7.7 million or 22.1% from FY 2015. The increase in the provision for uncollectible accounts in FY 2017 is mainly due to lower collection rates achieved in FY 2017 and an increase in the GCR driven by increased commodity prices. 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.

Net Depreciation Expense – Net depreciation expense increased by $2.2 million in FY 2017 compared with FY 2016. Net depreciation expense increased by $1.6 million in FY 2016 compared with FY 2015. The effective composite depreciation rates were 2.1% for FY 2017 and 2.2% for FY 2016 and FY 2015. Cost of removal is charged to expense as incurred.

Interest and Other Income – Interest and other income in FY 2017 was $0.6 million higher than FY 2016, primarily due to an increase in short-term investment income from higher interest rates despite modestly lower cash balances. Interest and other income in FY 2016 was $2.4 million lower than FY 2015, primarily due to a change in accounting for revenue from pipeline capacity releases. Starting in FY 2016, pipeline capacity release revenues were classified as other operating revenues.

Interest Expense – Total interest expense was $41.0 million in FY 2017, a decrease of $6.6 million or 13.9% when compared with FY 2016. Interest expense was lower in FY 2017 primarily due to the normal amortization of long-term debt. Total interest expense was $47.6 million in FY 2016, a decrease of $8.9 million or 15.8% when compared with FY 2015. Interest expense was lower in FY 2016 primarily due to lower principal debt balances. Other interest costs decreased in FY 2017 by $5.1 million or 60.7%, primarily due to the amortization of bond premium related to the Fourteenth Series Bonds and Thirteenth Series Bonds. Other interest costs decreased in FY 2016 by $3.1 million or 27.0%, primarily due to the amortization of bond premium related to the Thirteenth Series Bonds.

Excess of Revenues over Expenses – In FY 2017, the Company's excess of revenues over expenses was $39.5 million, an increase of $29.4 million from FY 2016. This increase is primarily due to greater contribution margins of gas and lower administrative and healthcare expenses. In FY 2016, the Company's excess of revenues over expenses was $10.1 million, a decrease of $9.9 million from FY 2015. This decrease is primarily due to the additional pension expense recognized in FY 2016.

Condensed Balance Sheets

(Thousands of U.S. dollars)

	Years ended August 31		
Assets	**2017**	**2016**	**2015**
Current assets:			
Accounts receivable (net of accumulated provision for uncollectible accounts of $65,124, $74,286, and $102,029 for 2017, 2016, and 2015, respectively)	$ 82,028	73,563	86,853
Restricted investment funds	167,616	2,603	5,820
Cash and cash equivalents, cash designated for capital expenditures, gas inventories, materials, and supplies and other current assets	172,663	170,651	178,831
Total current assets	422,307	246,817	271,504

Condensed Balance Sheets

(Thousands of U.S. dollars)

		Years ended August 31		
Assets		**2017**	**2016**	**2015**
Noncurrent assets:				
Utility plant, net	$	1,338,115	1,284,810	1,232,370
Unamortized bond insurance costs		322	512	3,473
Sinking fund, revenue bonds		102,202	86,652	90,141
Other assets		41,311	34,789	37,646
Total noncurrent assets		1,481,950	1,406,763	1,363,630
Total assets		1,904,257	1,653,580	1,635,134
Deferred Outflows of Resources				
Accumulated fair value of hedging derivatives		7,911	14,763	20,948
Unamortized losses on bond refunding		47,614	57,175	37,471
Deferred outflows related to pension		27,125	88,043	78,128
Total deferred outflows		82,650	159,981	136,547
Total assets and deferred outflows of resources	$	1,986,907	1,813,561	1,771,681

Condensed Balance Sheets

(Thousands of U.S. dollars)

		Years ended August 31		
Net Position, Liabilities, and Deferred Inflows		**2017**	**2016**	**2015**
Net position	$	327,525	288,038	277,984
Long-term revenue bonds		1,125,473	881,620	914,719
Other noncurrent liabilities		135,979	149,621	168,399
Net pension liability		261,945	296,093	239,869
Total noncurrent liabilities		1,523,397	1,327,334	1,322,987
Current liabilities:				
Current portion of revenue bonds		49,890	44,803	43,030
Notes payable		—	71,000	30,000
Other current liabilities		86,095	82,386	86,027
Total current liabilities		135,985	198,189	159,057

(Continued)

Condensed Balance Sheets

(Thousands of U.S. dollars)

Net Position, Liabilities, and Deferred Inflows	Years ended August 31 2017	2016	2015
Deferred inflows related to pension	$ —	—	11,653
Total net position, liabilities, and deferred inflows	$ 1,986,907	1,813,561	1,771,681

Assets

Accounts Receivable – In FY 2017, accounts receivable (net) of $82.0 million increased by $8.4 million or 11.4%, from FY 2016 due to higher gas billings during FY 2017, which resulted from increased sales and higher commodity prices for natural gas. In FY 2016, accounts receivable (net) of $73.6 million decreased by $13.3 million or 15.3%, from FY 2015 due to lower gas billings during FY 2016, which resulted from lower volumes and lower commodity prices for natural gas. The accumulated provision for uncollectible accounts at August 31, 2017 reflects a balance of $65.1 million, a decrease of $9.2 million, compared to the $74.3 million balance in FY 2016. The balance was $102.0 million in FY 2015. Net write-offs for FY 2017 were $39.2 million as compared to $54.9 million and $40.2 million in FY 2016 and FY 2015, respectively.

Cash and Cash Equivalents, Gas Inventories, Materials, and Supplies, and Other Current Assets – In FY 2017, cash and cash equivalents totaled $88.5 million, a decrease of $3.2 million from the FY 2016 total of $91.7 million and totaled $114.3 million in FY 2015. In FY 2017, gas inventories, materials, and supplies totaled $55.4 million, an increase of $7.5 million from the FY 2016 total of $47.9 million. In FY 2016, gas inventories, materials, and supplies totaled $47.9 million, a decrease of $3.0 million from the FY 2015 total of $50.9 million. In FY 2017, gas storage totaled $46.0 million, an increase of $7.4 million or 19.2% when compared to FY 2016. The increase in gas inventory reflects an increase in the cost per Mcf of gas stored and an increase in volumes stored. Actual volumes in storage as of August 31, 2017 were 16.7 Bcf, an increase of 1.8 Bcf or 12.1% compared to the prior year. In FY 2016, gas storage decreased by $2.2 million or 5.5% when compared to FY 2015. The decrease in gas inventory reflects a decrease in the cost per Mcf of gas stored. Other current assets totaled $28.7 million in FY 2017, a decrease of $2.3 million from FY 2016, primarily as a result of a decrease in the deferred GCR. Other current assets totaled $31.0 million in FY 2016, an increase of $17.4 million from FY 2015, primarily as a result of an increase in the deferred GCR.

Restricted Investment Funds – Restricted Investment Funds include the Capital Improvement Fund, Workers' Compensation Escrow Fund, and the Health Insurance Escrow Fund. As of August 16, 2017, PGW funded the Capital Improvement Fund in the amount of $190.0 million. Subsequent to the deposit, PGW withdrew $25.0 million to finance various capital initiatives. The balance of the Capital Improvement Fund at August 31, 2017 was $165.0 million. Pursuant to the Pennsylvania Department of Labor and Industry Bureau of Workers' Compensation Self-Insurance policy, the Company has established and maintained a restricted trust account. As of August 31, 2017, 2016, and 2015, the trust account balances were $2.6 million. PGW is self-insured for the healthcare of active employees and retirees under the age of 65. Retirees over the age of 65 are insured on an

experience-rated basis. PGW had a Health Insurance Escrow Fund that, as of August 31, 2015, was funded in the amount of $3.2 million. The Health Insurance Escrow Fund was closed in November 2015. PGW negotiated the closing of this account by providing an advance deposit of $0.8 million to the healthcare provider.

Utility Plant and Other Noncurrent Assets – In FY 2017, noncurrent assets including utility plant, net, and unamortized bond insurance costs totaled $1,482.0 million, an increase of $75.2 million from FY 2016. In FY 2016, noncurrent assets including utility plant, net, and unamortized bond insurance costs totaled $1,406.8 million, an increase of $43.2 million from FY 2015. Utility plant, net, totaled $1,338.1 million in FY 2017, an increase of $53.3 million or 4.1% compared with the FY 2016 balance. Utility plant, net, totaled $1,284.8 million in FY 2016, an increase of $52.4 million or 4.3% compared with the FY 2015 balance of $1,232.4 million. Capital expenditures for construction of distribution facilities, purchase of equipment, information technology enhancements, and other general improvements were $100.9 million in FY 2017 compared to $97.9 million in FY 2016 and $82.6 million in FY 2015. A portion of the proceeds from the sale of the Fifteenth Series Bonds was utilized to finance a portion of PGW's ongoing Capital Improvement Fund. PGW funded capital expenditures through drawdowns from the Capital Improvement Fund in the amount of $25.0 million in FY 2017. There were no Capital Improvement Fund drawdowns in FY 2016. The major capital expenditures are associated with PGW's gas supply infrastructure, namely, gas mains, and customer service lines, including capital expenditures for the Long-Term Infrastructure Improvement Plan. For additional information on the Company's capital assets, see note 1(g) *Utility Plant* of the basic financial statements.

In early 2012, Act 11 was enacted by the Pennsylvania Legislature. Act 11 permitted public utilities to file a request with the Pennsylvania Public Utility Commission (PUC) for the implementation of a Distribution System Improvement Charge (DSIC). A DSIC permits natural gas distribution companies to recover the costs related to main and service replacement not already recovered in base rates. This legislation provides utility companies with a supplemental recovery mechanism for costs related to incremental/accelerated distribution system repair, improvement, and replacement. Act 11 permits gas utilities to recover 5.0% of their nongas revenues via the recovery mechanism and permits greater percentage increases if approved by the PUC. The Company started billing customers a DSIC surcharge as of July 1, 2013. In FY 2017, the Company billed customers $35.0 million for the DSIC surcharge. In FY 2016, the Company billed customers $22.6 million for the DSIC surcharge. The DSIC surcharge is fully reconcilable on a calendar-year basis and at the fiscal year-end, the over billed or under billed amount is recorded as an adjustment to revenue. For additional information, see note 1(h) *Revenue Recognition* of the basic financial statements.

Deferred Outflows of Resources – Deferred outflows of resources represent amounts that will result in a reduction of net position in a subsequent period. Deferred outflows include the accumulated fair value of hedging derivatives that will be recognized in the statement of revenues and expenses and changes in net position upon termination of the hedging relationship; unamortized losses on bond refunding; and increases in the pension liability that will be amortized into pension expense in future periods. Deferred outflows of resources decreased $77.3 million or 48.3% in FY 2017 from the FY 2016 total of $160.0 million primarily due to the decrease in deferred outflows of resources related to pension of $60.9 million, and increased $23.5 million or 17.2% in FY 2016 from the FY 2015 total of $136.5 million primarily due to increased unamortized losses on bond refunding of $19.7 million and the recognition of deferred outflows of resources related to pension of $9.9 million due to the implementation of GASB 68 and GASB 71 as described above.

Liabilities

Long-Term Revenue Bonds – Long-term revenue bonds, including the current portion and unamortized discount and premium, totaled $1,175.4 million in FY 2017. This was $249.0 million greater than the previous year primarily as a result of issuing the Fifteenth Series Bonds. This represents 95.0% of total capitalization in FY 2017. Long-term revenue bonds, including the current portion and unamortized discount and premium, totaled $926.4 million in FY 2016. This was $31.3 million less than the previous year primarily as a result of normal debt principal payments, refunding, and advanced payments. Long-term revenue bonds, including the current portion and unamortized discount and premium, totaled $957.7 million in FY 2015. Long-term debt represented 76.3% of total capitalization in FY 2016 and 77.5% of total capitalization in FY 2015. For additional information, see note 8, *Long-Term Debt and Other Liabilities* of the basic financial statements.

Debt Service Coverage Ratio and Ratings – PGW has a mandatory debt service coverage ratio of 1.50 times debt service on both the 1975 and 1998 Ordinance Bonds. At August 31, 2017, only Senior 1998 Ordinance Bonds were outstanding. At August 31, 2017, debt service coverage on Senior 1998 Ordinance Bonds was 2.71 times, compared to 2.13 and 2.14 times at August 31, 2016 and 2015, respectively. PGW's current bond ratings are "A3" from Moody's Investors Service (Moody's), "A" from Standard & Poor's Rating Service (S&P), and "BBB+" from Fitch Ratings.

Current Portion of Revenue Bonds and Notes Payable – Pursuant to the provisions of the City of Philadelphia Note Ordinances, PGW may sell short-term notes to either support working capital requirements or pay the costs of certain capital projects and other project costs. PGW may issue short-term notes in a principal amount, which, together with interest, may not exceed $150.0 million outstanding to support working capital requirements. PGW may also sell additional short-term notes in an aggregate principal amount, which may not exceed $120.0 million outstanding at any time to pay the costs of certain capital projects and other project costs. All notes are supported by two irrevocable letters of credit and a security interest in PGW's revenues. The letter of credit supporting PGW's combined commercial paper programs set the maximum level of outstanding notes plus interest at $120.0 million in FY 2017, FY 2016, and FY 2015. There were no Capital Project Notes or Gas Works Revenue Notes outstanding at August 31, 2017. At the end of FY 2016 and FY 2015, there was $71.0 million and $30.0 million of Capital Project Notes outstanding, respectively.

Other Current Liabilities – In FY 2017, other current liabilities totaled $11.8 million, a decrease of $2.0 million from FY 2016, mainly due to a change in the value of the accumulated provision for injuries and damages and deferred credits. In FY 2016, the total was $13.8 million, and $14.1 million in FY 2015. In FY 2017, accounts payable totaled $54.9 million, a decrease of $1.0 million or 1.8% compared with FY 2016 primarily due to a decrease in unbilled miscellaneous accounts payable. In FY 2016, accounts payable totaled $55.9 million, a decrease of $0.1 million or 0.2% compared with FY 2015 primarily due to a decrease in natural gas payables of $0.2 million.

Other Noncurrent Liabilities – In FY 2017, other noncurrent liabilities totaled $136.0 million, a decrease of $13.6 million compared to FY 2016. The decrease in FY 2017 is primarily due to the change in the value of the OPEB liability and a change in value of the interest rate swap. In FY 2016, other noncurrent liabilities totaled $149.6 million, a decrease of $18.8 million compared to FY 2015. The decrease in FY 2016 is primarily due to the change in the value of the OPEB liability and a change in value of the interest rate swap.

The net OPEB obligation was $70.3 million for the fiscal year ended August 31, 2017, an $11.1 million decrease from the $81.4 million obligation at August 31, 2016. The net OPEB obligation was $81.4 million for the fiscal year ended August 31, 2016, an $8.6 million decrease from the $90.0 million obligation at August 31, 2015. This decrease in FY 2017 and FY 2016 was caused by a decrease in the annual OPEB cost and an increase of contributions made during the year.

Net Pension Liability – The decrease in the net pension liability of $34.2 million or 11.6% in FY 2017 as compared to FY 2016 was primarily driven by higher than anticipated earnings in FY 2017. The increase in the net pension liability of $56.2 million or 23.4% in FY 2016 as compared to FY 2015 was primarily driven by a decrease in the discount rate from 7.65% to 7.30%, and lower than anticipated earnings in FY 2016.

Deferred inflows of resources – Deferred inflows of resources represent amounts that will result in an increase of net position in a subsequent period. Deferred inflows were recognized as a result of the implementation of GASB 68 and GASB 71 and represent the difference between actual and expected earnings on pension plan investments. There were no deferred inflows of resources as of August 31, 2017 and 2016. The decrease in deferred inflows of $11.7 million or 100.0% between FY 2015 and FY 2016 is primarily driven by changes in investment performance resulting in net deferred outflows. There was $11.7 million in deferred inflows of resources at August 31, 2015.

Net position – In FY 2017, total net position totaled $327.5 million, an increase of $39.5 million compared to FY 2016. The increase in FY 2017 is primarily due to increases in the Company's unrestricted net position. In FY 2017, unrestricted net position totaled negative $152.7 million, an increase of $64.1 million compared to FY 2016. This increase is primarily due to favorable changes in the Company's net pension liability. Due to the long-term nature of the Company's net pension liability, this negative unrestricted net position is not indicative of the Company's near-term liquidity.

Other Financial Factors

Recent Rate Filings

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

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

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

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

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

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

Refunding, Defeasance, and Redeeming of Debt

On August 16, 2017, the City issued Gas Works Revenue Bonds, Fifteenth Series (1998 General Ordinance) in the par amount of $273.1 million. A portion of the proceeds from the sale of the Fifteenth Series Bonds were utilized to refund a portion of the Seventh Series Bonds and redeem the City's outstanding Capital Project Notes. The Fifteenth Series Bonds also contained new money debt issued to finance a portion of PGW's ongoing Capital Improvement Program, pay the costs of issuing the bonds, and provide a deposit to the Sinking Fund Reserve. The Fifteenth Series Bonds, with fixed interest rates that range from 2.0% to 5.0%, have maturity dates through 2047.

Upcoming Accounting Standards

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (GASB 75). The statement establishes standards, similar to those established for defined-benefit pension plans in GASB 68, for recognizing and measuring defined-benefit OPEB liabilities, deferred outflows or resources, deferred inflows of resources, and expenses, and identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information are also addressed. GASB 75 is effective for fiscal years beginning after June 15, 2017. The Company expects the implementation of GASB 75 to have a material impact on its financial statements.

Contacting the Company's Financial Management

This financial report is designed to provide the citizens of Philadelphia, customers, investors, and creditors with a general overview of PGW's finances and to demonstrate PGW's accountability for the money it receives. If you have questions pertaining to this report or need additional financial information, please contact Philadelphia Gas Works, 800 W. Montgomery Avenue, Philadelphia, PA 19122 or on the Web at www.pgworks.com.

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

Balance Sheets

August 31, 2017 and 2016

(Thousands of U.S. dollars)

Assets		2017	2016
Current assets:			
Cash and cash equivalents	$	88,535	91,743
Accounts receivable (net of provision for uncollectible accounts of $65,124 and $74,286 for 2017 and 2016, respectively)		82,028	73,563
Gas inventories, materials, and supplies		55,414	47,891
Capital improvement fund		165,000	—
Workers' compensation escrow fund		2,616	2,603
Other current assets		28,714	31,017
Total current assets		422,307	246,817
Noncurrent assets:			
Utility plant, at original cost:			
In service		2,244,731	2,178,632
Under construction		105,393	73,531
Total		2,350,124	2,252,163
Less accumulated depreciation		1,012,009	967,353
Utility plant, net		1,338,115	1,284,810
Unamortized bond insurance costs		322	512
Sinking fund, revenue bonds		102,202	86,652
Deferred environmental		30,010	28,425
Other noncurrent assets		11,301	6,364
Total noncurrent assets		1,481,950	1,406,763
Total assets		1,904,257	1,653,580
Deferred Outflows of Resources			
Accumulated fair value of hedging derivatives		7,911	14,763
Unamortized losses on bond refunding		47,614	57,175
Deferred outflows related to pension		27,125	88,043
Total deferred outflows of resources		82,650	159,981
Total assets and deferred outflows of resources	$	1,986,907	1,813,561

(Continued)

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

Balance Sheets

August 31, 2017 and 2016

(Thousands of U.S. dollars)

Liabilities		2017	2016
Current liabilities:			
Current portion of revenue bonds	$	49,890	44,803
Notes payable		—	71,000
Accounts payable		54,922	55,870
Current portion of long-term liabilities		5,828	6,808
Customer deposits		3,385	3,308
Other current liabilities		6,004	6,983
Accrued accounts:			
Interest, taxes, and wages		12,956	6,417
Distribution to the City		3,000	3,000
Total current liabilities		135,985	198,189
Noncurrent liabilities:			
Long-term revenue bonds		1,125,473	881,620
Other noncurrent liabilities		135,979	149,621
Net pension liability		261,945	296,093
Total noncurrent liabilities		1,523,397	1,327,334
Total liabilities		1,659,382	1,525,523
Deferred Inflows of Resources			
Deferred inflows related to pension		—	—
Total liabilities and deferred inflows of resources		1,659,382	1,525,523
Net Position			
Net investment in capital assets		375,366	415,561
Restricted (debt service)		104,818	89,255
Unrestricted		(152,659)	(216,778)
Total net position		327,525	288,038
Total liabilities, deferred inflows of resources, and net position	$	1,986,907	1,813,561

See accompanying notes to basic financial statements.

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

Statements of Revenues and Expenses and Changes in Net Position

Years ended August 31, 2017 and 2016

(Thousands of U.S. dollars)

	2017	2016
Operating revenues:		
Gas revenues:		
Nonheating	$ 21,694	21,873
Gas transport service	44,370	41,008
Heating	552,342	509,467
Total gas revenues	618,406	572,348
Appliance and other revenues	8,199	7,961
Other operating revenues	9,598	10,928
Total operating revenues	636,203	591,237
Operating expenses:		
Natural gas	179,230	146,524
Gas processing	16,789	17,948
Field services	37,715	36,277
Distribution	41,318	37,173
Collection and account management	11,200	10,913
Provision for uncollectible accounts	29,992	27,133
Customer services	13,230	12,432
Marketing	3,644	3,671
Administrative and general	88,937	99,652
Pensions	54,826	62,336
Other postemployment benefits	7,349	9,929
Taxes	7,890	7,521
Total operating expenses before depreciation	492,120	471,509
Depreciation	54,347	51,679
Less depreciation expense included in operating expenses above	6,770	6,231
Net depreciation	47,577	45,448
Total operating expenses	539,697	516,957
Operating income	96,506	74,280
Interest and other income	1,989	1,393
Income before interest expense	98,495	75,673
Interest expense:		
Long-term debt	39,104	40,296
Other	3,312	8,443
Allowance for funds used during construction	(1,408)	(1,120)
Total interest expense	41,008	47,619
Distribution to the City of Philadelphia	(18,000)	(18,000)
Excess of revenues over expenses	39,487	10,054
Net position, beginning of year	288,038	277,984
Net position, end of year	$ 327,525	288,038

See accompanying notes to basic financial statements.

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

Statements of Cash Flows

Years ended August 31, 2017 and 2016

(Thousands of U.S. dollars)

		2017	2016
Cash flows from operating activities:			
Receipts from customers	$	612,900	570,700
Payments to suppliers		(363,484)	(328,006)
Payments to employees		(111,766)	(112,068)
Claims paid		(2,797)	(3,041)
Other receipts		12,700	12,300
Net cash provided by operating activities		147,553	139,885
Cash flows from noncapital financing activities:			
Income from nonutility operations		377	3,844
Interest and fees		(5,628)	710
Distribution to the City of Philadelphia		(18,000)	(18,000)
Net cash used in noncapital financing activities		(23,251)	(13,446)
Cash flows from investment activities			
Sinking fund reserve deposits		(15,550)	—
Sinking fund reserve withdrawals		—	4,133
Capital improvement fund deposits		(190,000)	—
Capital improvement fund withdrawals		25,000	—
Interest income from short-term investments		720	117
Interest income on sinking fund		890	655
Net cash (used in) provided by investment activities		(178,940)	4,905
Cash flows from capital and related financing activities:			
Issuance of commercial paper		30,000	41,000
Repayments of notes payable		(101,000)	—
Redemption, refunding, or defeasance of long-term debt		(21,872)	(373,632)
Proceeds from long-term debt issued		313,309	369,613
Long-term debt issuance costs		(2,521)	(16,274)
Purchases of capital assets		(100,882)	(97,888)
Principal paid on long-term debt		(34,790)	(38,215)
Interest paid on long-term debt		(32,222)	(39,652)
Other investment income		1,408	1,120
Net cash provided by (used in) capital and related financing activities		51,430	(153,928)
Net decrease in cash and cash equivalents		(3,208)	(22,584)
Cash and cash equivalents at beginning of year		91,743	114,327
Cash and cash equivalents at end of year	$	88,535	91,743
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	96,506	74,280
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization expense		47,577	45,448
Provision for uncollectible accounts		29,992	27,133
Change in assets and liabilities:			
Receivables, net		(38,471)	(13,849)
Gas inventories, materials, and supplies		(7,523)	3,017
Other current assets		2,303	(17,422)
Other assets		(6,522)	2,857
Accounts payable		(948)	(157)
Customer deposits		77	450
Other current liabilities		(1,958)	(299)
Accrued accounts		6,539	(3,634)
Other liabilities		19,981	22,061
Net cash provided by operating activities	$	147,553	139,885

See accompanying notes to basic financial statements.

(1) Summary of Significant Accounting Policies

The accounting methods employed by the Philadelphia Gas Works (the Company or PGW) are in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and are in conformity with City of Philadelphia (the City) reporting requirements.

As described in note 2, the Company is accounted for as a component unit of the City, and consequently follows accounting principles promulgated by the Governmental Accounting Standards Board (GASB) as they apply to business type activities. Under the Regulated Operations guidance within GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62), assets or liabilities may be created by certain actions of regulatory bodies.

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

(a) *Regulation*

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. For additional information related to PGW's tariff and base rates, see note 1(d) *Base Rates*.

(b) *Operating Budget*

On May 26, 2017, PGW filed a proposed Fiscal Year (FY) 2018 Operating Budget with the PGC. The PGC Hearing Examiners conducted Informal Discovery (ID) sessions in July and August 2017. On September 7, 2017, a public hearing was convened by the Hearing Examiners to address PGW's Operating Budget. On October 17, 2017, a recommended decision was rendered by the Hearing Examiners, which proposed adjustments to the Operating Budget as filed. On November 14, 2017, the PGC approved, with adjustments, PGW's FY 2018 Operating Budget. PGW filed a Compliance Budget with the PGC on November 30, 2017.

On July 14, 2017, PGW filed a modified FY 2018 Operating Budget with supporting documentation, reflecting updated estimated-actual data for FY 2017. The original FY 2018 Operating Budget information was basically unchanged.

On May 27, 2016, PGW filed a proposed FY 2017 Operating Budget. After appropriate discovery and hearings, the PGC approved the FY 2017 Operating Budget on September 20, 2016.

On May 22, 2015, PGW filed a proposed FY 2016 Operating Budget. After appropriate discovery and hearings, the PGC approved the FY 2016 Operating Budget on October 20, 2015.

(c) ***Capital Budget***

On January 3, 2017, PGW filed with the PGC its proposed FY 2018 Capital Budget in the amount of $115.1 million. After a due diligence review and related ID process in January and February 2017, a public hearing was held on February 21, 2017. The PGC's review culminated in deliberations taken at a public meeting held on April 25, 2017 whereby the PGC endorsed a FY 2018 Capital Budget in an amount not to exceed $114.4 million. The endorsed budget was approved by City Council on June 15, 2017 and signed by the Mayor on June 21, 2017.

On January 4, 2016, PGW filed with the PGC its proposed FY 2017 Capital Budget in the amount of $139.4 million. After a due diligence review and related ID process in January and February 2016, a public hearing was held on February 23, 2016. The PGC's review culminated in deliberations taken at a public meeting held on April 26, 2016 whereby the PGC endorsed a FY 2017 Capital Budget in an amount not to exceed $118.3 million. The endorsed budget was approved by City Council on June 16, 2016 and signed by the Mayor on June 28, 2016.

On January 2, 2015, PGW filed with the PGC its proposed FY 2016 Capital Budget in the amount of $181.6 million. The PGC staff initiated its customary due diligence review and related ID process on January 23, 2015 and February 9, 2015. A public hearing was then held on February 24, 2015. The PGC's review culminated in deliberations taken at a public meeting held on April 27, 2015 whereby the PGC endorsed a FY 2016 Capital Budget in an amount not to exceed $115.0 million.

On March 20, 2015, PGW filed a request to amend the proposed FY 2016 Capital Budget and related Forecast in an amount of $8.2 million to increase spending for its Cast Iron Main Replacement (CIMR) Program. The PGC staff established an expedited review schedule, including an ID meeting held on April 1, 2015. The PGC's review concluded with deliberations taken at a public meeting held on May 11, 2015 whereby the PGC endorsed an amended FY 2016 Capital Budget in an amount not to exceed $123.1 million. The endorsed budget was approved by City Council and the Bill was signed by the Mayor on June 18, 2015.

(d) ***Base Rates***

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

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

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

In FY 2015, the PUC approved the Company's Gas Cost Rate (GCR) settlement petition, which included a provision allowing for the continued recovery of PGW's Other Postemployment Benefits (OPEB) Rider. The OPEB recovery remains at $16.0 million annually. PGW continues to deposit this $16.0 million plus an additional $2.5 million annual contribution into the OPEB Trust for an annual total of $18.5 million. Additionally, PGW's petition to continue the Demand Side Management Program was decided by the PUC in November 2016 and was revised and approved.

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

(e) ***Weather Normalization Adjustment Clause***

The Weather Normalization Adjustment (WNA) Clause was approved by PUC Order dated August 8, 2002. The purpose of the WNA Clause is to neutralize the impact of weather on the Company's revenues. This allows the Company to achieve the recovery of appropriate costs as authorized by the PUC. The WNA Clause results in neither a rate increase nor a rate decrease, but acts as a billing adjustment. The main benefits of the WNA Clause are the stabilization of cash flow and the reduction of the need for short-term borrowing from year to year. The WNA Clause is applied to customer invoices rendered during the period of October 1 through May 31 of each year for each billing cycle. The adjustment for the year ended August 31, 2017 was an increase in billings of $29.6 million. The WNA Clause resulted in an increase in billings of $41.5 million for the year ended August 31, 2016.

(f) ***Gas Cost Rate***

The Company's single greatest operating expense is the cost of natural gas. The rate charged to the Company's customers to recover these costs is called the GCR. The GCR reflects the increases or decreases in natural gas costs and other applicable GCR costs. This GCR mechanism provides the flexibility to rapidly reflect current conditions without the time delay inherent in full base rate alteration. The intent is to achieve an annual balance between the costs incurred for fuel and their pass through to customers.

At the end of the fiscal year, costs recovered through the GCR and surcharges are compared to the actual cost of fuel and other applicable costs. Customers are then credited or charged for the over recovery or under recovery of costs. The GCR and surcharges charge/credit may be updated quarterly or in the subsequent fiscal year to reflect the under recovery or over recovery. Changes in the GCR impact the reported amounts of gas revenues but do not affect operating income or net income because they are passed through to the customer without markup. At August 31, 2017, approximately $15.7 million was recorded in other current assets for the under recovery of the GCR and surcharges. At August 31, 2016, approximately $20.7 million was recorded in other current assets for the under recovery of the GCR and surcharges. The GCR comprises the purchased gas costs plus the gas adjustment charge minus the interruptible revenue credit.

GCR Effective Dates and Rates

(Amounts in U.S. dollars)

Effective date	GCR rate per Mcf*	Change
December 1, 2017	$ 4.6913	0.5390
September 1, 2017	4.1523	(0.4463)
June 1, 2017	4.5986	(0.3444)
March 1, 2017	4.9430	0.7853
December 1, 2016	4.1577	(0.0449)
September 1, 2016	4.2026	0.9847
June 1, 2016	3.2179	(0.2767)
March 1, 2016	3.4946	(0.1988)
December 1, 2015	3.6934	(0.3790)
September 1, 2015	4.0724	—

* Mcf – thousand cubic feet

(g) ***Utility Plant***

Utility plant is stated at original cost. The cost of additions, replacements, and betterments of units of property is capitalized and included in the utility plant accounts. The cost of property sold or retired is removed from the utility plant accounts and charged to accumulated depreciation. Normal repairs, maintenance, the cost of minor property items, and expenses associated with retirements are charged to operating expenses as incurred.

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 $4.7 million and $3.8 million was charged to expense as incurred in FY 2017 and FY 2016, respectively, and is included in depreciation expense in the statements of revenues and expenses and changes in net position. Depreciation is calculated on an asset-by-asset basis on the estimated useful lives of plant and equipment on a straight-line method. The composite rate for FY 2017 and FY 2016 was 2.1% and 2.2%, respectively. The composite rates are supported by a depreciation study of utility plant as of August 2014. The effective composite depreciation rates, as a percentage of cost, for FY 2017 were as follows:

Production plant	1.43 %
Transmission, distribution, and storage	2.01
General plant	3.07

The most recent depreciation study was completed in FY 2015 for the plant activity subsequent to the last depreciation study and through FY 2014. It is anticipated that PGW will complete the next depreciation study in FY 2020 for the plant activity subsequent to the last depreciation study and through FY 2019.

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 4.60% and 4.84% in FY 2017 and FY 2016, respectively.

The following is a summary of utility plant activity for the fiscal years ended August 31, 2017 and 2016 (thousands of U.S. dollars):

	August 31, 2017			
	Beginning balance	Additions and transfers	Retirements and transfers	Ending balance
Land	$ 5,595	—	—	5,595
Distribution and collection systems	1,663,507	66,200	(5,480)	1,724,227
Buildings and equipment	509,530	5,379	—	514,909
Total utility plant, at historical cost	2,178,632	71,579	(5,480)	2,244,731
Under construction	73,531	103,441	(71,579)	105,393
Less accumulated depreciation for:				
Distribution and collection systems	(791,096)	(35,387)*	4,021	(822,462)
Buildings and equipment	(176,257)	(12,592)*	(698)	(189,547)
Utility plant, net	$ 1,284,810	127,041	(73,736)	1,338,115

* Cost of removal of approximately $4.7 million was charged to expense as incurred in FY 2017 and is not included in accumulated depreciation.

	August 31, 2016			
	Beginning balance	Additions and transfers	Retirements and transfers	Ending balance
Land	$ 5,595	—	—	5,595
Distribution and collection systems	1,599,184	70,226	(5,903)	1,663,507
Buildings and equipment	488,333	21,197	—	509,530
Total utility plant, at historical cost	2,093,112	91,423	(5,903)	2,178,632
Under construction	64,254	100,698	(91,421)	73,531
Less accumulated depreciation for:				
Distribution and collection systems	(761,495)	(34,456)*	4,855	(791,096)
Buildings and equipment	(163,501)	(11,917)*	(839)	(176,257)
Utility plant, net	$ 1,232,370	145,748	(93,308)	1,284,810

* Cost of removal of approximately $3.8 million was charged to expense as incurred in FY 2016 and is not included in accumulated depreciation.

(h) ***Revenue Recognition***

The Company is primarily a natural gas distribution company. Operating revenues include revenues from the sale of natural gas to residential, commercial, and industrial heating and nonheating customers. The Company also provides natural gas transportation service. Appliance and other revenues primarily consist of revenue from the Company's parts and labor repair program. Revenue from this program is recognized on a monthly basis for the life of the individual parts and labor plans. Additional revenue is generated from collection fees, reconnection charges, and bulk liquefied natural gas sales contracts. Other operating revenues primarily consist of finance charges assessed on delinquent accounts.

In early 2012, Act 11 was enacted by the Pennsylvania Legislature, which permitted public utilities to file a request with the PUC for the implementation of a Distribution System Improvement Charge (DSIC). A DSIC permits natural gas distribution companies to recover the costs related to main and service replacement not already recovered in base rates. This legislation provides utility companies with a supplemental recovery mechanism for costs related to incremental/accelerated distribution system repair, improvement, and replacement. Act 11 permits gas utilities to recover 5.0% of their nongas revenues via the recovery mechanism and permits greater percentage increases if the PUC approves. The Company started billing customers a DSIC surcharge as of July 1, 2013. In FY 2017, the Company billed customers $35.0 million for the DSIC surcharge. In FY 2016, the Company billed customers $22.6 million for the DSIC surcharge. The DSIC surcharge is fully reconcilable on a calendar-year basis and at the fiscal year-end; the over billed or under billed amount is recorded as an adjustment to revenue.

The Company bills customers for the cost of natural gas and the related costs incurred through the processing, distribution, and delivery of natural gas to residential, commercial, and industrial heating and nonheating customers.

Revenues include amounts related to gas that has been used by customers but has not yet been billed. Revenues are recognized as gas is distributed. Estimated revenues from gas distributed and unbilled, less estimated uncollectible amounts are accrued and included in operating revenues and were $5.5 million and $3.4 million for the years ended August 31, 2017 and 2016, respectively.

(i) ***Operating Expenses***

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

Costs incurred that do not involve normal business operations are recognized as nonoperating expenses.

(j) ***Provision for Uncollectible Accounts***

The Company estimates its accumulated provision for uncollectible accounts based on a financial analysis and a collectibility study performed as of the fiscal year-end. The methodology used in performing the collectibility study has been reviewed by the PGC. For FY 2017 and FY 2016, 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 $16.1 million and $17.1 million in FY 2017 and FY 2016, respectively, have been reclassified to accounts payable.

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

Gas inventories, materials, and supplies, consisting primarily of fuel stock, gas stored to meet peak demand requirements, and spare parts, are stated at average cost at August 31, 2017 and 2016, as follows (thousands of U.S. dollars):

		2017	2016
Gas inventory	$	46,031	38,556
Material and supplies		9,383	9,335
Total	$	55,414	47,891

(l) ***Unamortized Bond Insurance Costs, Debt Discount, and Premium***

Discounts or premiums and bond insurance costs arising from the sale of revenue bonds are amortized using the interest method over the term of the related bond issue. Other costs of bond issuance are expensed as incurred.

(m) ***Unamortized Losses on Bond Refunding***

Losses on bond refunding are recorded as deferred outflows of resources and amortized, using the interest method, to interest expense over the shorter of the life of the refunding bond issue or the remaining original amortization period.

(n) ***Pensions and Postemployment Benefits***

As described in note 10, the City sponsors a single-employer defined-benefit pension plan, the Philadelphia Gas Works Pension Plan (the Pension Plan) to provide pension benefits for certain current and former PGW employees. In accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB 27* (GASB 68), for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Pension Plan and additions to/deductions from the Pension Plan's fiduciary net position are determined on the same basis as they are reported by the Pension Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value. With the exception of deferred outflows related to employer contributions made after the measurement date, deferred inflows and outflows related to pensions are amortized over a closed five-year period or the average remaining service life of employees in the pension plan. Deferred outflows of resources related to employer contributions made after the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year.

As described in note 11, PGW sponsors a single-employer defined-benefit healthcare plan that provides postemployment healthcare and life insurance benefits to substantially all current and former PGW employees. The change in the net OPEB obligation and OPEB expense are recorded based on the difference between the annual actuarially determined OPEB cost (AOC) and the Company's contributions.

(o) ***Fair Value Measurements***

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

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

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

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

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

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

(p) ***Cash and Cash Equivalents***

For the purpose of reporting cash and cash equivalents, all highly liquid investments with original maturities of three months or less are considered cash equivalents, except those held for long-term purposes in the Sinking Fund and Workers' Compensation Escrow Fund, and Capital Improvement Fund as described in note 3.

(q) ***Reserve for Injuries and Damages***

The Company is principally insured through insurance carriers. However, the Company is required to cover settlement of claims, which are excluded under the provisions of such insurance policies. An estimated liability has been established, in accordance with PGC regulations, for settlements to be paid by the Company in the next fiscal year.

Estimated losses from claims for occurrences not covered by insurance, which will not be paid in the next fiscal year, have been accrued. Such liabilities have been established based upon Company history and consultation with counsel. Such expenses are expected to be recovered through future rates. Reductions to the reserve are made as claims are settled.

(r) ***Segment Information***

All of the Company's assets and operations are employed in only one segment, local transportation, and distribution of natural gas in the City.

(s) ***Estimates***

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

uncollectible accounts, the fair value of interest rate swap agreements, the self-insurance liability and the valuation of pension and OPEB liabilities.

(t) ***Pollution Remediation***

The Company estimates its pollution remediation obligations using the effective cash flow method, in which measurement is based on the outlays expected to be incurred as a sum of probability-weighted amounts in a range of possible estimated amounts. The Company's liability is based on a combination of internal and external cost estimates for the specific remediation activities agreed to as part of Pennsylvania Act 2, *Land Recycling and Environmental Remediation Standards Act of 1995* and Pennsylvania Act 32, *Storage Tank and Spill Prevention Act of 1989*.

Estimated site liabilities are determined based upon existing remediation laws and technologies, specific site consultants' engineering studies, or by extrapolating experience with environmental issues at comparable sites. Estimates may change substantially as additional information becomes available regarding the level of contamination at specific sites, available remediation methods, and changes in price, technology, proposed land use, or applicable regulations.

(u) ***Reclassifications***

Certain prior-year amounts have been reclassified for comparative purposes.

(v) ***Pronouncements Effective in the Current Year***

GASB Statement No. 82, *Pension Issues – an Amendment of GASB Statements No. 67, No. 68, and No. 73* (GASB 82), was effective for the years beginning after June 15, 2016 (the Company's fiscal year ended August 31, 2017). GASB 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. Adoption of GASB 82 did not have a material impact on the financial statements.

(w) ***Pronouncements Effective in Future Years***

Effective for the year ending August 31, 2018

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (GASB 75). The statement establishes standards, similar to those established for defined-benefit pension plans in GASB 68, for recognizing and measuring defined-benefit OPEB liabilities, deferred outflows or resources, deferred inflows of resources, and expenses, and identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information are also addressed. GASB 75 is effective for periods beginning after June 15, 2017 (The Company's fiscal year ending August 31, 2018). The Company expects the implementation of GASB 75 to have a material impact on its financial statements.

GASB Statement No. 85, *Omnibus 2017* (GASB 85) addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). GASB 85 is effective for periods beginning after June 15, 2017 (the Company's fiscal year ending August 31, 2018). The Company is currently evaluating the impact of GASB 85 on its financial statements.

GASB Statement No. 86, *Certain Debt Extinguishment Issues* (GASB 86) improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. GASB 86 is effective for periods beginning after June 15, 2017 (the Company's fiscal year ending August 31, 2018). The Company does not anticipate that adoption of this statement will have a material impact on its financial statements.

Effective for the year ending August 31, 2019

GASB Statement No. 83, *Certain Asset Retirement Obligations* (GASB 83), addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this statement. GASB 83 is effective for periods beginning after June 15, 2018 (the Company's fiscal year ending August 31, 2019). The Company is currently evaluating the impact of GASB 83 on its financial statements.

Effective for the year ending August 31, 2020

GASB Statement No. 84, *Fiduciary Activities* (GASB 84) establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a

fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. GASB 84 is effective for periods beginning after December 15, 2018 (the Company's fiscal year ending August 31, 2020). The Company is currently evaluating the impact of GASB 84 on its financial statements, and anticipates that certain pension and other postemployment benefit arrangements will be reported under the standard as fiduciary funds.

Effective for the year ending August 31, 2021

GASB Statement No. 87, *Leases* (GASB 87) requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. GASB 87 is effective for reporting periods beginning after December 15, 2019 (the Company's fiscal year ending August 31, 2021). The Company is currently evaluating the impact of GASB 87 on its financial statements.

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

The Company is accounted for as a component unit of the City. As of January 1, 1973, under the terms of a two-year agreement automatically extended for successive two-year periods unless canceled upon 90 days' notice by the City, the Company is being managed by the Philadelphia Facilities Management Corporation (PFMC). The agreement, as amended, provides for reimbursement to PFMC of actual costs incurred in managing the Company, not to exceed a total of the prior fiscal year's maximum amount adjusted to reflect the percentage change in the Consumer Price Index for All Urban Consumers (CPI-U) All Items Index, Philadelphia, Pennsylvania, United States Department of Labor, Bureau of Labor Statistics, as most recently published and available to the Director of Finance of the City on March 1 of each such fiscal year. In FY 2017 and FY 2016, the applicable maximum amount was calculated to be $1.2 million. The agreement requires the Company to make annual payments of $18.0 million to the City. In FY 2017 and FY 2016, the Company made the annual payment of $18.0 million to the City.

The Company engages in various other transactions with the City. The Company provides gas service to the City. Operating revenues include $6.5 million and $5.4 million in FY 2017 and FY 2016, respectively, relating to sales to the City. Net amounts receivable from the City were $0.5 million and $0.3 million at August 31, 2017 and 2016, respectively. Water and sewer services and licenses are purchased from the City. Such purchases totaled $1.2 million and $1.4 million in FY 2017 and FY 2016, respectively.

Certain activities of the PGC are paid for by the Company. Such payments totaled $0.9 million and $0.8 million in FY 2017 and FY 2016, respectively.

(3) Cash and Cash Equivalents, and Investments

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

Cash and cash equivalents consist primarily of bank deposits, money market accounts, and investments purchased through various brokerage relationships. Bank balances of such deposits, accounts, and investments at August 31, 2017 and 2016 were $88.3 million and $91.4 million, respectively. Book balances of such deposits and accounts at August 31, 2017 and 2016 were $88.5 million and $91.7 million, respectively. Short-term investments with a carrying amount (at fair value) of $83.8 million and $84.4 million at August 31, 2017 and 2016, respectively, are included in the balances presented above. Federal depository insurance on these balances at August 31, 2017 and 2016 was $1.0 million and $0.8 million, respectively. The remaining balances are not insured. Investments are primarily in money market accounts, U.S. Treasury bills, U.S. government agencies and instrumentalities, and corporate obligations (short-term investments).

The highest balance of short-term investments during FY 2017 and FY 2016 was $151.0 million and $136.6 million, respectively.

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

The investments in the Company's Sinking Fund Reserve, Workers' Compensation Escrow Fund, and Capital Improvement Fund consist primarily of U.S. Treasury and government agency obligations, corporate obligations, and money market accounts. These investments are maintained by the City or in the Company's name by its agent. Investments are recorded at fair value except for certain money market funds recorded at amortized cost. The adjustment to market value for the Sinking Fund Reserve resulted in a loss of $0.2 million in FY 2017 and a loss of less than $0.1 million in FY 2016.

The Sinking Fund Reserve is required by bond ordinance to hold an amount equal to the greatest amount of debt service required by bonds secured by the Sinking Fund Reserve in any fiscal year.

Pursuant to the Pennsylvania Department of Labor and Industry Bureau of Workers' Compensation Self-Insurance policy, the Company has established and maintained a restricted trust account. As of August 31, 2017 and 2016, the trust account balances were $2.6 million.

As of August 16, 2017, PGW funded the Capital Improvement Fund in the amount of $190.0 million from bond proceeds (see note 8). Subsequent to the deposit, PGW withdrew $25.0 million to finance various capital initiatives. The balance of the Capital Improvement Fund as of August 31, 2017 was $165.0 million.

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

	August 31, 2017			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
U.S. government obligations:				
U.S. Treasury notes	$ 30,498	9.0842		
U.S. government agencies and instrumentalities:				
Federal Home Loan Mortgage Corporation medium term notes	19,273	4.6395		
Federal Home Loan Bank bonds	13,553	7.2642		
Federal Farm Credit Bank bonds	6,729	0.4200		
Total U.S. government agencies and instrumentalities	39,555			
Total fair value of U.S. government securities	70,053			
Corporate obligations:				
Chevron Corporation	2,006	2.5107	Aa2/AA-	Moody's/S&P
Apple Incorporated	1,995	0.6750	Aa1/AA+	Moody's/S&P
Microsoft Corporation	1,986	2.1522	Aaa/AAA	Moody's/S&P
Exxon Mobile Corporation	1,999	0.6717	Aaa/AA+	Moody's/S&P
Total corporate obligations	7,986			
Foreign issues:				
Westpac Banking Corporation	2,002	2.1867	Aa3/AA-	Moody's/S&P
Total foreign issues	2,002			
Cash and cash equivalents:				
American Honda Finance Corporation CP	1,996	—	*	*
Bank of Montreal CP	1,995	—	*	*

Investment type		Fair value	Weighted average maturity (years)	Credit rating	Rating agency
		August 31, 2017			
Bank of Tokyo Mitsubishi CP	$	1,989	—	*	*
BNP Paribas Finance Inc. CP		1,985	—	*	*
Canadian Imperial Hids CP		1,997	—	*	*
Cooperatieve Centrale CP		1,991	—	*	*
Credit Agricole Crpin CP		1,995	—	*	*
GE Capital Treasury Services LLC CP		1,736	—	*	*
ING US Funding LLC CP		1,980	—	*	*
JP Morgan Securities CP		1,991	—	*	*
Toyota Motor Credit Company CP		1,984	—	*	*
Money market:					
First American Government Obligations Fund Class Z		263	—	*	*
Total cash and cash equivalents		21,902			
Other		259	—	*	*
Total fair value of investments, including cash deposits	$	102,202			
Portfolio weighted modified duration					

* The credit of this investment is unrated.

Investment type		Fair value	Weighted average maturity (years)	Credit rating	Rating agency
		August 31, 2016			
U.S. government obligations:					
U.S. Treasury notes	$	10,618	4.3267		
U.S. government agencies and instrumentalities:					
Federal National Mortgage Association medium term notes		4,013	0.5208		
Federal Home Loan Mortgage Corporation medium term notes		25,382	11.1469		
Federal Home Loan Bank bonds		10,003	1.4988		

	August 31, 2016			
Investment type	Fair value	Weighted average maturity (years)	Credit rating	Rating agency
Federal Farm Credit Bank bonds	$ 8,724	1.1200		
Tennessee Valley Authority	2,471	6.0698		
Total U.S. government agencies and instrumentalities	50,593			
Total fair value of U.S. government securities	61,211			
Corporate obligations:				
Chevron Corporation	2,408	1.5968	AA+/A1	Moody's/S&P
Total corporate obligations	2,408			
Foreign issues:				
Australia & New Zealand Banking Group, Ltd., New York	2,266	2.0460	A+/Aa2	Moody's/S&P
Westpac Banking Corporation	2,007	2.1244	AA-/Aa2	Moody's/S&P
Total foreign issues	4,273			
Cash and cash equivalents:				
Bank of Montreal CP	1,988	—	*	*
Bank of Tokyo Mitsubishi CP	1,994	—	*	*
BNP Paribas Finance Inc. CP	1,992	—	*	*
Canadian Imperial Hids CP	1,989	—	*	*
Cooperatieve Centrale CP	1,990	—	*	*
Credit Agricole Crpin CP	1,990	—	*	*
ING US Funding LLC CP	1,990	—	*	*
JP Morgan Securities CP	1,994	—	*	*
Toyota Motor Credit Company CP	1,995	—	*	*
Money market:				
First American Government Obligations Fund Class Z	626	—	*	*
Total cash and cash equivalents	18,548			
Other	212	—	*	*
Total fair value of investments, including cash deposits	$ 86,652			
Portfolio weighted modified duration				

* The credit of this investment is unrated.

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

Investment type	Fair value	Weighted average maturity (years)	Credit rating	Rating agency
Money market:				
Fidelity Governmental Fund	$ 2,616	—	AAA	Moody's/S&P
Total fair value of investments including cash deposits	$ 2,616			

	August 31, 2016			
Investment type	Fair value	Weighted average maturity (years)	Credit rating	Rating agency
Money market:				
Fidelity Governmental Fund	$ 2,603	—	AAA	Moody's/S&P
Total fair value of investments including cash deposits	$ 2,603			

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

	August 31, 2017			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Money market:				
First American Prime Obligations Class Z	$ 165,000	—	*	*
Total fair value of investments, including cash deposits	$ 165,000			

* The credit of this investment is unrated.

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

	August 31, 2017			
Investment type	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
U.S. government obligations:				
U.S. Treasury notes	$ 30,498	30,498	—	—
U.S. government agencies and instrumentalities:				
Federal Home Loan Mortgage Corporation medium term notes	19,273	—	19,273	—
Federal Home Loan Bank bonds	13,553	—	13,553	—
Federal Farm Credit Bank bonds	6,729	—	6,729	—
Total U.S. government agencies and instrumentalities	39,555	—	39,555	—
Total fair value of U.S. government securities	70,053	30,498	39,555	—
Corporate obligations:				
Chevron Corporation	2,006	—	2,006	—
Apple Incorporated	1,995	—	1,995	—

Investment type	August 31, 2017 Total fair value	Level 1	Level 2	Level 3
Microsoft Corporation	$ 1,986	—	1,986	—
Exxon Mobile Corporation	1,999	—	1,999	—
Total corporate obligations	7,986	—	7,986	—
Foreign issues:				
Westpac Banking Corporation	2,002	—	2,002	—
Total foreign issues	2,002	—	2,002	—
Cash and cash equivalents:				
American Honda Finance Corporation CP	1,996	—	1,996	—
Bank of Montreal CP	1,995	—	1,995	—
Bank of Tokyo Mitsubishi CP	1,989	—	1,989	—
BNP Paribas Finance Inc. CP	1,985	—	1,985	—
Canadian Imperial Hids CP	1,997	—	1,997	—
Cooperatieve Centrale CP	1,991	—	1,991	—
Credit Agricole Crpin CP	1,995	—	1,995	—
GE Capital Treasury Services LLC CP	1,736	—	1,736	—
ING US Funding LLC CP	1,980	—	1,980	—
JP Morgan Securities CP	1,991	—	1,991	—
Toyota Motor Credit Company CP	1,984	—	1,984	—
Money market:				
First American Government Obligations Fund Class Z	263	—	263	—
Total cash and cash equivalents	21,902	—	21,902	—
Other	259	—	259	—
Total fair value of investments, including cash deposits	$ 102,202	30,498	71,704	—

Investment type	August 31, 2016 Total fair value	Level 1	Level 2	Level 3
U.S. government obligations:				
U.S. Treasury notes	$ 10,618	10,618	—	—
U.S. government agencies and instrumentalities:				
Federal National Mortgage Association medium terms notes	4,013	—	4,013	—
Federal Home Loan Mortgage Corporation medium term notes	25,382	—	25,382	—
Federal Home Loan Bank bonds	10,003	—	10,003	—
Federal Farm Credit Bank bonds	8,724	—	8,724	—
Tennessee Valley Authority	2,471	—	2,471	—
Total U.S. government agencies and instrumentalities	50,593	—	50,593	—
Total fair value of U.S. government securities	61,211	10,618	50,593	—
Corporate obligations:				
Chevron Corporation	2,408	—	2,408	—
Total corporate obligations	2,408	—	2,408	—
Foreign issues:				
Australia & New Zealand Banking Group, Ltd., New York	2,266	—	2,266	—
Westpac Banking Corporation	2,007	—	2,007	—
Total foreign issues	4,273	—	4,273	—
Cash and cash equivalents:				
Bank of Montreal CP	1,988	—	1,988	—
Bank of Tokyo Mitsubishi CP	1,994	—	1,994	—
BNP Paribas Finance Inc. CP	1,992	—	1,992	—
Canadian Imperial Hids CP	1,989	—	1,989	—
Cooperatieve Centrale CP	1,990	—	1,990	—
Credit Agricole Crpin CP	1,990	—	1,990	—
ING US Funding LLC CP	1,990	—	1,990	—
JP Morgan Securities CP	1,994	—	1,994	—
Toyota Motor Credit Company CP	1,995	—	1,995	—

Investment type	August 31, 2016 Total fair value	Level 1	Level 2	Level 3
Money market:				
First American Government Obligations Fund Class Z	$ 626	626	—	—
Total cash and cash equivalents	18,548	626	17,922	—
Other	212	—	212	—
Total fair value of investments, including cash deposits	$ 86,652	11,244	75,408	—

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

Investment type	August 31, 2017 Total fair value	Level 1	Level 2	Level 3
Money market:				
Fidelity Governmental Fund	$ 2,616	2,616	—	—
Total fair value of investments, including cash deposits	$ 2,616	2,616	—	—

Investment type	August 31, 2016 Total fair value	Level 1	Level 2	Level 3
Money market:				
Fidelity Governmental Fund	$ 2,603	2,603	—	—
Total fair value of investments, including cash deposits	$ 2,603	2,603	—	—

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

	August 31, 2017			
Investment type	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
Money market:				
First American Prime Obligations Class Z	$ 165,000	—	165,000	—
Total fair value of investments, including cash deposits	$ 165,000	—	165,000	—

(c) ***Interest Rate Risk***

It is the policy of the City to diversify its investment portfolios. Portfolio diversification is employed as a way to control risk. Investments shall be diversified as to maturities, and as to kind of investments to minimize the risk of loss, which might result from over concentration of assets in a specific maturity, in a specific kind of a security, or from a specific issuer or industry.

(d) ***Credit Risk***

The City has adopted an investment policy relating to the investments of the Company. Per the investment policy, the Company's allowable investments are as follows:

(1) Bonds or notes of the U.S. government.

(2) U.S. Treasury obligations, including separate trading of registered interest and principal securities; receipts indicating an undivided interest in such U.S. Treasury obligations; and stripped coupons held under book entry with the New York Federal Reserve Bank.

(3) Obligations of the following U.S. government-sponsored agencies: Government National Mortgage Association, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Federal Farm Credit System, Federal Home Loan Bank, Resolution Funding Corporation, and Tennessee Valley Authority.

(4) Collateralized banker's acceptances and certificate of deposit denominated in U.S. dollars and issued by a city code authorized depository certificate of deposit that must be secured by acceptable collateral with a total market value equal to 102.0% of the deposit.

(5) Commercial paper with a stated maturity of 270 days or less, which is rated P1 by Moody's or A1+ by Standard & Poor's (S&P). The senior long-term debt of the commercial paper issuer, or the entity providing an explicit guarantee, must be rated not lower than A2 by Moody's or A by S&P.

(6) Asset-backed commercial paper (ABCP), which does not have a long-term rating, is an allowable investment if it meets the short-term rating requirements but is only allowed up to the ABCP sublimit.

(7) General obligation bonds of corporations rated Aa2 or better by Moody's or AA or better by S&P with a final maturity of two years or less.

(8) Collateralized mortgage obligations and pass-through securities directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States and with a final maturity of two years or less, the rating must be no lower than Aa2 by Moody's or AA by S&P.

(9) Money market mutual funds, as defined by the Securities and Exchange Commission, such money market funds must have assets over $15.0 billion, have the highest rating from Moody's, S&P, and Fitch, and contain only government securities.

(10) Repurchase agreements that are fully collateralized in bonds or notes of the U.S. government pledged to the City and held in the City's name and deposited at the time the investment is made with an entity or a third party selected and approved by the City the market value of the collateral shall be at least 102.0% of the funds being disbursed.

(11) Obligations of the Commonwealth of Pennsylvania (the Commonwealth) or any municipality or other political subdivision of the Commonwealth with a final maturity of two years or less and a rating of at least AA by Moody's or S&P.

Authorized investments for Sinking Fund Portfolios are dictated by the First Class City Revenue Bond Act of the General Assembly of the Commonwealth of Pennsylvania, approved October 18, 1972. This also includes any investment vehicle permitted for any Commonwealth state agency.

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

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

More than 73.0% of the Company's short-term investments as of August 31, 2017 are in the following: U.S. Treasury notes (50.3%), Federal Home Loan Mortgage Corporation medium term notes (4.8%), and Federal Home Loan Bank Bonds (17.9%). These investments are in accordance with the City's investment policy.

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

The Company has selected, as custodial bank, a member of the Federal Reserve System to hold its investments. Delivery of the applicable investment documents to the Company's custodian is required for all investments. For secured transactions, such as repurchase agreements, either the title to or a perfected security interest in the securities, along with any necessary transfer documents, must be transferred to the custodian. Such transactions will always use delivery versus payment procedures.

(4) Recoverable Costs

In compliance with orders issued by the PGC, the cost of projects that produce benefits over an extended period is recorded on the balance sheets as a recoverable cost in other assets. There is no return on the asset being charged to the customers. The unamortized costs included in other assets and deferred debits were $1.0 million and $0.3 million as of August 31, 2017 and 2016, respectively. The unamortized costs included in other current assets and deferred debits were $0.5 million and $0.1 million as of August 31, 2017 and 2016, respectively.

In accordance with U.S. GAAP for regulated entities, the Company has recognized the long-term portion of its environmental remediation liability as a regulatory asset because based on available evidence it is probable that the previously incurred costs will be recovered through rates. In FY 2017, there were no settlements provided by the Company's insurance carriers associated with environmental remediation costs.

Environmental remediation costs of approximately $0.7 million in FY 2017 were offset by insurance settlements received in prior fiscal years, and the remainder was recorded on the balance sheets as a recoverable cost in other assets. The Company estimates additional expenditures to be approximately $33.6 million.

(5) Deferred Compensation Plan

The Company offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Company employees with at least 30 days of service, permits them to defer a portion of their salary until future years. The Company provides an annual 10.0% matching contribution of applicable wages that immediately vests to the employee. The Company contributed $0.4 million and $0.3 million in FY 2017 and FY 2016, respectively. PGW's contributions are accounted for as part of administrative and general expenses.

(6) Notes Payable

Pursuant to the provisions of the City of Philadelphia Note Ordinances, PGW may sell short-term notes to either support working capital requirements or pay the costs of certain capital projects and other project costs. PGW may issue short-term notes in a principal amount, which, together with interest, may not exceed $150.0 million outstanding to support working capital requirements. PGW may also issue additional short-term notes in an aggregate principal amount, which may not exceed $120.0 million outstanding at any time to pay the costs of certain capital projects and other project costs. All notes are supported by two irrevocable letters of credit and a security interest in PGW's revenues. The letters of credit supporting PGW's combined commercial paper programs set the maximum level of outstanding notes plus interest at $120.0 million in FY 2017 and FY 2016. There were no Gas Works Revenue Capital Project Commercial Paper Notes (Capital Project Notes) or Gas Works Revenue Notes outstanding at August 31, 2017. At the end of FY 2016, there were $71.0 million of Capital Project Notes outstanding.

The commitment amount is $120.0 million under the current credit agreements. The expiration date of the credit agreements is December 31, 2017.

Capital Project Note activity for the years ended August 31, 2017 and 2016 was as follows (thousands of U.S. dollars):

	Year ended August 31, 2017			
	Beginning balance	Additions	Deletions	Ending balance
Commercial paper	$ 71,000	30,000	101,000	—

	Year ended August 31, 2016			
	Beginning balance	Additions	Deletions	Ending balance
Commercial paper	$ 30,000	41,000	—	71,000

(7) GCR Tariff Reconciliation

During the fiscal year ended August 31, 2017, the Company's actual gas costs were below its billed gas costs by approximately $1.6 million. This amount was netted with other applicable costs and recorded in other current assets for FY 2017. Actual gas costs were $2.2 million lower than billed gas costs in FY 2016.

Natural Gas Pipeline Supplier Refund

The Company received less than $0.1 million in refunds in FY 2017 and FY 2016, related to Federal Energy Regulatory Commission/Pipeline Rate Cases. This amount was utilized as a reduction in the cost of gas for reconciliation purposes in the calculation of the applicable GCR.

(8) Long-Term Debt and Other Liabilities

The following summary of long-term debt consists primarily of bonds issued by the City under agreements whereby the Company must reimburse the City for the principal and interest payments required by the bond ordinances for the fiscal years ended August 31, 2017 and 2016 (thousands of U.S. dollars):

	August 31, 2017			August 31, 2016		
	Current portion	Long-term	Total	Current portion	Long-term	Total
Revenue bonds	$ 38,425	1,016,300	1,054,725	34,790	803,040	837,830
Unamortized discount	(4)	(64)	(68)	(24)	(86)	(110)
Unamortized premium	11,469	109,237	120,706	10,037	78,666	88,703
Total revenue bonds	$ 49,890	1,125,473	1,175,363	44,803	881,620	926,423

The following is a summary of activity related to revenue bonds and other liabilities and the respective balances for the fiscal years ended August 31, 2017 and 2016 (thousands of U.S. dollars):

	Year ended August 31, 2017				
	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Revenue bonds	$ 837,830	273,140	(56,245)	1,054,725	38,425
Other liabilities:					
Claims and judgments	$ 5,186	4,564	—	9,750	4,627
Environmental cleanup	31,186	1,218	—	32,404	1,201
Other postemployment benefits	81,443	—	(11,151)	70,292	—
Interest rate swap liability	31,806	—	(8,273)	23,533	—
Total other liabilities	$ 149,621	5,782	(19,424)	135,979	5,828

	Year ended August 31, 2016				
	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Revenue bonds	$ 915,175	312,425	(389,770)	837,830	34,790
Other liabilities:					
Claims and judgments	$ 6,501	—	(1,315)	5,186	5,307
Environmental cleanup	32,474	—	(1,288)	31,186	1,501
Other postemployment benefits	90,014	—	(8,571)	81,443	—
Interest rate swap liability	39,410	—	(7,604)	31,806	—
Total other liabilities	$ 168,399	—	(18,778)	149,621	6,808

(a) ***Principal Maturities and Scheduled Interest and Swap Payments***

Principal maturities and scheduled interest payments for revenue bonds and estimated payments on the interest rate swaps are as follows (thousands of U.S. dollars):

	Revenue bonds			
	Principal	Interest	Net swap amount	Total
Fiscal year ending August 31:				
2018	$ 38,425	44,474	3,454	86,353
2019	51,820	43,323	3,454	98,597
2020	52,870	40,756	3,454	97,080
2021	53,765	38,228	3,454	95,447
2022	54,820	35,585	3,454	93,859
2023–2027	280,630	142,992	13,524	437,146
2028–2032	189,885	99,276	787	289,948
2033–2037	161,850	60,563	—	222,413
2038–2042	95,930	30,837	—	126,767
2043–2047	74,730	11,574	—	86,304
Total	$ 1,054,725	547,608	31,581	1,633,914

This table assumes that there are no draws on letters of credit supporting variable rate debt issuances resulting in bank bonds. Bank bonds are subject to accelerated payment terms and increased interest rates. Variable rate debt issuances represent $152.8 million of the outstanding principal at August 31, 2017.

Future debt service is calculated using rates in effect at August 31, 2017 for variable rate bonds, which ranged from 0.73% to 0.80%. The variable rate received under the swaps is 70.0% of one-month London Interbank Offered Rate (LIBOR) until maturity, which was 0.87% at August 31, 2017.

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

1998 Ordinance Fifteenth Series Bonds

On August 16, 2017, the City issued Gas Works Revenue Bonds, Fifteenth Series (1998 General Ordinance) in the par amount of $273.1 million. A portion of the proceeds from the sale of the Fifteenth Series Bonds were utilized to refund a portion of the Seventh Series Bonds and redeem the City's outstanding Capital Project Notes. The Fifteenth Series Bonds also contained new money debt issued to finance a portion of PGW's ongoing Capital Improvement Program, pay the costs of issuing the bonds, and provide a deposit to the Sinking Fund Reserve. The Fifteenth Series Bonds, with fixed interest rates that range from 2.0% to 5.0%, have maturity dates through 2047. The loss on the refunding component was $0.3 million, which will be amortized over the life of the Fifteenth Series Bonds. This refunding transaction provided net present value debt service savings of $0.7 million utilizing an arbitrage yield of 2.98%. The savings as a percentage of refunded bonds was 10.11%.

As of August 31, 2017, the Company's Eighth Series variable rate debt was backed by letter of credit agreements, which expire on August 1, 2018 (Eighth Series C and D) or August 1, 2019 (Eighth Series B and E), respectively.

The Company's Fifth Series A-2 variable rate bonds are backed by an irrevocable letter of credit, which was extended on December 22, 2016 for a three-year term expiring on December 21, 2019.

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

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

	Interest rates	Maturity date (fiscal year)	Balance outstanding August 31 2017	Balance outstanding August 31 2016
5th Series A-2	Variable *	2035	$ 30,000	30,000
7th Series	4.00%–5.00%	2038	—	4,615
7th Series Refunding	5.00%	2029	—	11,455
8th Series A	4.00%–5.25%	2017	—	7,840
8th Series B	Variable **	2028	27,370	27,370
8th Series C	Variable **	2028	27,225	27,225
8th Series D	Variable **	2028	40,845	40,845
8th Series E	Variable **	2028	27,370	27,370
9th Series	2.00%–5.25%	2040	67,860	67,860
10th Series	3.00%–5.00%	2026	24,075	35,355
13th Series	3.00%–5.00%	2034	227,395	245,470
14th Series	2.00%–5.00%	2038	309,445	312,425
15th Series	2.00%–5.00%	2047	273,140	—
			$ 1,054,725	837,830

* As of August 31, 2017, the LIBOR based rate was 0.80%.

** As of August 31, 2017, the LIBOR based rate ranged from 0.78% to 0.79%.

(c) ***Debt Coverage and Sinking Fund Requirements***

Under the terms of both general ordinances, the City is required to maintain rates to allow the Company to satisfy 1975 and 1998 revenue bond debt coverage ratio requirements. Upon issuance of the Thirteenth Series Bonds, no debt under the 1975 General Ordinance remains outstanding.

Also provided by both general ordinances is the establishment of a Sinking Fund Reserve into which deposits are made in an amount equal to the maximum annual debt service requirement on the bonds of each respective general ordinance in any fiscal year.

Funds in the Sinking Fund Reserve are to be applied to the payment of debt service if, for any reason, other funds in the Sinking Fund, which operates as a debt service payment fund into which debt service payments are deposited as they come due, should be insufficient.

The revenue bonds are, and will be, equally and ratably collateralized by a security interest in all of the Company's project revenues, as defined in the general ordinances, and moneys in the Sinking Fund, including the Sinking Fund Reserve.

Portions of certain revenue bonds were issued as zero-coupon securities. Interest on these securities is accrued and compounded on the payment dates of the current interest bonds within the issue. The

accrued interest in the amount of $8.8 million and $2.3 million in FY 2017 and FY 2016, respectively, is reported as a component of accrued accounts.

(d) ***Interest Rate Swap Agreements***

Objective – In January 2006, the City entered into a fixed rate payor, floating rate receiver interest rate swap to create a synthetic fixed rate for the Sixth Series Bonds. The interest rate swap was used to hedge interest rate risk.

Terms – The swaps had an original termination date of August 1, 2031, which was subsequently amended to August 1, 2028. The swaps require the City to pay a fixed rate of 3.6745% and receive a variable rate equal to 70.0% of one-month LIBOR until maturity.

In August 2016, the underlying variable rate bonds maturing in FY 2017 through FY 2023 were refunded with fixed rate bonds and the related portions of the swaps, totaling $102.7 million in notional amount, were terminated. PGW made a termination payment of $13.9 million to fund this partial termination of the swaps which is included in unamortized loss on bond refunding on the Company's balance sheet.

As of August 31, 2017, the swaps had a notional amount of $122.8 million and the associated variable rate debt had a $122.8 million principal amount, broken down by series as follows:

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

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

Fair Value – As of August 31, 2017, the swaps had a combined negative fair value of approximately $23.5 million. The fair values of the interest rate swaps were estimated using the zero-coupon method and are classified as Level 2 within the fair value hierarchy as described in note 1. That method calculates the future net settlement payments required by the swap, assuming current forward rates are implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Risks – As of August 31, 2017, the City is not exposed to credit risk because the swaps had a negative fair value. Should interest rates change and the fair value of the swaps become positive, the City would be exposed to credit risk in the amount of the swaps' fair value. The swaps include a termination event additional to those in the standard ISDA master agreement based on credit ratings. The swaps may be terminated by the City if the rating of the counterparty falls below A3 or A – (Moody's/S&P), unless the counterparty has (i) assigned or transferred the swap to a party acceptable to the City; (ii) provided a credit support provider acceptable to the City whose obligations are pursuant to a credit support

document acceptable to the City; or (iii) executed a credit support annex, in form and substance acceptable to the City, providing for the collateralization by the counterparty of its obligations under the swaps.

The swaps may be terminated by the counterparty if the rating on the City of Philadelphia Gas Works Revenue Bonds falls below Baa2 or BBB (Moody's/S&P). However, because the City's swap payments are insured by Assured Guaranty Municipal Corporation, as long as Assured Guaranty Municipal Corporation is rated at or above A2 or A (Moody's/S&P), the termination event based on the City's ratings is stayed. At the present time, the rating for Assured Guaranty Municipal Corporation is at A2/AA (Moody's/S&P).

The City is exposed to (i) basis risk, as reflected by the relationship between the rate payable on the bonds and 70.0% of one-month LIBOR received on the swap, and (ii) tax risk, a form of basis risk, where the City is exposed to a potential additional interest cost in the event that changes in the federal tax system or if marginal tax rates cause the rate paid on the outstanding bonds to be greater than the 70.0% of one-month LIBOR received on the swap.

The impact of the interest rate swaps on the financial statements for the years ended August 31, 2017 and 2016 is as follows (thousands of U.S. dollars):

		Interest rate swap liability	Deferred outflows of resources
Balance, August 31, 2016	$	31,806	14,763
Change in fair value through August 31, 2017		(8,273)	(8,273)
Amortization of terminated hedge		—	1,421
Balance, August 31, 2017	$	23,533	7,911

		Interest rate swap liability	Deferred outflows of resources
Balance, August 31, 2015	$	39,410	20,948
Change in fair value through August 31, 2016		(7,604)	(7,604)
Amortization of terminated hedge		—	1,419
Balance, August 31, 2016	$	31,806	14,763

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

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

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

(9) Defeased Debt

Defeased debt of the Company (bonds issued by the Company payable from the proceeds of irrevocably pledged assets) at August 31, 2017 was as follows (thousands of U.S. dollars):

	Latest date maturing to	Interest rate	Bonds outstanding
7th Series	10/01/37	5.00 %	$ 187,850
9th Series	08/01/35	5.25	61,455
10th Series	07/01/26	5.00	5,385
12th Series B	05/15/20	7.00	15,790
17th Series	07/01/18	5.38	11,555
19th Series	10/01/23	5.00	14,450
Total			$ 296,485

The assets pledged, primarily noncallable U.S. government securities, had a market value of $308.7 million at August 31, 2017, bearing interest on face value from 0.63% to 5.89%.

Defeased debt of the Company (bonds issued by the Company payable from the proceeds of irrevocably pledged assets) at August 31, 2016 was as follows (thousands of U.S. dollars):

	Latest date maturing to	Interest rate	Bonds outstanding
7th Series	10/01/37	5.00 %	$ 180,080
8th Series A	08/01/17	5.25	4,000
8th Series B	08/01/23	3.68	22,890
8th Series C	08/01/23	3.68	22,775
8th Series D	08/01/23	3.68	34,155
8th Series E	08/01/23	3.68	22,890
9th Series	08/01/35	5.25	64,765
12th Series B	05/15/20	7.00	20,435
17th Series	07/01/18	5.38	23,995
19th Series	10/01/23	5.00	14,450
Total			$ 410,435

The assets pledged, primarily noncallable U.S. government securities, had a market value of $436.2 million at August 31, 2016, bearing interest on face value from 0.00% to 5.89%.

The investments held by the trustee and the defeased bonds are not recognized on the Company's balance sheets in accordance with the terms of the Indentures of Defeasance. The investments pledged for the

redemption of the defeased debt have maturities and interest payments scheduled to coincide with the trustee cash requirements for debt service.

(10) Defined Benefit Pension Plan

(a) *Plan Description*

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

The Pension Plan provides for retirement payments for vested employees at age 65 or earlier under various options, which includes a disability pension provision, a preretirement spouse or domestic partner's death benefit, a reduced pension for early retirement, various reduced pension payments for the election of a survivor option, and a provision for retirement after 30 years of service without penalty for reduced age. In accordance with Resolutions of the PGC, Ordinances of City Council, and as prescribed by the City's Director of Finance, the Pension Plan is being funded with contributions by PGW to the Sinking Fund Commission of the City, which serves as the Trustee. Management believes that the Pension Plan is in compliance with all applicable laws.

(b) *Benefits Provided*

Normal Retirement Benefits: The Pension Plan provides retirement benefits as well as death and disability benefits. Retirement benefits vest after five years of credited service. Employees who retire at or after age 65 are entitled to receive an annual retirement benefit, payable monthly, in an amount equal to the greater of:

- 1.25% of the first $6,600 of Final Average Earnings plus 1.75% of the excess of Final Average Earnings over $6,600, times years of credited service, with a maximum of 60.0% of the highest annual earnings during the last 10 years of credited service or
- 2.0% of total earnings received during the period of credited service plus 22.5% of the first $1,200 annual amount, applicable only to participants who were employees on or prior to March 24, 1967.

Death Benefits: Before retirement, the death beneficiary of deceased active participants or of deferred vested participants are entitled to vested benefits provided such participants died after having attained age 45 and completed at least 15 years of Credited Service and whose age plus years of credited service equals at least 65 or whom have completed at least 15 years (effective May 15, 2015 – formerly 20 years) of Credited Service regardless of age. The benefit is payable for the death beneficiary's remaining lifetime equal to the amount the participant would have received had the participant retired due to a disability on the day preceding his/her death and elected the 100% contingent annuitant option.

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

Final Average Earnings are the employee's average pay, over the highest five years of the last 10 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.

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

In December 2011, the Pension Plan was amended by Ordinance and a new deferred compensation plan was authorized by Ordinance as well. Newly hired employees have an irrevocable option to join either a new deferred compensation plan created in accordance with Internal Revenue Code Section 401 or the existing defined-benefit plan. The defined-contribution plan provides for an employer contribution equal to 5.5% of applicable wages. The defined-benefit plan provides for a newly hired employee contribution equal to 6.0% of applicable wages. The Ordinance did not affect the retirement benefits of active employees, current retirees and beneficiaries, or terminated employees entitled to benefits but not yet receiving them.

(c) ***Employees Covered by Benefit Terms***

At June 30, 2017, the date of the most recent actuarial valuation, the Pension Plan membership consisted of the following:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving them	2,513
Participants:	
Vested	993
Nonvested	250
Total participants	1,243
Total membership	3,756

(d) ***Contributions***

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 considering employee contributions required for new hires after December 2011 who elect to participate in the Pension Plan. Level percentages of payroll employer contribution rates are determined using the Projected Unit Credit actuarial funding method. For the Pension Plan years ended June 30, 2017 and 2016, PGW's average contribution rate was 29.5% and 29.1% of annual payroll, respectively. Employee contributions were approximately $0.9 million in the plan year ended June 30, 2017 and approximately $0.6 million in the plan year ended June 30, 2016. The actuarially determined contributions for FY 2017 and FY 2016 were $29.3 million and $26.5 million, respectively. PGW contributed $29.3 million and $26.5 million in its FY 2017 and FY 2016, respectively.

(e) ***Net Pension Liability***

The Company's net pension liability as of August 31, 2017 and 2016 was measured as of June 30, 2017 and 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 and June 30, 2016.

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

	2017	2016
Inflation	2.00 %	2.00 %
Salary increases	4.50	4.50
Investment rate of return	7.30	7.30

Mortality rates. Mortality rates for FY 2016 were based on the RP-2014 mortality tables for males and females generationally projected with scale MP-2015. Mortality rates for FY 2017 were based on the RP-2014 mortality tables for males and females generationally projected with scale MP-2016.

Long-term rate of return. The long-term expected rate of return on Pension Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Pension Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class for FY 2017 are summarized in the following table:

Asset class	Minimum	Maximum	Target	Expected annual return
Domestic equity	35.0 %	55.0 %	45.0 %	9.0 %
International equity	10.0	30.0	20.0	9.1
Fixed income	25.0	45.0	35.0	5.6
Cash equivalents	—	10.0	—	—
			100.0 %	

Discount rate. The discount rate used to measure the total pension liability at June 30, 2017 and 2016 was 7.30%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that Company contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee contributions. Based on those assumptions, the Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on Pension Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

(Thousands of U.S. dollars)

		Increase (decrease)		
		Total pension liability (a)	**Plan fiduciary net position (b)**	**Net pension liability (a)-(b)**
Balances at September 1, 2015	$	750,588	510,719	239,869
Changes for the year:				
Service cost		5,399	—	5,399
Interest		55,903	—	55,903
Differences between expected and actual experience		(8,840)	—	(8,840)
Contributions – employer		—	21,123	(21,123)
Contributions – employee		—	602	(602)
Net investment income		—	2,872	(2,872)
Benefit payments, including refunds of employee contributions		(50,447)	(50,447)	—
Administrative expenses		—	(1,611)	1,611
Change in assumptions		26,748	—	26,748
Net changes		28,763	(27,461)	56,224
Balances at August 31, 2016	$	779,351	483,258	296,093

Changes in Net Pension Liability

(Thousands of U.S. dollars)

		Increase (decrease)		
		Total pension liability (a)	**Plan fiduciary net position (b)**	**Net pension liability (a)-(b)**
Balances at September 1, 2016	$	779,351	483,259	296,092
Changes for the year:				
Service cost		5,823	—	5,823
Interest		55,443	—	55,443
Differences between expected and actual experience		2,182	—	2,182
Contributions – employer		—	27,918	(27,918)
Contributions – employee		—	852	(852)
Net investment income		—	61,002	(61,002)
Benefit payments, including refunds of employee contributions		(51,376)	(51,376)	—
Administrative expenses		—	(129)	129
Change in assumptions		(7,952)	—	(7,952)
Net changes		4,120	38,267	(34,147)
Balances at August 31, 2017	$	783,471	521,526	261,945

Sensitivity of the net pension liability to changes in the discount rate. The following table presents the net pension liability of the Company at June 30, 2017, calculated using the discount rate of 7.30%, as well as what the Company's net pension liability as of August 31, 2017 would be if it were calculated using a discount rate that is one-percentage-point lower (6.30%) or one-percentage point higher (8.30%) than the current rate:

		1% Decrease 6.30%	**Current discount rate 7.30%**	**1% Increase 8.30%**
		(Thousands of U.S. dollars)		
Net pension liability	$	352,265	261,945	186,598

The following table presents the net pension liability of the Company at June 30, 2016, calculated using the discount rate of 7.30%, as well as what the Company's net pension liability as of August 31, 2016 would be if it were calculated using a discount rate that is one-percentage-point lower (6.30%) or one-percentage point higher (8.30%) than the current rate:

		1% Decrease 6.30%	Current discount rate 7.30%	1% Increase 8.30%
		(Thousands of U.S. dollars)		
Net pension liability	$	387,060	296,093	220,296

Pension Plan's fiduciary net position. Detailed information about the Pension Plan's fiduciary net position is available in the separately issued Pension Plan financial report.

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

For the years ended August 31, 2017 and 2016, the Company recognized pension expense of $54.8 million and $62.3 million, respectively. At August 31, 2017 and 2016, the Company reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (thousands of U.S. dollars):

		August 31, 2017		August 31, 2016	
		Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$	4,268	—	19,092	—
Changes of assumptions		18,053	—	42,140	—
Net difference between projected and actual earnings on pension plan investments		(2,071)	—	21,278	—
Contributions made after measurement date		6,875	—	5,533	—
Total	$	27,125	—	88,043	—

The $6.9 million reported as deferred outflows of resources related to employer contributions made after the measurement date as of June 30, 2017 will be recognized as a reduction of the net pension liability in FY 2018. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (thousands of U.S. dollars):

	Deferred outflows of resources	Deferred inflows of resources
Fiscal year:		
2018	$ 17,823	—
2019	7,361	—
2020	377	—
2021	—	5,311
Total	$ 25,561	5,311

(g) ***Fair Value Measurements***

The following table sets forth by level, within the fair value hierarchy described in note 1, the plan's assets at fair value as of June 30, 2017 (thousands of U.S. dollars):

	Level 1	Level 2	Level 3	Total
Corporate bonds	$ —	59,034	207	59,241
Common and preferred stock	333,054	15,387	—	348,441
U.S. government securities	37,598	48,443	—	86,041
Financial agreements	—	—	60	60
Asset backed securities	—	7,463	—	7,463
Bond mutual funds	3,898	—	—	3,898
Municipal obligations	—	3,939	—	3,939
	$ 374,550	134,266	267	509,083

The following table sets forth by level, within the fair value hierarchy, the plan's assets at fair value as of June 30, 2016 (thousands of U.S. dollars):

	Level 1	Level 2	Level 3	Total
Corporate bonds	$ —	46,427	—	46,427
Common and preferred stock	298,387	17,274	1	315,662
U.S. government securities	35,964	19,659	—	55,623
Financial agreements	—	—	35	35
Collateralized mortgage obligations	—	42,851	—	42,851
Foreign entity's debt	—	5,595	221	5,816
Municipal obligations	—	4,038	—	4,038
	$ 334,351	135,844	257	470,452

(11) Other Postemployment Benefits

(a) *Plan Description*

The Company sponsors a single-employer defined-benefit healthcare plan and provided postemployment healthcare and life insurance benefits to approximately 2,176 and 2,190 participating retirees and their beneficiaries and dependents in FY 2017 and FY 2016, respectively, in accordance with their retiree medical program. The annual covered payroll (which was substantially equal to total payroll) was $112.6 million and $113.0 million at August 31, 2017 and 2016, respectively.

The Company pays the full cost of medical, basic dental, and prescription coverage for employees who retired prior to December 1, 2001. Employees who retire after December 1, 2001 are provided a choice of three plans at the Company's expense and can elect to pay toward a more expensive plan. Retirees may also contribute toward enhanced dental plan and life insurance coverage. PGW pays 100% of the cost for the prescription drug plan after drug co-pays. Union employees hired on or after May 21, 2011 and Non Union employees hired on or after December 21, 2011 are entitled to receive postretirement medical, prescription, and dental benefits for five years only. Currently, the Company provides for the cost of healthcare and life insurance benefits for retirees and their beneficiaries on a pay-as-you-go basis.

Total expense incurred for healthcare and life insurance related to retirees amounted to $29.6 million and $28.5 million in FY 2017 and FY 2016, respectively. In addition, the Company contributed $18.5 million to the OPEB Trust in both FY 2017 and FY 2016. Retirees contributed $0.4 million and $0.3 million toward their healthcare in FY 2017 and FY 2016, respectively. The retiree contributions represent the additional cost of healthcare plans chosen by retirees above the basic plan offered by the Company. Total premiums for group life insurance were $2.5 million and $2.4 million in FY 2017 and FY 2016, which included $2.0 million for retirees in both FY 2017 and FY 2016. Retirees contributed $0.2 million toward their life insurance in both FY 2017 and FY 2016.

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

The amount paid by the Company for retiree benefits in FY 2017 was $48.1 million, consisting of $27.8 million of healthcare expenses, $1.8 million of life insurance expenses, and $18.5 million

contributed to the OPEB Trust. The amount paid by the Company for retiree benefits in FY 2016 was $49.6 million, consisting of $29.3 million of healthcare expenses, $1.8 million of life insurance expenses, and $18.5 million contributed to the OPEB Trust. The difference between the AOC and the Company's contributions resulted in a decrease in the OPEB obligation of $11.2 million and $8.6 million in FY 2017 and FY 2016, respectively, which was recorded to other noncurrent liabilities and expensed.

(i) Funding Progress

The funded status and the funding progress of the OPEB plan at August 31, 2017 is as follows:

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL)	Unfunded AAL (UAAL)	Funded ratio	Covered payroll	UAAL as a percent of covered payroll
August 31, 2017	$ 165,883	516,082	350,199	32.1 %	112,638	310.9 %

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

(ii) Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and are subject to continual revision as actual amounts are compared to past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The assumptions used to determine the AOC for the current year and the funded status of the plan include:

Actuarial cost method	Projected unit credit
Method(s) used to determine the actuarial value of assets	Market value of plan assets held in the OPEB trust
Investment return assumption (discount rate)	7.95%, which represents the long-term expected investment return on OPEB trust assets
Mortality	RP-2014 Mortality Tables with projection scale MP-2016
Amortization method	Level dollar amount
Amortization period	Open period of 30 years

(iii) Healthcare cost trend rates are as follows:

	Healthcare cost trend rates			
Year	**Medical (pre-65)**	**Medical (post-65)**	**Prescription**	**Dental**
2017	6.0 %	4.5 %	8.5 %	4.0 %
2018	5.5	4.5	8.0	4.0
2019	5.0	4.5	7.5	4.0
2020	4.5	4.5	7.0	4.0
2021	4.5	4.5	6.5	4.0
2022	4.5	4.5	6.0	4.0
2023	4.5	4.5	5.5	4.0
2024	4.5	4.5	5.0	4.0
2025 and following	4.5	4.5	4.5	4.0

The following table shows the components of the Company's AOC for FY 2017 and FY 2016, the amount actually contributed to the plan, and the Company's net OPEB obligation (thousands of U.S. dollars):

		2017	2016
Annual required contribution	$	37,639	41,782
Interest on net OPEB obligation		6,475	7,156
Adjustment to the annual required contribution		(7,200)	(7,958)
Annual OPEB cost		36,914	40,980
Contributions made		(48,065)	(49,551)
Net OPEB obligation as of prior year		81,443	90,014
Net OPEB obligation as of August 31	$	70,292	81,443

The AOC is recorded in the statements of revenues and expenses and changes in net position. For the year ended August 31, 2017, approximately $7.3 million was recorded to other postemployment benefits expense and $29.6 million was allocated to administrative and general expense. For the year ended August 31, 2016, approximately $9.9 million was recorded to other postemployment benefits expense and $31.1 million was allocated to administrative and general expense.

The Company's AOC, the percentage of AOC contributed to the plan, and the net OPEB obligation for FY 2017 and the two preceding fiscal years were as follows (thousands of U.S. dollars):

		Annual OPEB cost	Percentage of annual OPEB cost contributed	Net OPEB obligation
Fiscal year ended August 31:				
2017	$	36,914	130.2 %	70,292
2016		40,980	120.9	81,443
2015		37,073	131.8	90,014

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

PGW is self-insured for the healthcare of active employees and retirees under the age of 65. Retirees over the age of 65 are insured on an experience-rated basis. At August 31, 2017, the Company has in place $222.8 million of group life insurance coverage for both active and retired employees, which is retrospectively rated on a monthly basis.

(12) Defined Contribution Pension Plan

PGW contributes to a defined-contribution pension plan, for all employees hired after May 21, 2011 (Union) or December 8, 2011 (Nonunion) who elect not to contribute to the defined-benefit plan. The Defined Contribution Plan is administered by the PGW Investment Committee. Benefit terms, including contribution requirements, for the Defined Contribution Plan are established and may be amended by Ordinance of the City. For each employee in the Defined Contribution Plan, the Company is required to contribute annually 5.5% of applicable wages to an individual employee account. Employees are not required to make contributions to the plan. For the years ended August 31, 2017 and 2016, the Company recognized pension expense of $1.2 million and $1.0 million, respectively, for the Defined Contribution Plan.

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

The Company had no accrued liabilities for contributions payable to the Defined Contribution Plan at August 31, 2017 and 2016.

(13) Pollution Remediation Obligation

The Company recorded an additional liability for pollution remediation obligations of $1.2 million and $1.3 million for FY 2017 and FY 2016, respectively. The pollution remediation liability is reflected in other noncurrent and current liabilities. In accordance with U.S. GAAP for regulated entities, the Company has also recognized the long-term portion of its environmental remediation liability as a regulatory asset because based on available evidence it is probable that the previously incurred costs will be recovered through rates.

The pollution remediation obligations at August 31, 2017 and 2016 were $33.6 million and $32.7 million, respectively, which reflect the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

(14) Risk Management

The Company is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. While self-insured for many risks, the Company purchases insurance coverage where appropriate. The Company's real and personal property is insured against the risk of loss or damage in the amount of $250.0 million, subject to a $0.5 million per accident deductible at the Richmond and Passyunk Plants and a $0.1 million per accident deductible at all other locations. There are separate sublimits for flood and earth movement at select locations. The Company's Property Insurance includes coverage for damage incurred from a terrorist attack. In addition, the Company maintains Blanket Crime, which is a form of Property Insurance.

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

The Company maintains statutory limits for Workers' Compensation (including terrorism) with a $0.5 million per occurrence self-insured retention.

The Company maintains a $30.0 million Public Officials Liability (Directors and Officers Liability) policy with a $0.5 million retention as well as a $60.0 million Fiduciary Liability policy with a $0.2 million self-insured retention.

The Company maintains $5.0 million in Environmental Liability coverage for liability arising from nonowned Disposal Sites subject to an each incident deductible of $0.1 million, as well as a $5.0 million Cyber (Privacy) Liability policy with a $0.3 million retention covering costs arising from a data or security breach.

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

The Company has evaluated all open claims as of August 31, 2017 and has appropriately accrued for these claims on the balance sheets.

Claims and settlement activity for occurrences excluded under the provisions of insurance policies for injuries and damages are as follows (thousands of U.S. dollars):

	Beginning of year reserve	Current year claims and adjustments	Claims settled	End of year reserve	Current liability amount
Fiscal year ended August 31:					
2017	$ 10,493	6,681	(2,797)	14,377	4,627
2016	11,512	2,022	(3,041)	10,493	5,307
2015	9,944	3,610	(2,042)	11,512	5,011

(15) Commitments and Contingencies

Commitments

Commitments for major construction and maintenance contracts were approximately $47.8 million and $40.3 million, as of August 31, 2017 and 2016, respectively.

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

2018	$ 896
2019	579
2020	497

Rent expense for the fiscal years ended August 31, 2017 and 2016 amounted to $1.9 million.

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 $5.0 million per month.

The Company has entered into seasonal contracts with suppliers providing the Company the ability to fix the price of the purchase of natural gas during the period from November 1, 2017 through March 31, 2018.

The Company's amended FY 2018 Capital Budget was approved by City Council in the amount of $114.4 million. Within this approval, funding was provided to continue the implementation of an 18-mile CIMR

Program. Main replacement cost for this program in FY 2018 is expected to be $24.5 million. The total six-year cost of the CIMR Program is forecasted to be $155.6 million. In addition to the 18-mile CIMR Program, the FY 2018 Capital Budget includes funding for an incremental CIMR Program which PGW will include in its DSIC surcharge. This incremental program in FY 2018 is expected to cost $33.0 million. The total six-year cost of this incremental program is forecasted to be $198.0 million. The FY 2018 Capital Budget also includes $2.4 million for the purchase of replacement Automatic Meter Reading (AMR) units. The total six-year cost of this program to replace AMR units is approximately $15.1 million.

Contingencies

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

Augustin, et al. v. City of Philadelphia - This is a federal action brought against the City (PGW) on behalf of plaintiffs and similarly situated property owners, whose property the City (PGW) filed liens against for unpaid gas charges incurred by another party (i.e., a tenant). The plaintiffs represent a class of non-owner-occupied residential and commercial property owners, seeking to enjoin the City (PGW) from imposing or enforcing gas liens on their properties for unpaid charges incurred by their tenants or others living in or utilizing the properties. Plaintiffs allege that the City (PGW) imposes such liens on their properties without meaningful and timely notice to them or opportunity to be heard beforehand, in alleged violation of their federal due process rights.

In February 2016, the Court denied the City’s summary judgment motion, identifying certain purported issues of material fact. In March 2016, the Court granted the plaintiffs’ summary judgment motion, finding that the process employed by the City to impose liens on non-owner occupied properties violates owners’ due process rights. In May 2016, following a hearing, the Court entered a preliminary injunction against the City and PGW restraining them, pending further order of the Court, from filing any new liens against such properties and from collecting upon existing liens. However, the Court permitted the City and PGW to continue to issue payoff statements to facilitate real estate transactions on such properties, and to accept the payoffs, but directed it to segregate such money. A hearing on permanent injunction and relief, and other outstanding issues was held July 26, 2016.

On December 1, 2016, the Court issued an Order and Opinion certifying the class. On January 5, 2017, the Court issued an Order and Opinion addressing the request for permanent injunctive relief; however, the Court partially stayed its Order on February 24, 2017. Currently, pursuant to the Order and the partial stay of same, PGW (a) is prohibited from filing new liens against any property where the owner was not the customer who incurred the debt (subject to court review of new processes to impose such liens), (b) is required to release, vacate and track certain liens for properties in real estate transactions that proceed to closing where the owner is not the customer, and (c) is required to continue to segregate funds collected from landlord-owners for non-owner debt between May 4, 2016 and January 25, 2017 (approximately $3.7 million).

On January 25, 2017, the City filed a Notice of Appeal with the Third Circuit Court of Appeals. The City's opening brief was filed and served on June 29, 2017. On November 8, 2017 the City argued before the Third Circuit and is now awaiting the ruling of the Court. As previously, the City intends to vigorously exercise its appellate rights and promote its legal position in the litigation as it progresses.

SBG Management Service, Inc./Colonial Garden Realty Co., Inc. v. PGW; SBG Management Service, Inc. /Simon Garden Realty Co., Inc. v. PGW - These consolidated cases involve formal complaints filed by landlord complainant SBG Management Service, Inc. and related entities ("SBG") with the Pennsylvania Public Utility Commission, challenging, inter alia, the accuracy of its PGW bills and the lawfulness of PGW's billing methodology regarding the application of payments, and the assessment of late payment charges for amounts of unpaid PGW debt that has been liened under the Municipal Claim and Tax Lien Law, Act 153 of 1923, P.L. 207, 53 P.S. §§ 7101, et seq. ("Municipal Lien Act"). The underlying Complaints were consolidated by the PUC, and the five consolidated proceedings were further divided into two discrete groups for adjudication and disposition purposes owing to the numerous transactions involved and common questions of law and fact presented. On September 17, 2015, the PUC issued an Initial Decision to which PGW filed Exceptions on October 7, 2015. On December 8, 2016, the PUC issued an Order and Opinion, granting in part and denying in part the PGW exceptions. Accordingly, the PUC adopted the Initial Decision as modified consistent with the discussion contained in the Order and Opinion as summarized below.

Per the Order and Opinion, the PUC found that PGW improperly applied late payment charges to amounts of unpaid PGW debt that had been liened under the Municipal Lien Act. Under the PUC's analysis, the legal effect of the City of Philadelphia's having filed municipal liens on the subject accounts is to remove the indebtedness for the unpaid utility bills from the Commission's jurisdiction. The PUC determined that it lost subject matter jurisdiction over "any aspect of the customers' underlying debt" once converted into a municipal lien. The PUC rejected the Administrative Law Judge's (ALJ) reasoning in the Initial Decision with regard to the appropriate interest to be assessed on an unpaid PGW debt that is the subject of a municipal lien under the Municipal Lien Act, but nevertheless adopted the ALJ's conclusion substituting its own reasoning. Further, the PUC opined that it lacks jurisdiction to determine what, if any, is the appropriate rate of interest that PGW may charge for such delinquent accounts. As non-Commission jurisdictional charges, the PUC stated that the appropriate remedy is to remove these late payment charges from the customers' bills. The PUC ordered that the several accounts that are the subject of the proceedings required a total credit in the sum of $0.6 million to correct for overcharging of late payment charges. The PUC also assessed a civil penalty of less than $0.1 million for violations of the Public Utility Code. The total liability for these consolidated matters is $0.6 million.

The PUC ordered PGW to cease and desist the practices that result in violation of the Public Utility Code and instructed PGW to provide certification that it has done so within 45 days of the order of December 8, 2016. On December 23, 2016, PGW petitioned the PUC for Reconsideration and Rehearing of this matter including a request to stay the implementation of the Order and Opinion, thus preserving the ability to appeal the matter to the Commonwealth Court. On December 28, 2016, the PUC granted PGW's petition, which operates as a stay, pending review on the merits. PGW is awaiting the PUC's determination on the petition. In addition, on October 3, 2017, PGW filed a Supplemental Petition for Rehearing of the Order and Opinion. In the Supplemental Petition, PGW asks, inter alia, that certain evidence developed in PGW's base rate be admitted into this record. PGW is also awaiting the PUC's determination on the supplemental petition.

At this time, PGW cannot predict the impact that the initial Order and Opinion would have on PGW's collections and collection practices if late payment charges could not be assessed on monthly bills with respect to arrearages that are liened. There are two additional consolidated dockets related to those mentioned above for which an Order and Opinion had not been issued. However total liability (credits and civil penalties) is not expected to exceed $0.3 million in those additional matters.

SBG Management Service, Inc. as the authorized agent for Colonial Garden Realty Co., LP; Earle Garden Realty Co., LP et al v. City of Philadelphia - This related matter was filed in the U.S. Federal Court for the Eastern District of Pennsylvania in September 2017, by SBG as the authorized agent for eight realty companies that are closely associated with SBG. The Plaintiffs seek to recover damages as a result of the alleged over-collection of late fees, fees and costs as a result of PGW's lien practices and accounting/collection methodology. SBG seeks damages of $7.0 million for improperly calculated and assessed late payment charges to accounts and upon liens plus attorney's fees, expenses and other costs, as well as treble damages. This amount totals in excess of $20.0 million, however PGW does not believe the City is subject to punitive/treble damages, and will raise other defenses and counterclaims.

The Plaintiffs maintain that their due process rights have been violated by the City's (PGW's) failure to give notice of municipal claims filed as liens. SBG further challenges, inter alia, the accuracy of its PGW bills and the lawfulness of PGW's billing methodology regarding the application of payments, and the assessment of late payment charges for amounts of unpaid PGW debt that has been liened under the Municipal Claim and Tax Lien Law, Act 153 of 1923, P.L. 207, 53 P.S. §§ 7101, et seq. ("Municipal Lien Act").

As noted above, several of the issues raised in this matter are also pending before the Pennsylvania Public Utility Commission in: *SBG Management Service, Inc./Colonial Garden Realty Co., Inc. v. PGW and SBG Management Service, Inc./Simon Garden Realty Co., Inc. v. PGW*. Further, issues related to the filing of liens under the Municipal Lien Act are the subject of pending litigation under Augustin v. The City of Philadelphia (PGW). The City's (PGW's) response to the complaint was filed on December 18, 2017. The City (PGW) intends to vigorously exercise its rights and promote its legal position in the litigation as it progresses.

In addition to the legal proceedings noted above, PGW is party to other litigation or legal proceedings arising in the ordinary course of business. In management's opinion, the disposition of these ordinary course matters will not materially adversely affect PGW's financial statements.

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

Required Supplementary Information (Unaudited)

Schedule of Changes in Net Pension Liability and Related Ratios

(Thousands of U.S. dollars)

	Fiscal year ending			
	2017	2016	2015	2014
Total pension liability:				
Service cost	$ 5,823	5,399	4,890	8,924
Interest cost	55,443	55,903	52,377	47,098
Changes in benefit terms	—	—	—	—
Differences between expected and actual experience	2,182	(8,840)	17,961	59,326
Changes in assumptions	(7,952)	26,748	44,876	—
Benefit payments	(51,376)	(50,447)	(46,917)	(42,913)
Net change in total pension liability	4,120	28,763	73,187	72,435
Total pension liability (beginning)	779,351	750,588	677,401	604,966
Total pension liability (ending)	783,471	779,351	750,588	677,401
Plan fiduciary net position:				
Contributions – employer	27,918	21,123	21,106	24,934
Contributions – employee	852	602	393	239
Net investment income	61,003	2,872	24,472	75,303
Benefit payments	(51,376)	(50,447)	(46,917)	(42,913)
Administrative expense	(129)	(1,611)	(1,480)	(732)
Net change in fiduciary net position	38,268	(27,461)	(2,426)	56,831
Plan fiduciary net position (beginning)	483,258	510,719	513,145	456,314
Plan fiduciary net position (ending)	521,526	483,258	510,719	513,145
Net pension liability (ending)	$ 261,945	296,093	239,869	164,256
Net position as a percentage of pension liability	66.57 %	62.01 %	68.04%	75.75%
Covered employee payroll	$ 94,767	90,860	95,187	103,530
Net pension liability as a percentage of payroll	276.41 %	325.88 %	252.00%	158.66%

Notes to schedule:
- Historical information:
  - The Company has presented the information noted above for those years for which information is available.
  - Ten-year trend information will be presented prospectively.
- Changes in assumptions:
  - Investment Rate of Return: 7.30% in 2017, 7.30% in 2016, 7.65% in 2015, 7.95% in 2014
  - Mortality Rates: Adopted RP-2014 static mortality table in FY 2015 generationally projected with scale MP-2014 in FY 2015, MP-2015 in FY 2016, and MP-2016 in FY 2017.

See accompanying independent auditors' report.

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

Required Supplementary Information (Unaudited)

Schedule of Pension Contributions

(Thousands of U.S. dollars)

Fiscal year ending		2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	$	29,260	26,476	21,526	24,385	23,673	23,802	22,936	23,099	15,437	15,453
Contributions made		29,260	26,476	21,526	24,385	23,673	23,802	22,936	23,099	15,437	15,453
Contribution deficiency/(excess)	$	—	—	—	—	—	—	—	—	—	—
Covered employee payroll	$	94,768	90,860	95,187	103,530	105,985	106,308	106,308	106,125	108,474	107,918
Contributions as a percent of covered employee payroll		30.88 %	29.14 %	22.61 %	23.55 %	22.34 %	22.39 %	21.58 %	21.77 %	14.23 %	14.32 %

Notes to schedule:

Methods and assumptions used to determine contribution rates:

Actuarial Valuation Date: July 1 for 2017, 2016 and 2015 and September 1 for prior periods
Actuarial Cost Method: Projected Unit Credit
Asset Valuation Method: Assets smoothed over a five-year period beginning in 2015 and Market Value in 2014 and prior periods
Amortization Method: Contributions based on greater of 20-year level dollar open amortization method or 30-year level dollar closed amortization method
Salary Increases: 4.50%
General Inflation: 2.00%
Investment Rate of Return: 7.30% in 2017, 7.30% in 2016, 7.65% in 2015, 7.95% in 2014
Mortality Rates: RP-2014 static mortality generationally projected with scale MP-2014 in FY 2015, MP-2015 in FY 2016 and MP-2016 in FY 2017.
RP-2000 static mortality projected to the year of valuation for all periods prior to 2015.

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 U.S. dollars)

Actuarial valuation date	(a) Actuarial value of assets	(b) Actuarial accrued liability (AAL)	(b)-(a) Unfunded AAL (UAAL)	(a/b) Funded ratio	Covered payroll	UAAL as a percent of covered payroll
August 31, 2017	$ 165,883	516,082	350,199	32.1 %	112,638	310.9 %
August 31, 2016	131,868	489,725	357,857	26.9	112,956	316.8
August 31, 2015	104,318	505,434	401,116	20.6	114,074	351.6

See accompanying independent auditors' report.

STATISTICAL SECTION

PGW became a two-time diversity award winner in 2017, making the **Best of the Best** lists for both the Black EOE Journal and HISPANIC Network Magazine.

PHILADELPHIA GAS WORKS

Statistical Section

Description of Schedules

August 31, 2017

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

Financial Trends

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

Revenue Capacity

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

Debt Capacity

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

Demographic and Economic Information

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

Operating Information

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

Sources

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

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Balance Sheets
Fiscal Years 2008 through 2017
(Thousands of US dollars)

Assets	**2017**	**2016**	**2015**
Current assets:			
Cash and cash equivalents	88,535	91,743	114,327
Cash designated for capital expenditures	-	-	-
Accounts receivable (net of provision for uncollectible accounts)	82,028	73,563	86,853
Gas inventories, materials, and supplies	55,414	47,891	50,908
Capital improvement fund	165,000	-	-
Workers' compensation escrow fund	2,616	2,603	2,597
Health insurance escrow fund	-	-	3,223
Other current assets and deferred debits	28,714	31,017	13,596
Total current assets	422,307	246,817	271,504
Non current assets			
Utility plant, at original cost:			
In service	2,244,731	2,178,632	2,093,112
Under construction	105,393	73,531	64,254
Total	2,350,124	2,252,163	2,157,366
Less accumulated depreciation	1,012,009	967,353	924,996
Utility plant, net	1,338,115	1,284,810	1,232,370
Unamortized bond issuance costs * (1)	322	512	3,473
Unamortized losses on reacquired debt	-	-	-
Sinking fund, revenue bonds	102,202	86,652	90,141
City of Philadelphia	-	-	-
Deferred environmental	30,010	28,425	-
Other assets and deferred debits	11,301	6,364	37,646
Total non current assets	1,481,950	1,406,763	1,363,630
Total assets	1,904,257	1,653,580	1,635,134
Deferred outflows of resources (3)			
Accumulated fair value of hedging derivatives	7,911	14,763	20,948
Unamortized losses on bond refunding (1)	47,614	57,175	37,471
Deferred outflows related to pension (2)	27,125	88,043	78,128
Total deferred outflows of resources	82,650	159,981	136,547
Total assets and deferred outflows of resources	1,986,907	1,813,561	1,771,681

* For Fiscal Years 2017, 2016, 2015, 2014, 2013 and 2012 this category includes only bond insurance costs.

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

(2) During FY 2015, the Company implemented GASB Statement No. 68, Accounting and Financial Reporting *for Pensions - an Amendment of GASB Statement No. 27, that improves accounting and financial reporting by state and local governments for pensions, and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68, to* address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. This change was retroactive to FY 2014.

(3) During FY 2012, the Company implemented GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position . Prior to implementation of this standard, net position was referred to as fund equity, and net investment in capital assets was referred to as excess (deficiency) of capital assets, net of related debt. This standard also established the financial reporting categories of deferred outflows of resources and deferred inflows of resources.

Source - PGW's Audited Financial Statements

2014	2013	2012	2011	2010	2009	2008
105,734	100,933	75,826	105,386	79,052	13,750	49,338
10,000	-	-	-	-	-	-
101,457	97,749	81,997	98,925	92,173	105,496	99,304
69,989	80,234	81,086	85,993	103,133	125,023	187,539
-	44,055	88,838	122,332	170,809	62,714	111,207
2,597	2,597	2,597	2,596	2,595	2,593	2,383
3,223	3,223	3,222	-	-	-	-
19,221	16,196	26,939	35,523	27,212	4,895	5,626
312,221	344,987	360,505	450,755	474,974	314,471	455,397
2,018,234	1,951,546	1,894,129	1,856,303	1,794,277	1,754,297	1,685,593
57,206	44,409	53,851	40,555	46,339	30,953	46,969
2,075,440	1,995,955	1,947,980	1,896,858	1,840,616	1,785,250	1,732,562
881,888	840,968	822,330	785,780	746,607	708,783	670,467
1,193,552	1,154,987	1,125,650	1,111,078	1,094,009	1,076,467	1,062,095
14,136	15,736	17,417	24,585	27,066	27,516	38,738
-	-	-	62,039	70,873	79,945	47,902
105,909	105,280	105,312	112,038	111,409	110,227	106,198
-	-	-	-	-	-	-
-	-	-	-	-	-	-
37,528	33,097	30,996	30,640	22,925	23,465	33,125
1,351,125	1,309,100	1,279,375	1,340,380	1,326,282	1,317,620	1,288,058
1,663,346	1,654,087	1,639,880	1,791,135	- 1,801,256	- 1,632,091	- 1,743,455
18,879	12,059	34,712	25,360	25,906	-	-
37,051	44,868	53,241	-	-	-	-
46,131	-	-	-	-	-	-
102,061	56,927	87,953	25,360	25,906	-	-
1,765,407	1,711,014	1,727,833	1,816,495	1,827,162	1,632,091	1,743,455

(Continued)

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Balance Sheets
Fiscal Years 2008 through 2017
(Thousands of US dollars)

Fund Equity and Liabilities	2017	2016	2015
Current liabilities:			
Notes payable	-	71,000	30,000
Current portion of revenue bonds	49,890	44,803	43,030
Accounts payable	54,922	55,870	56,027
Current portion of long-term liabilities	5,828	6,808	-
Customer deposits	3,385	3,308	2,858
Other current liabilities	6,004	6,983	14,091
Accrued accounts:			
Interest, taxes, and wages	12,956	6,417	10,051
Distribution to the City	3,000	3,000	3,000
Total current liabilities	135,985	198,189	159,057
Non current liabilities:			
Long-term revenue bonds	1,125,473	881,620	914,719
Other noncurrent liabilities	135,979	149,621	168,399
Net pension liability (2)	261,945	296,093	239,869
Total non current liabilities	1,523,397	1,327,334	1,322,987
Total liabilities	1,659,382	1,525,523	1,482,044
Deferred Inflows of Resources (3)			
Deferred inflows related to pension (2)	-	-	11,653
Total liabilities and deferred inflows of resources	1,659,382	1,525,523	1,493,697
Net position			
Excess (deficiency) of net investment in capital assets	375,366	415,561	274,621
Restricted (debt service)	104,818	89,255	95,962
Unrestricted (1) (2)	(152,659)	(216,778)	(92,599)
Total net position	327,525	288,038	277,984
Total liabilities, deferred inflows of resources, and net position	1,986,907	1,813,561	1,771,681

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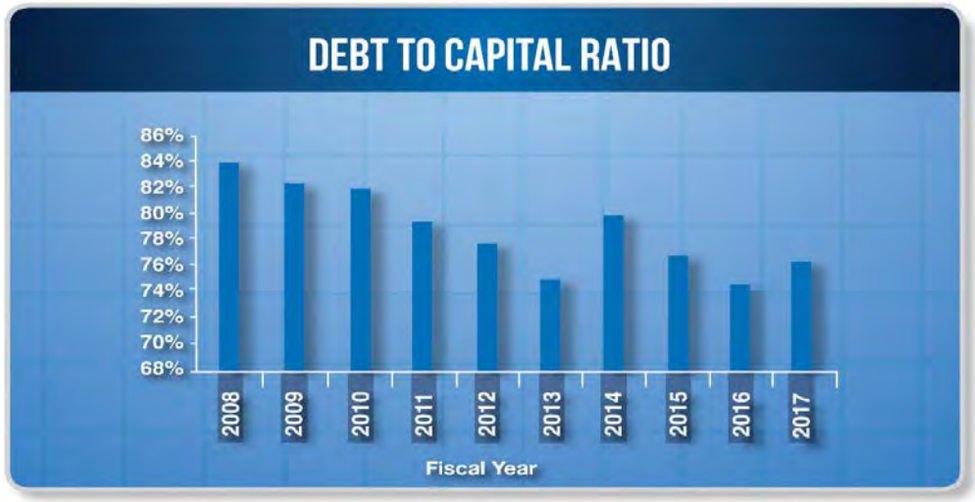
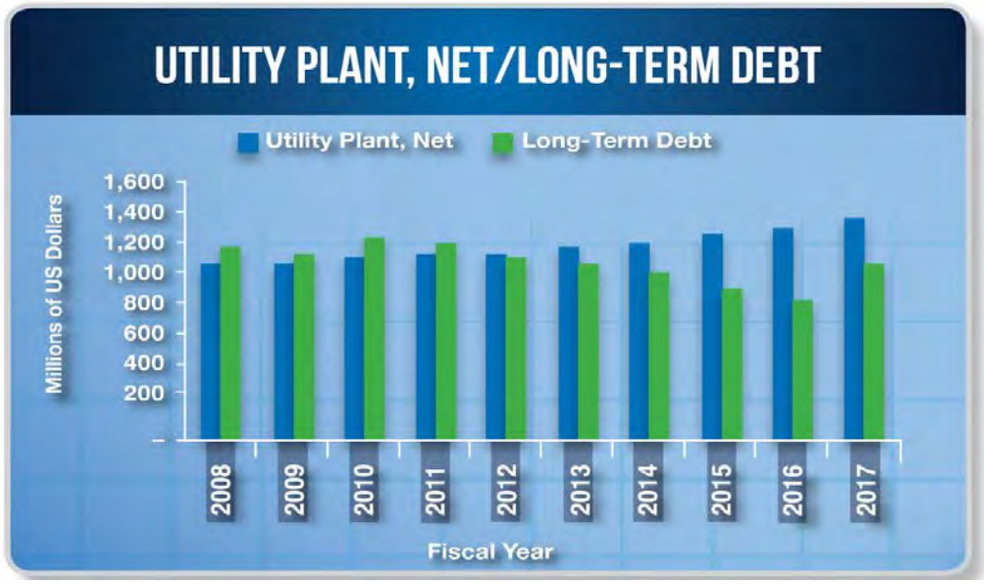
Source - PGW's Audited Financial Statements

2014	2013	2012	2011	2010	2009	2008
-	-	-	-	-	-	90,000
53,227	52,406	30,545	50,549	42,537	48,175	76,030
58,888	59,379	57,127	55,893	59,303	46,205	67,508
-	-	-	-	-	-	-
2,245	2,305	2,449	2,869	3,998	4,224	7,325
19,321	9,107	10,265	12,098	12,185	16,203	32,581
14,646	14,823	15,555	17,476	16,743	15,948	15,821
3,000	3,000	3,000	3,000	3,000	3,000	3,000
151,327	141,020	118,941	141,885	137,766	133,755	292,265
980,749	1,033,976	1,086,502	1,166,992	1,224,987	1,114,488	1,127,163
179,265	177,431	206,445	197,878	189,974	140,229	97,619
164,256	-	-	-	-	-	-
1,324,270	1,211,407	1,292,947	1,364,870	1,414,961	1,254,717	1,224,782
1,475,597	1,352,427	1,411,888	1,506,755	1,552,727	1,388,472	1,517,047
31,808	-	-	-	-	-	-
1,507,405	1,352,427	1,411,888	1,506,755	1,552,727	1,388,472	1,517,047
159,576	112,660	97,442	15,869	(2,706)	1,019	(4,466)
111,729	111,100	111,131	114,634	114,004	112,820	108,581
(13,303)	134,827	107,372	179,237	163,137	129,780	122,293
258,002	358,587	315,945	309,740	274,435	243,619	226,408
1,765,407	1,711,014	1,727,833	1,816,495	1,827,162	1,632,091	1,743,455

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Debt to Capital Ratio, Utility Plant, Net/Long-Term Debt and Net Position
Fiscal Years 2008 through 2017





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PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Statements of Revenues and Expenses
Fiscal Years 2008 through 2017
(Thousands of US dollars)

	2017	2016	2015
Operating revenues:			
Gas revenues:			
Nonheating	21,694	21,873	30,753
Gas transport service	44,370	41,008	39,588
Heating	552,342	509,467	605,686
Total gas revenues	618,406	572,348	676,027
Appliance and other revenues	8,199	7,961	8,727
Other operating revenues	9,598	10,928	12,493
Total operating revenues	636,203	591,237	697,247
Operating expenses:			
Natural gas	179,230	146,524	252,169
Gas processing	16,789	17,948	18,180
Field services	37,715	36,277	36,874
Distribution	41,318	37,173	38,629
Collection and account management	11,200	10,913	11,192
Provision for uncollectible accounts	29,992	27,133	34,833
Customer services	13,230	12,432	12,262
Marketing	3,644	3,671	6,956
Administrative and general	88,937	99,652	93,347
Pensions (2)	54,826	62,336	43,748
Other postemployment benefits	7,349	9,929	6,726
Taxes	7,890	7,521	7,823
Total operating expenses before depreciation	492,120	471,509	562,739
Depreciation	54,347	51,679	49,371
Less depreciation expense included in operating expenses above	6,770	6,231	5,584
Net depreciation	47,577	45,448	43,787
Total operating expenses	539,697	516,957	606,526
Operating income	96,506	74,280	90,721
Interest and other income	1,989	1,393	3,784
Income before interest expense	98,495	75,673	94,505
Interest expense:			
Long-term debt	39,104	40,296	45,756
Other	3,312	8,443	11,548
Allowance for funds used during construction	(1,408)	(1,120)	(781)
Total interest expense	41,008	47,619	56,523
Excess of revenues over expenses prior to City Payment	57,487	28,054	37,982
Distribution to the City of Philadelphia	(18,000)	(18,000)	(18,000)
Grant back of distribution from the City of Philadelphia	-	-	-
Excess of revenues over expenses (2)	39,487	10,054	19,982
Net position, beginning of the year (1) (2)	288,038	277,984	258,002
Net position, end of the year (2)	327,525	288,038	277,984

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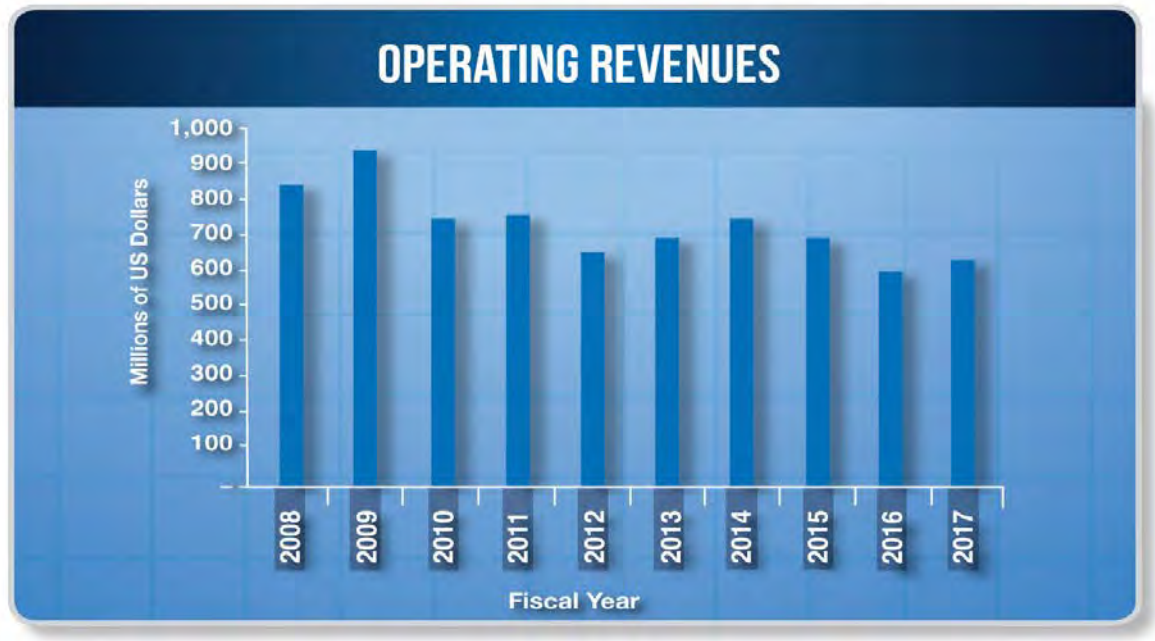
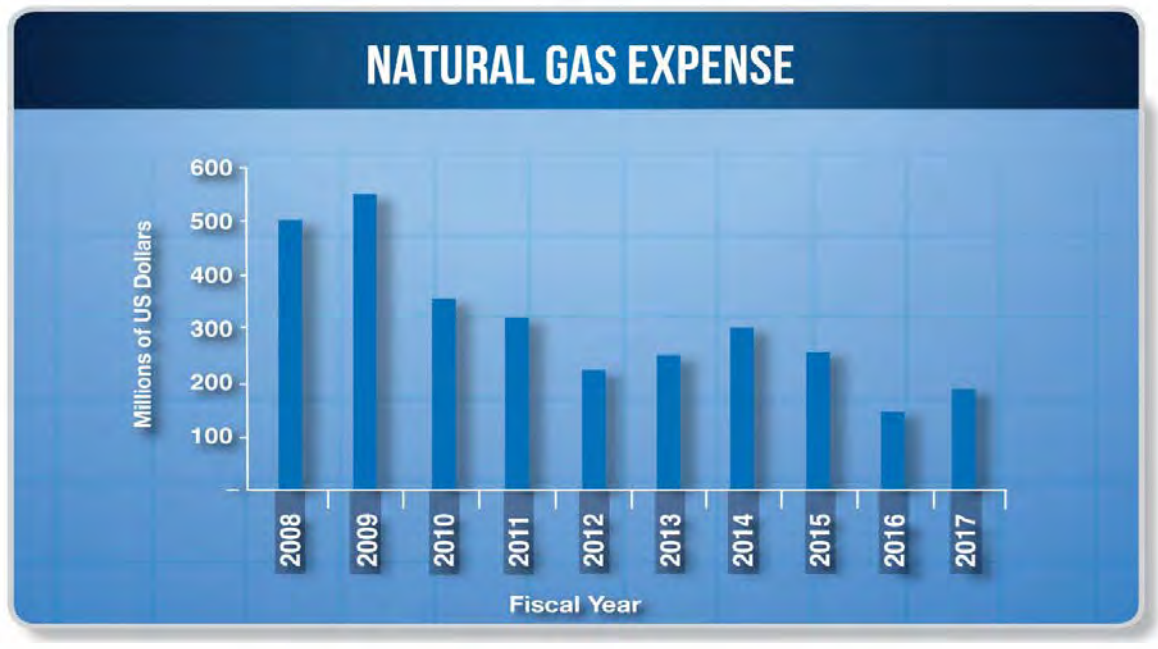
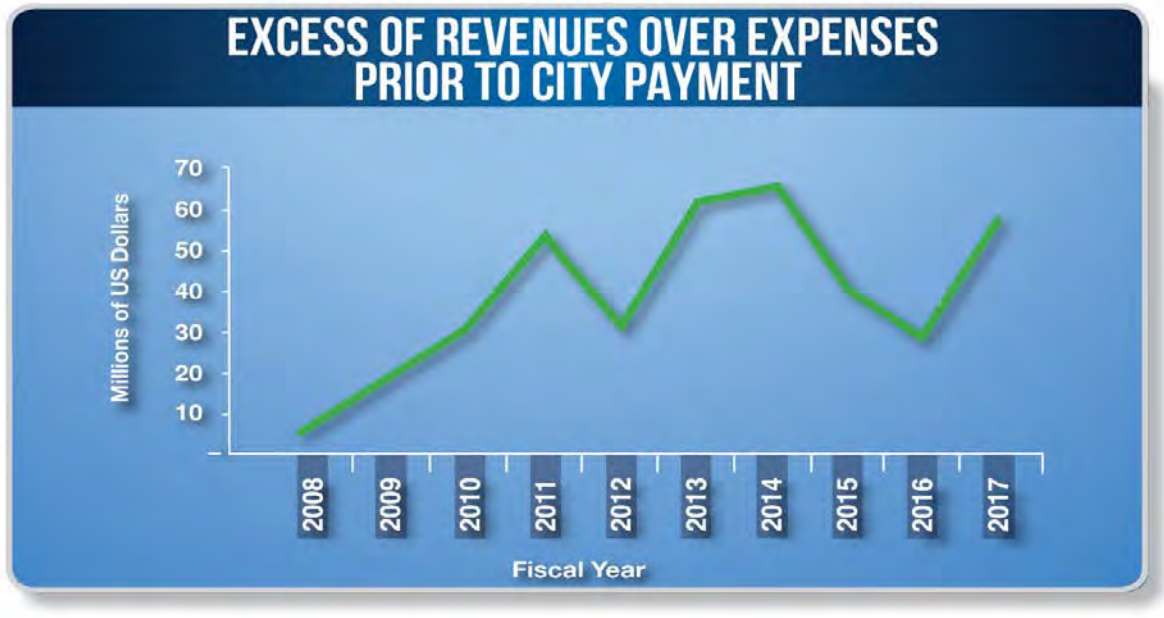
Source - PGW's Audited Financial Statements

2014	2013	2012	2011	2010	2009	2008
39,610	35,262	37,054	51,437	51,343	67,295	78,687
41,217	37,078	29,324	28,700	26,860	24,913	19,215
655,311	602,814	562,009	669,131	664,139	818,249	733,526
736,138	675,154	628,387	749,268	742,342	910,457	831,428
8,317	8,333	8,240	8,400	8,959	9,311	8,607
14,681	9,984	8,356	8,611	7,931	9,673	9,592
759,136	693,471	644,983	766,279	759,232	929,441	849,627
304,051	255,501	233,713	330,932	354,004	545,846	511,976
19,637	17,592	15,640	16,097	14,952	16,779	14,436
37,577	34,926	33,883	33,950	34,026	37,727	37,126
36,929	30,259	27,750	27,990	23,426	21,059	17,319
11,273	11,297	11,491	11,765	15,266	16,248	15,447
38,848	39,971	36,702	36,027	35,000	42,000	37,000
11,187	11,102	11,946	12,532	13,030	12,897	12,305
7,783	6,789	6,664	4,378	3,900	3,436	2,628
85,872	78,206	81,161	76,850	71,620	63,820	60,716
27,214	23,614	23,972	22,597	24,633	15,425	14,258
11,228	16,492	20,119	22,472	27,269	25,952	25,834
7,687	7,220	7,122	7,135	6,990	6,588	5,677
599,286	532,969	510,163	602,725	624,116	807,777	754,722
47,428	45,912	45,045	43,629	43,168	42,200	42,868
5,771	4,870	4,870	4,714	4,690	4,419	3,344
41,657	41,042	40,175	38,915	38,478	37,781	39,524
640,943	574,011	550,338	641,640	662,594	845,558	794,246
118,193	119,460	94,645	124,639	96,638	83,883	55,381
3,597	1,147	4,659	4,348	5,301	12,240	15,732
121,790	120,607	99,304	128,987	101,939	96,123	71,113
48,261	49,655	53,012	57,225	52,527	63,602	56,075
9,380	10,740	16,824	18,884	18,986	15,558	12,269
(506)	(430)	(292)	(427)	(390)	(248)	(338)
57,135	59,965	69,544	75,682	71,123	78,912	68,006
64,655	60,642	29,760	53,305	30,816	17,211	3,107
(18,000)	(18,000)	(18,000)	(18,000)	(18,000)	(18,000)	(18,000)
-	-	-	-	18,000	18,000	18,000
46,655	42,642	11,760	35,305	30,816	17,211	3,107
211,347	315,945	304,185	274,435	243,619	226,408	223,301
258,002	358,587	315,945	309,740	274,435	243,619	226,408

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Operating Revenues, Natural Gas Expense, and Excess of Revenues Over Expenses Prior to City Payment
Fiscal Years 2008 through 2017







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PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Average Number of Customers Billed by System
Fiscal Years 2008 through 2017

	2017	2016	2015	2014	2013
Residential	479,300	476,300	475,300	474,300	475,300
Commercial	25,000	25,000	25,000	25,000	25,000
Industrial	700	700	700	700	700
Total	505,000	502,000	501,000	500,000	501,000

Source - PGW Records

2012	2011	2010	2009	2008
477,300	477,300	476,200	478,200	479,200
25,000	25,000	25,000	25,000	25,000
700	700	800	800	800
503,000	503,000	502,000	504,000	505,000

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Operating Revenues
Fiscal Years 2008 through 2017
(Thousands of US dollars)

	2017	2016	2015	2014
Firm non-heat	21,588	20,765	27,592	30,324
Interruptible gas sales	377	346	3,672	9,068
Billed non-heating	21,965	21,111	31,264	39,392
GCR non-heating adjustment	(271)	762	(511)	218
Total non-heating	21,694	21,873	30,753	39,610
Billed heating	527,191	454,852	630,286	660,942
GCR heating adjustment	(4,768)	17,424	(12,124)	6,174
Total billed heating	522,423	472,276	618,162	667,116
Weather normalization adjustment (WNA)	27,748	39,021	(10,372)	(11,810)
Total heating	550,171	511,297	607,790	655,306
Total gas sold	571,865	533,170	638,543	694,916
Firm transportation (FT) non-heat	4,559	4,518	4,953	5,671
FT heating	26,850	22,789	22,468	23,330
WNA - FT	1,846	2,458	(374)	(488)
Total heating FT	28,696	25,247	22,094	22,842
Total FT	33,255	29,765	27,047	28,513
Unbilled adjustment	2,171	(1,830)	(2,105)	5
GTS: transportation	1,171	1,231	1,252	1,173
GTS - customer/customer choice	8,938	8,784	10,285	10,278
GTS - supplier/customer choice	14	11	11	11
GTS - firm supplier	992	1,217	994	1,242
Total gas revenues	618,406	572,348	676,027	736,138

Source - PGW Records

2013	2012	2011	2010	2009	2008
31,401	33,282	36,779	37,932	50,172	52,528
4,703	3,338	14,431	12,503	16,493	26,679
36,104	36,620	51,210	50,435	66,665	79,207
(841)	434	228	908	631	(521)
35,263	37,054	51,438	51,343	67,296	78,686
605,761	519,950	659,681	630,970	810,704	731,942
(12,407)	4,244	5,360	16,742	8,991	(8,407)
593,354	524,194	665,041	647,712	819,695	723,535
8,060	44,016	1,696	12,970	445	11,923
601,414	568,210	666,737	660,682	820,140	735,458
636,677	605,264	718,175	712,025	887,436	814,144
5,194	3,861	4,582	3,306	2,857	2,120
19,665	14,037	14,541	13,254	12,265	8,205
331	1,412	128	455	60	315
19,996	15,449	14,669	13,709	12,325	8,520
25,190	19,310	19,251	17,015	15,182	10,640
1,398	(6,201)	2,393	3,457	(1,893)	(1,931)
1,050	1,086	1,147	1,928	1,948	2,228
9,372	7,955	8,333	7,421	6,813	6,177
478	170	(790)	(105)	842	85
989	803	759	601	129	85
675,154	628,387	749,268	742,342	910,457	831,428

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Sales Volumes
Fiscal Years 2008 through 2017
(Sales in Mcf)*

	2017	2016	2015	2014
Firm non-heat	1,508,362	1,568,529	1,912,025	1,955,220
Interruptible gas sales	18,420	37,909	514,110	1,096,381
Billed non-heating	1,526,782	1,606,438	2,426,135	3,051,601
Total non-heating	1,526,782	1,606,438	2,426,135	3,051,601
Billed heating	38,464,325	36,115,312	46,504,401	46,577,983
Total billed heating	38,464,325	36,115,312	46,504,401	46,577,983
Total heating	38,464,325	36,115,312	46,504,401	46,577,983
Total gas sold	39,991,107	37,721,750	48,930,536	49,629,584
Firm transportation (FT) non-heat	640,312	667,248	764,344	795,971
FT heating	3,816,219	3,456,099	3,529,555	3,291,193
Total heating FT	3,816,219	3,456,099	3,529,555	3,291,193
Total FT	4,456,531	4,123,347	4,293,899	4,087,164
Unbilled adjustment	(7,071)	33,433	19,916	95,656
GTS: transportation	12,630,935	12,796,900	13,166,995	12,069,664
GTS - customer/customer choice	11,612,597	11,303,602	12,837,207	13,201,076
Utility Use	264,016	233,115	343,324	350,974
Unaccounted for gas	1,684,675	1,738,806	2,445,717	1,051,828
Total sendout	70,632,790	67,950,953	82,037,594	80,485,946
Unaccounted for gas as a % of total sendout	2.4%	2.6%	3.0%	1.3%

* Mcf = Thousand cubic feet

Source - PGW Records

2013	2012	2011	2010	2009	2008
2,003,583	2,148,736	2,218,768	2,186,030	2,440,758	2,585,001
890,383	192,058	1,004,185	1,049,318	1,170,128	1,790,721
2,893,966	2,340,794	3,222,953	3,235,348	3,610,886	4,375,722
2,893,966	2,340,794	3,222,953	3,235,348	3,610,886	4,375,722
42,741,706	36,196,469	45,795,915	42,604,640	45,584,417	42,940,365
42,741,706	36,196,469	45,795,915	42,604,640	45,584,417	42,940,365
42,741,706	36,196,469	45,795,915	42,604,640	45,584,417	42,940,365
45,635,672	38,537,263	49,018,868	45,839,988	49,195,303	47,316,087
701,712	542,271	629,683	456,675	392,965	333,800
2,725,563	1,941,019	2,038,726	1,848,085	1,700,319	1,272,881
2,725,563	1,941,019	2,038,726	1,848,085	1,700,319	1,272,881
3,427,275	2,483,290	2,668,409	2,304,760	2,093,284	1,606,681
62,646	(633,531)	204,694	276,161	(12,364)	61,729
10,708,926	11,429,993	12,024,712	12,390,748	12,651,292	9,928,058
12,346,548	10,459,723	10,581,753	8,440,368	7,879,560	7,497,327
410,193	394,574	465,505	632,040	737,720	716,683
1,492,946	2,067,268	2,563,662	2,097,817	2,357,825	1,476,092
74,084,206	64,738,580	77,527,603	71,981,882	74,902,620	68,602,657
2.0%	3.2%	3.3%	2.9%	3.1%	2.2%

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Gas Cost Rate
Fiscal Years 2008 through 2017
(US dollars)

	2017	2016	2015	2014
June 1	4.5986	3.2179	4.1721	6.5642
March 1	4.9430	3.4946	4.7059	6.0016
January 1	-	-	-	-
December 1	4.1577	3.6934	5.9976	5.4473
September 1	4.2026	4.0724	5.8670	5.4259

Shown in dollars per thousand cubic feet

Source - PGW Records

2013	2012	2011	2010	2009	2008
6.0709	4.7129	6.0930	6.5139	7.1815	13.0236
6.3991	4.9783	6.5400	7.3455	8.4192	10.7226
-	-	-	-	10.7007	-
5.7323	6.1270	6.2753	7.2497	-	10.5779
5.2247	6.0594	6.9050	7.0900	12.6527	10.1108

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Ratios of Outstanding Debt by Type
Fiscal Years 2008 through 2017
(Thousands of US dollars)

	Revenue Bonds	Ratio to Operating Revenue	Operating Revenue	Number of Customers	Debt per Customer (1)
2017	1,054,725	166%	636,203	505,000	2,089
2016	837,830	142%	591,237	502,000	1,669
2015	915,175	131%	697,247	501,000	1,827
2014	1,015,920	134%	759,136	500,000	2,032
2013	1,065,720	154%	693,471	501,000	2,127
2012	1,093,440	170%	644,983	503,000	2,174
2011	1,184,840	155%	766,279	503,000	2,356
2010	1,225,299	161%	759,232	502,000	2,441
2009	1,121,344	121%	929,441	504,000	2,225
2008	1,162,454	137%	849,627	505,000	2,302

(1) Per customer data in whole dollars

Source - PGW's Audited Financial Statements and PGW Records

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PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Debt Service
Through Fiscal Year 2047

Year	5th Series Variable	8th Series B	8th Series C	8th Series D	8th Series E	9th Series
2018	239,998	985,958	978,012	1,471,372	983,221	6,821,350
2019	239,998	985,958	978,012	1,471,372	983,221	6,820,775
2020	239,998	985,958	978,012	1,471,372	983,221	6,816,775
2021	239,998	985,958	978,012	1,471,372	983,221	6,819,025
2022	239,998	985,958	978,012	1,471,372	983,221	6,821,225
2023	239,998	985,958	978,012	1,471,372	983,221	6,820,975
2024	239,998	5,705,958	5,673,012	8,516,372	5,703,221	4,327,800
2025	239,998	5,900,928	5,869,352	8,807,588	5,898,663	2,242,800
2026	239,998	5,972,750	5,937,581	8,914,171	5,970,993	2,242,800
2027	239,998	6,425,385	6,391,828	9,592,065	6,424,163	2,242,800
2028	239,998	6,464,785	6,427,904	9,640,197	6,464,161	2,242,800
2029	239,998	—	—	—	—	2,242,800
2030	239,998	—	—	—	—	2,242,800
2031	239,998	—	—	—	—	2,242,800
2032	239,998	—	—	—	—	2,242,800
2033	239,998	—	—	—	—	2,242,800
2034	239,998	—	—	—	—	2,242,800
2035	30,119,999	—	—	—	—	2,242,800
2036	—	—	—	—	—	9,937,800
2037	—	—	—	—	—	9,933,813
2038	—	—	—	—	—	9,933,825
2039	—	—	—	—	—	9,936,526
2040	—	—	—	—	—	9,935,600
2041	—	—	—	—	—	—
2042	—	—	—	—	—	—
2043	—	—	—	—	—	—
2044	—	—	—	—	—	—
2045	—	—	—	—	—	—
2046	—	—	—	—	—	—
2047	—	—	—	—	—	—
TOTAL	34,199,965	36,385,554	36,167,749	54,298,625	36,360,527	119,596,289

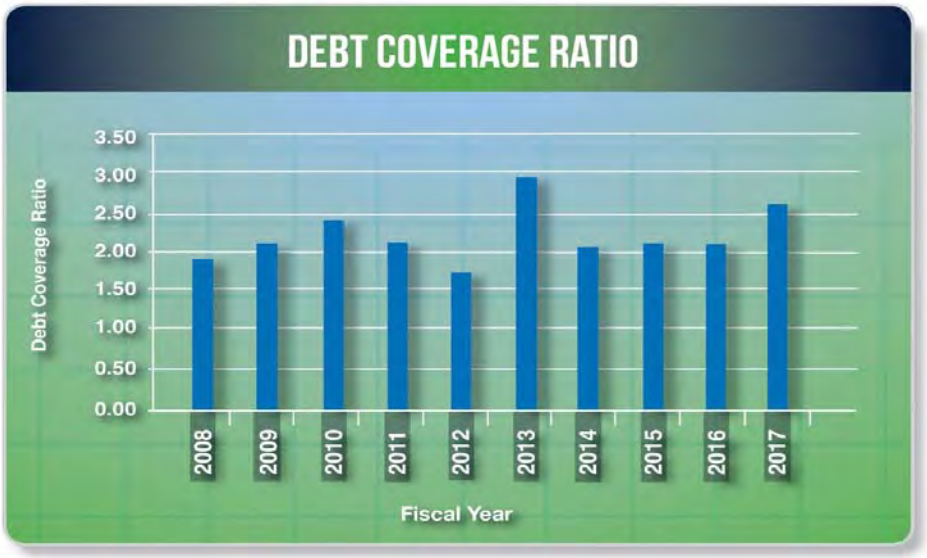
Source - PGW Records

10th Series	13th Series	14th Series	15th Series	Total 1998 Ordinance
1,103,244	28,467,050	27,792,325	17,510,546	86,353,076
6,018,244	26,941,250	32,458,825	21,699,400	98,597,055
5,274,994	25,404,500	37,530,450	17,394,550	97,079,830
4,529,494	28,528,500	33,514,950	17,396,750	95,447,280
3,784,706	27,042,000	34,156,700	17,395,500	93,858,692
3,050,456	26,250,750	34,763,575	17,397,750	92,942,067
2,299,706	24,696,250	17,500,075	17,392,750	92,055,142
1,560,706	17,681,250	19,635,700	17,395,250	85,232,235
1,376,100	17,295,250	19,674,450	17,399,250	85,023,343
—	13,517,000	19,667,075	17,394,000	81,894,314
—	13,525,500	18,346,825	18,664,250	82,016,420
—	13,524,250	18,343,700	18,740,500	53,091,248
—	13,522,500	18,348,825	17,263,500	51,617,623
—	13,524,000	18,345,575	17,259,750	51,612,123
—	13,517,250	18,347,325	17,263,250	51,610,623
—	5,121,250	18,347,200	17,257,750	43,208,998
—	5,124,000	18,353,200	17,257,750	43,217,748
—	—	10,655,700	17,257,000	60,275,499
—	—	10,657,300	17,259,500	37,854,600
—	—	10,658,600	17,264,000	37,856,413
—	—	10,653,900	17,264,250	37,851,975
—	—	—	17,259,250	27,195,776
—	—	—	17,263,000	27,198,600
—	—	—	17,258,750	17,258,750
—	—	—	17,260,500	17,260,500
—	—	—	17,261,500	17,261,500
—	—	—	17,260,250	17,260,250
—	—	—	17,260,250	17,260,250
—	—	—	17,259,750	17,259,750
—	—	—	17,262,000	17,262,000
28,997,650	313,682,550	447,752,275	526,472,496	1,633,913,680

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Debt Service Coverage
Fiscal Years 2008 through 2017
(Thousands of US dollars)

	2017	2016	2015	2014
Funds Provided				
Total gas revenues	618,406	572,348	676,027	736,138
Other operating revenues	17,797	18,889	21,220	22,998
Total operating revenues	636,203	591,237	697,247	759,136
Other income increase restricted funds	1,087	1,416	10,836	4,079
City grant	-	-	-	-
AFUDC (Interest)	1,408	1,120	781	506
Total funds provided	638,698	593,773	708,864	763,721
Funds Applied				
Fuel costs	179,230	146,524	252,169	304,051
Other operating costs	360,467	370,433	354,357	336,892
Total operating expenses	539,697	516,957	606,526	640,943
Less: non-cash expenses	84,027	89,059	74,535	53,039
Total funds applied	455,670	427,898	531,991	587,904
Funds available to cover debt service	183,028	165,875	176,873	175,817
Funds available excluding lease costs	183,028	165,875	176,873	175,817
1975 ordinance bonds debt service	-	-	26,904	28,592
Debt service coverage 1975 bonds	-	-	6.57	6.15
Net available after prior debt service	183,028	165,875	149,969	147,225
Net available after prior capital leases	183,028	165,875	149,969	147,225
1998 ordinance bonds debt service	67,582	77,867	70,139	69,749
Debt service coverage 1998 bonds	2.71	2.13	2.14	2.11
Net available after 1998 debt service	115,446	88,008	79,830	77,476
1998 ordinance subordinate bond debt service	-	-	-	-
Debt service coverage subordinate bonds	-	-	-	-

Source - PGW's Audited Financial Statements and PGW Records



2013	2012	2011	2010	2009	2008
675,154	628,387	749,268	742,342	910,457	831,428
18,317	16,596	17,011	16,890	18,984	18,199
693,471	644,983	766,279	759,232	929,441	849,627
196	8,311	12,550	3,035	11,809	3,256
-	-	-	18,000	18,000	18,000
430	292	427	390	247	338
694,097	653,586	779,256	780,657	959,497	871,221
255,501	233,713	330,932	354,004	545,846	511,976
318,510	316,625	310,708	308,590	299,712	282,270
574,011	550,338	641,640	662,594	845,558	794,246
48,103	47,619	48,479	71,029	68,522	69,523
525,908	502,719	593,161	591,565	777,036	724,723
168,189	150,867	186,095	189,092	182,462	146,498
168,189	150,867	186,095	189,092	182,462	146,498
30,163	31,754	30,691	30,101	32,313	34,225
5.58	4.75	6.06	6.28	5.65	4.28
138,026	119,113	155,404	158,991	150,149	112,273
138,026	119,113	155,404	158,991	150,149	112,273
47,668	67,874	72,274	65,095	70,569	59,695
2.90	1.75	2.15	2.44	2.13	1.88
90,358	51,239	83,130	93,896	79,580	52,578
-	-	1,988	1,986	1,990	1,986
-	-	41.82	47.28	39.99	26.47

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

2016	2007
Children's Hospital of Philadelphia	Albert Einstein Medical
City of Philadelphia	Children's Hospital of Philadelphia
Comcast Cablevision of Willow Grove Inc	City of Philadelphia
Drexel University	School District of Philadelphia
School District of Philadelphia	SEPTA
SEPTA	Temple University
Temple University	Thomas Jefferson University Hospitals
Thomas Jefferson University Hospitals	United States Postal Service
University Of Pennsylvania (College)	University Of Pennsylvania (College)
University Of Pennsylvania (Hospital)	University Of Pennsylvania (Hospital)

Listed Alphabetically
Source - City of Philadelphia

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Demographic and Economic Statistics
Calendar Years 2007 through 2016

Calendar Year	Population (1)	Personal Income (Thousands of US Dollars) (2)	Per Capita Personal Income (US Dollars)	Unemployment Rate (3)
2016	1,567,872	80,973,410	51,645	6.8%
2015	1,567,442	77,903,831	49,701	6.9%
2014	1,560,297	66,495,223	42,617	8.0%
2013	1,553,165	65,473,002	42,155	10.0%
2012	1,547,607	64,151,742	41,452	10.5%
2011	1,538,567	62,632,520	40,708	10.8%
2010	1,526,006	56,970,074	37,333	10.8%
2009	1,547,297	54,061,223	34,939	9.6%
2008	1,540,351	54,262,716	35,228	7.1%
2007	1,530,031	50,672,227	33,118	6.0%

Sources:
(1) US Census Bureau
(2) US Department of Commerce, Bureau of Economic Analysis
(3) US Department of Labor, Bureau of Labor Statistics

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Budgeted Full-Time Personnel by Department
Fiscal Years 2008 through 2017

Departments	2017	2016	2015	2014
President & Chief Executive Officer	2	2	3	3
Chief Operating Officer	2	2	2	2
Chief Financial Officer	2	2	2	2
Gas processing	116	116	119	123
Field services	372	374	372	372
Distribution	486	480	472	472
Collection	29	29	31	31
Customer service	170	170	176	189
Marketing	32	32	44	44
Administrative and general	480	484	449	442
PGW Total	1,691	1,691	1,670	1,680
Personnel savings	(41)	(31)	(42)	(40)
Philadelphia Gas Commission	5	5	5	5
Grand Total	1,655	1,665	1,633	1,645

Source - PGW's Annual Operating Budget

2013	2012	2011	2010	2009	2008
3	3	2	2	2	2
2	2	3	2	2	2
2	2	-	-	-	-
125	119	119	119	123	133
366	371	371	341	342	342
468	467	467	467	467	470
31	35	36	91	104	110
190	198	207	207	208	194
46	41	34	34	30	30
445	454	463	459	460	465
1,678	1,692	1,702	1,722	1,738	1,748
(38)	(37)	(32)	(42)	-	(18)
5	5	5	5	5	5
1,645	1,660	1,675	1,685	1,743	1,735

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Actual Full-Time Personnel by Department
Fiscal Years 2008 through 2017

Departments	2017	2016	2015	2014
President & Chief Executive Officer	2	2	3	3
Chief Operating Officer	2	2	3	2
Chief Financial Officer	2	2	2	2
Gas processing	117	116	115	121
Field services	370	362	365	364
Distribution	486	473	477	475
Collection	26	25	27	30
Customer service	169	157	171	143
Marketing	27	27	33	38
Administrative and general	445	440	426	441
PGW Total	1,646	1,606	1,622	1,619
Philadelphia Gas Commission	5	5	5	5
Grand Total	1,651	1,611	1,627	1,624

Source - PGW Records

2013	2012	2011	2010	2009	2008
3	3	3	2	2	2
2	3	2	2	2	2
2	1	1	-	-	-
121	122	118	120	119	121
370	360	362	357	338	339
474	468	475	466	471	464
31	34	36	57	91	101
154	158	167	170	173	176
41	38	32	31	32	29
456	464	475	480	484	477
1,654	1,651	1,671	1,685	1,712	1,711
5	3	4	4	4	4
1,659	1,654	1,675	1,689	1,716	1,715

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Operating Indicators
Fiscal Years 2008 through 2017

	2017	2016	2015
Financial			
Debt service ratio (1975 Ordinance)	N/A	N/A	6.57
Debt service ratio (1998 Ordinance)	2.71	2.13	2.14
Debt to total capital ratio	78.2%	76.3%	77.5%
Bad debt as a % of revenue	4.7%	4.6%	5.0%
Bad debt reserve as a % of accounts receivable	44.3%	50.2%	54.0%
Collection factor (receipts/billings)	96.5%	97.7%	97.1%
Cash balance (Thousands of US dollars)	88,535	91,743	114,327
Natural Gas (NG) storage (Thousands of US dollars)	46,031	38,556	40,791
Payroll			
Total payroll (Thousands of US dollars) (Includes Overtime)	112,187	112,556	113,675
Overtime (Thousands of US dollars)	11,118	11,125	11,824
Overtime as a % of Total Payroll	9.9%	9.9%	10.4%
Liquefied Natural Gas (LNG)			
LNG to storage (Mcf)*	2,331,475	2,233,463	2,043,392
LNG from storage (Mcf)	1,396,559	1,258,905	2,237,729
Net to (from) storage (Mcf)	934,916	974,558	(194,337)
Off-system sales contributed to GCR (Thousands of US dollars)	175	125	-
Natural Gas Cost			
Gas utilized (Mcf)	43,557,457	40,301,447	50,562,653
Gas utilized (Thousands of US dollars)	179,222	146,515	252,158
Cost per Mcf ($)	4.11	3.64	4.99
Natural Gas Sales Information			
Firm gas sold (Mcf)	39,972,687	37,683,841	48,416,426
Interruptible gas sold (Mcf)	18,420	37,909	514,110
Total gas sold (Mcf)	39,991,107	37,721,750	48,930,536
Transportation gas - GTS (Mcf)	28,700,063	28,223,849	30,298,101
Other (Mcf)	1,941,620	2,005,354	2,808,957
Total gas sendout (Mcf)	70,632,790	67,950,953	82,037,594
Unaccounted for gas as a % of total gas sendout	2.4%	2.6%	3.0%
Transportation gas - GTS as a % of total gas sendout	40.6%	41.5%	36.9%
Firm gas sold as a % of total gas sold	100.0%	99.9%	98.9%
Degree Days			
Fiscal Year	3,552	3,356	4,444

* Mcf = Thousand cubic feet

Source - PGW Records

2014	2013	2012	2011	2010	2009	2008
6.15	5.58	4.75	6.06	6.28	5.65	4.28
2.11	2.90	1.75	2.15	2.44	2.13	1.88
80.0%	75.2%	78.0%	79.7%	82.2%	82.7%	84.2%
5.1%	5.8%	5.7%	4.7%	4.6%	4.5%	4.4%
51.4%	51.9%	54.4%	50.3%	52.9%	53.8%	58.6%
95.0%	91.9%	96.6%	95.1%	98.7%	93.8%	95.5%
105,734	100,933	75,826	105,386	79,052	13,750	49,338
60,089	70,638	73,086	78,579	96,097	117,889	179,750
115,174	110,120	106,308	106,125	106,003	107,918	105,596
13,629	9,495	7,948	9,700	8,494	10,171	10,115
11.8%	8.6%	7.5%	9.1%	8.0%	9.4%	9.6%
1,821,935	1,677,268	1,422,440	1,286,742	1,354,605	562,629	2,034,715
3,210,133	1,537,601	974,238	1,428,896	1,117,628	1,545,034	1,280,180
(1,388,198)	139,667	448,202	(142,154)	236,977	(982,405)	754,535
321	743	748	867	274	27	887
52,961,786	50,178,147	43,017,936	55,023,503	51,820,468	55,471,710	53,516,593
304,040	255,496	233,709	330,926	353,998	545,859	511,938
5.74	5.09	5.43	6.01	6.83	9.84	9.57
48,533,203	44,745,289	38,345,205	48,014,683	44,790,670	48,025,175	45,525,366
1,096,381	890,383	192,058	1,004,185	1,049,318	1,170,128	1,790,721
49,629,584	45,635,672	38,537,263	49,018,868	45,839,988	49,195,303	47,316,087
29,357,904	26,482,749	24,373,006	25,274,874	23,135,876	22,624,136	19,032,066
1,498,458	1,965,785	1,828,311	3,233,861	3,006,018	3,083,181	2,254,504
80,485,946	74,084,206	64,738,580	77,527,603	71,981,882	74,902,620	68,602,657
2.0%	2.0%	3.2%	3.3%	2.9%	3.1%	2.2%
36.5%	35.7%	37.6%	32.6%	32.1%	30.2%	27.7%
97.8%	98.0%	99.5%	98.0%	97.7%	97.6%	96.2%
4,405	3,889	3,037	4,005	3,730	4,190	3,746

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Capital Asset Information
Calendar Years 2008 through 2017

	2017	2016	2015	2014
Gas main (Miles)	3,039	3,020	3,022	3,023
Services (Miles)	2,868	2,865	2,862	2,860
Number of meters				
Residential/Small commercial	502,305	499,110	497,556	499,375
Large diaphragm	3,179	3,030	2,842	2,695
Rotary	10,076	10,034	9,945	9,883
Turbine	284	283	285	291
Total	515,844	512,457	510,628	512,244

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

2013	2012	2011	2010	2009	2008
3,025	3,026	3,027	3,029	3,029	3,022
2,779	2,736	2,772	2,815	2,984	2,829
498,765	501,250	497,151	502,145	503,201	497,472
2,579	2,401	2,298	2,245	2,185	2,113
9,778	9,690	9,551	9,513	9,479	9,322
288	289	287	297	291	291
511,410	513,630	509,287	514,200	515,156	509,198

PHILADELPHIA GAS WORKS

(A Component Unit of the City of Philadelphia)

Ten Largest Customers

Current Fiscal Year and Nine Years Ago

(Thousands of US dollars)

2017		2008	
Customer 1 (A)	3,254	Customer 1 (B)	8,482
Customer 2 (B)	2,545	Customer 2 (A)	5,586
Customer 3 (C)	2,386	Customer 3 (D)	4,666
Customer 4	1,888	Customer 4 (C)	4,618
Customer 5 (D)	1,578	Customer 5	2,570
Customer 6 (E)	992	Customer 6	2,058
Customer 7 (F)	970	Customer 7 (F)	1,951
Customer 8 (G)	836	Customer 8 (E)	1,728
Customer 9	726	Customer 9 (G)	1,054
Customer 10	616	Customer 10	1,010
Total	15,791	Total	33,723

Note - A letter designation indicates a repeat customer from the Fiscal Year 2008 list identified on the fiscal year 2017 list.

Source - PGW Records