



PHILADELPHIA GAS WORKS

800 West Montgomery Avenue • Philadelphia, PA 19122

August 21, 2025

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

Re: PGW's Fiscal Year 2026 Compliance Operating Budget

Dear Ms. McClendon:

As directed in the Motion approved by the Philadelphia Gas Commission at its August 12, 2025 meeting, enclosed is a copy of PGW's Fiscal Year 2026 Compliance Operating Budget.

If you have any questions, please let me know.

Thank you.

Sincerely,

A handwritten signature in blue ink, which appears to read "William J. Gallagher".

William J. Gallagher
Vice President - Budget and Strategic Development

WJG/mlo'b
Attachments

cc: Service List



PHILADELPHIA GAS WORKS

COMPLIANCE FISCAL 2026 OPERATING BUDGET

PHILADELPHIA GAS WORKS
STATEMENT OF INCOME
(Dollars in Thousands)

Line No.	Actual 2023-24	Budget 2024-25	Estimate 2024-25	Budget 2025-26	Adjustments	Compliance Budget 2025-26
OPERATING REVENUES						
1. Non-Heating	21,231	21,403	21,472	22,348	-	22,348
2. Gas Transportation Service	79,622	84,343	86,296	88,382	-	88,382
3. Heating	530,661	580,451	537,242	554,063	-	554,063
4. Revenue Enhancement / Cost Reduction	-	-	-	105,000	-	105,000
5. Weather Normalization Adjustment	25,560	3,693	4,667	-	-	-
6. Unbilled Gas Adjustment	312	168	(3,647)	622	-	622
7. Total Gas Revenues	657,386	690,058	646,030	770,415	-	770,415
8. Appropriation for Uncollectible Reserve	(29,897)	(41,887)	(32,272)	(38,626)	-	(38,626)
9. Appliance Repair & Other Revenues	7,019	7,886	6,439	6,498	-	6,498
10. Other Operating Revenues	29,561	38,576	28,924	31,336	-	31,336
11. Total Other Operating Revenues	6,683	4,575	3,091	(792)	-	(792)
12. Total Operating Revenues	664,069	694,633	649,121	769,623	-	769,623
OPERATING EXPENSES						
13. Natural Gas	164,164	183,037	161,146	173,132	-	173,132
14. Other Raw Material	28	31	31	31	-	31
15. Sub-Total Fuel	164,192	183,068	161,177	173,163	-	173,163
CONTRIBUTION MARGINS	499,877	511,565	487,944	596,460	-	596,460
16. Gas Processing	25,576	24,475	22,909	26,929	(800)	26,129
17. Field Operations	96,588	100,991	102,925	108,598	(5)	108,593
18. Collection	3,630	5,193	4,998	5,575	-	5,575
19. Customer Service	15,995	21,718	18,578	20,721	-	20,721
20. Account Management	8,853	10,859	10,439	10,801	-	10,801
21. Marketing	3,765	4,710	4,610	4,728	-	4,728
22. Administrative & General	85,407	98,796	94,693	101,830	(48)	101,782
23. Health Insurance	25,448	25,960	27,782	29,988	-	29,988
24. Pandemic Expenses	-	-	-	-	-	-
25. Capitalized Fringe Benefits	(11,835)	(11,278)	(12,569)	(10,152)	-	(10,152)
26. Capitalized Administrative Charges	(17,702)	(30,408)	(28,216)	(32,214)	-	(32,214)
27. Pensions	25,345	27,448	20,827	41,412	-	41,412
28. Taxes	9,830	10,735	10,432	10,884	-	10,884
29. Other Post Employment Benefits	1,075	25,484	8,716	11,006	-	11,006
30. Labor Costs (Retirement Payout)	-	(2,715)	(98)	(434)	-	(434)
31. Sub-Total Other Oper. & Maintenance	271,975	311,968	286,026	329,672	(853)	328,819
32. Depreciation	68,063	63,782	68,611	71,545	-	71,545
33. Cost of Removal	7,230	9,879	9,879	5,879	-	5,879
	75,293	73,661	78,490	77,424	-	77,424
34. Sub-Total Other Oper. & Maint. & Depreciation	347,268	385,629	364,516	407,096	(853)	406,243
35. TOTAL OPERATING EXPENSES	511,460	568,697	525,693	580,259	(853)	579,406
36. OPERATING INCOME	152,609	125,936	123,427	189,364	853	190,217
37. Interest Gain / (Loss) and Other Income	14,467	21,597	26,721	22,001	-	22,001
38. INCOME BEFORE INTEREST	167,076	147,533	150,148	211,365	853	212,218
INTEREST						
39. Long-Term Debt	43,283	58,236	55,638	54,108	-	54,108
40. Other	(7,090)	(8,406)	(10,558)	(9,634)	-	(9,634)
41. Loss From Extinguishment of Debt	3,314	2,953	2,686	2,080	-	2,080
42. Total Interest	39,507	52,783	47,766	46,554	-	46,554
43. Federal Grant Revenue (PHMSA)	-	13,728	15,506	27,987	-	27,987
44. NET INCOME	\$ 127,569	\$ 108,477	\$ 117,888	\$ 192,798	\$ 853	\$ 193,651
45. City Payment	18,000	18,000	18,000	18,000	0	18,000
46. NET EARNINGS	\$ 109,569	\$ 90,477	\$ 99,888	\$ 174,798	\$ 853	\$ 175,651

PHILADELPHIA GAS WORKS
STATEMENT OF INCOME
(Dollars in Thousands)

Line No.	Actual 2023-24	Budget 2024-25	Estimate 2024-25	Budget 2025-26	Compliance Adjustments	Budget 2025-26
<u>OPERATING REVENUES</u>						
1. Non-Heating	21,231	21,403	21,472	22,348		22,348
2. Gas Transportation Service	79,622	84,343	86,296	88,382		88,382
3. Heating	530,661	580,451	537,242	554,063		554,063
4. Revenue Enhancement / Cost Reduction - FY2026	-	-	-	105,000		105,000
5. Weather Normalization Adjustment	25,560	3,693	4,667	-		-
6. Unbilled Gas Adjustment	312	168	(3,647)	622		622
7. Total Gas Revenues	657,386	690,058	646,030	770,415	-	770,415
8. Appropriation for Uncollectible Reserve	(29,897)	(41,887)	(32,272)	(38,626)		(38,626)
9. Appliance Repair & Other Service Revenues	7,019	7,886	6,439	6,498		6,498
10. Other Operating Revenues	29,561	38,576	28,924	31,336		31,336
11. Total Other Revenues	6,683	4,575	3,091	(792)	-	(792)
12. Total Operating Revenues	664,069	694,633	649,121	769,623	-	769,623
<u>OPERATING EXPENSES</u>						
13. Natural Gas	164,164	183,037	161,146	173,132		173,132
14. Other Raw Material	28	31	31	31		31
15. Sub-Total Fuel	164,192	183,068	161,177	173,163	-	173,163
16. Contribution Margins	499,877	511,565	487,944	596,460		596,460
17. Labor & Fringe Benefits	188,517	206,306	195,274	228,980		228,980
18. Other Expenses & Depreciation	158,751	179,323	169,242	178,117	(853)	177,264
19. Sub-Total Other O&M & Depreciation	347,268	385,629	364,516	407,096	(853)	406,243
20. Total Operating Expenses	511,460	568,697	525,693	580,259	(853)	579,406
21. Operating Income	152,609	125,936	123,428	189,364	853	190,217
22. Interest Gain / (Loss) and Other Income	14,467	21,597	26,721	22,001	-	22,001
23. Income Before Interest	167,076	147,533	150,148	211,365	853	212,218
<u>INTEREST</u>						
24. Long Term Debt	43,283	58,236	55,638	54,108	-	54,108
25. Other Interest	(7,090)	(8,406)	(10,558)	(9,634)	-	(9,634)
26. Loss from Extinguishment of Debt	3,314	2,953	2,686	2,080	-	2,080
27. Total Interest	39,507	52,783	47,766	46,554	-	46,554
28. Federal Grant Revenue (PHMSA)	-	13,728	15,506	27,987		27,987
29. Net Income	<u>\$ 127,569</u>	<u>\$ 108,477</u>	<u>\$ 117,888</u>	<u>\$ 192,798</u>	<u>\$ 853</u>	<u>\$ 193,651</u>
30. City Payment	18,000	18,000	18,000	18,000		18,000
31. Net Earnings	<u>\$ 109,569</u>	<u>\$ 90,477</u>	<u>\$ 99,888</u>	<u>\$ 174,798</u>	<u>\$ 853</u>	<u>\$ 175,651</u>

PHILADELPHIA GAS WORKS
CASH FLOW STATEMENT
(Dollars in Thousands)

Line No.	Actual 2023-24	Budget 2024-25	Estimate 2024-25	Budget 2025-26	Adjustments	Compliance Budget 2025-26
<u>SOURCES</u>						
1. Net Income	127,569	108,477	117,888	192,798	853	193,651
2. Depreciation & Amortization	61,565	55,717	58,927	62,251		62,251
3. Earnings on Restricted Funds	(4,988)	2,703	(19,809)	(16,907)		(16,907)
4. Proceeds from Bond Refunding to Pay Cost of Issuance	-	-	-	-		-
5. Increased/(Decreased) Other Assets/Liabilities	(37,886)	(7,405)	(28,323)	(25,724)		(25,724)
6. Available From Operations	146,260	159,492	128,684	212,418	853	213,271
7. Drawdown of Bond Proceeds	42,004	108,000	106,000	104,500		104,500
8. Release of Bond Proceeds to Pay Temporary Financing	-	-	35,000	-		-
9. Temporary Financing	35,000	-	-	-		-
10. TOTAL SOURCES	\$ 223,264	\$ 267,492	\$ 269,684	\$ 316,918	\$ 853	\$ 317,771
<u>USES</u>						
11. Net Construction Expenditures	149,110	216,000	212,000	209,000		209,000
12. Revenue Bonds	60,255	66,810	56,480	58,445		58,445
13. Temporary Financing Repayment	-	-	35,000	-		-
14. GASB 87 Lease Principal Payments	7,360	4,700	4,099	4,256		4,256
15. Distribution of Earnings	18,000	18,000	18,000	18,000		18,000
Additions to (Reductions of):						
16. Non-Cash Working Capital	12,228	14,510	36,198	(3,358)		(3,358)
17. Cash Needs	246,953	320,020	361,777	286,343		286,343
18. Cash Surplus (Shortfall)	(23,689)	(52,528)	(92,093)	30,575		31,428
19. TOTAL USES	\$ 223,264	\$ 267,492	\$ 269,684	316,918		316,918
20. Cash - Beginning of Period	139,302	115,189	115,613	23,520		23,520
21. Cash - Surplus (Shortfall)	(23,689)	(52,527)	(92,093)	30,575	853	31,428
22. Ending Cash	\$ 115,613	\$ 62,662	\$ 23,520	\$ 54,094	\$ 853	\$ 54,947
Outstanding Commercial Paper - Capital	35,000	-	-	-		-
24. Incremental DSIC Revenue	35,003	41,000	35,910	36,150		36,150
25. Internally Generated Funds	37,103	67,000	70,090	68,350		68,350
26. TOTAL IGF + Incremental DSIC Revenue	72,106	108,000	106,000	104,500		104,500

PHILADELPHIA GAS WORKS
DEBT SERVICE COVERAGE
(Dollars in Thousands)

Line No.	Actual <u>2023-24</u>	Budget <u>2024-25</u>	Estimate <u>2024-25</u>	Budget <u>2025-26</u>	Adjustments	Compliance Budget <u>2025-26</u>
<u>FUNDS PROVIDED</u>						
1. Total Gas Revenues	627,489	690,058	613,758	731,789		731,789
2. Other Operating Revenues	36,580	4,575	35,363	37,834		37,834
3. Total Operating Revenues	664,069	694,633	649,121	769,623		769,623
4. Other Income Inc. / (Dec.) Restricted Funds	9,479	24,300	6,912	5,094		5,094
5. Non Operating Revenue	-	13,728	15,506	27,987		27,987
6. TOTAL FUNDS PROVIDED	673,548	732,661	671,539	802,704		802,704
<u>FUNDS APPLIED</u>						
7. Fuel Costs	164,192	183,068	161,177	173,163		173,163
8. Other Operating Costs	347,268	385,629	364,516	407,096	(853)	406,243
9. Total Operating Expenses	511,460	568,697	525,693	580,259	(853)	579,406
10. Less: Non-Cash Expenses	50,771	74,148	50,856	70,257		70,257
11. TOTAL FUNDS APPLIED	460,689	494,549	474,837	510,002	(853)	509,149
12. Funds Available to Cover Revenue Bond Debt	212,859	238,112	196,701	292,702		293,555
13. Net Available after Prior Debt Service	212,859	238,112	196,701	292,702		293,555
14. 1998 Ordinance Bonds Debt Service	103,704	124,745	110,714	112,973		112,973
15. 1999 Ordinance Subordinate Bonds Debt Service - (TXC	-	-	-	-		-
16. Total New Debt Service	103,704	124,745	110,714	112,973		112,973
17. Debt Service Coverage 1998 Revenue Bonds	2.05	1.89	1.78	2.59		2.60
18. Net Available After 1998 Debt Service	\$109,155	\$124,745	\$85,986	\$179,729		\$180,582
19. Aggregate Debt Service (Combined Liens)	103,704	124,745	110,714	112,973		112,973
20. Fixed Coverage Charge (Combined Liens)	2.05	1.91	1.78	2.59		2.60
21. Fixed Coverage Charge including \$18.0MM City Fee	1.88	1.76	1.61	2.43		2.44

PHILADELPHIA GAS WORKS
BALANCE SHEET
(Dollars in Thousands)

Line No.		Actual 2023-24	Budget 2024-25	Estimate 2024-25	Budget 2025-26	Adjustments	Compliance Budget 2025-26
<u>ASSETS</u>							
1.	Utility Plant Net	1,821,459	2,113,560	1,970,965	2,114,904		2,114,904
	Leasehold Asset	78,584	-	71,896	68,791		68,791
2.	Sinking Fund Reserve	116,145	131,175	121,820	127,772		127,772
3.	Capital Improvement Fund	-	207,209	223,289	129,700		129,700
	Capital Lease	-	-	4,682	5,498.00		5,498.00
	Restricted Investment Worker Comp Fund						
4.	& Health Insurance Escrow	2,929	2,918	2,973	3,018		3,018
5.	Cash	115,612	62,662	23,520	54,094	853	54,947
	Accounts Receivable:						
6.	Gas Receivable	167,821	182,978	171,727	171,703		171,703
7.	Other	2,013	2,143	2,063	2,088		2,088
8.	Accrued Gas Revenues	8,898	6,625	5,251	5,873		5,873
9.	Reserve for Uncollectible	(89,594)	(115,570)	(89,550)	(89,040)		(89,040)
10.	Accounts Receivable Net	89,138	76,176	89,491	90,624	0	90,624
11.	Materials & Supplies	67,390	73,695	69,756	72,795		72,795
12.	Other Current Assets	6,272	8,411	6,276	6,280		6,280
13.	Deferred Debits	8,657	6,748	8,908	9,082		9,082
14.	Unamortized Bond Issuance Expense	639	685	808	756		756
15.	Unamortized Extraordinary Loss	16,449	13,496	13,764	11,684		11,684
16.	Deferred Environmental	28,228	19,183	26,686	24,852		24,852
17.	Deferred Pension Outflows	11,113	32,147	33,465	6,943		6,943
18.	Deferred OPEB Outflows	91,583	57,766	59,323	33,462		33,462
19.	Other Assets	31,233	24,156	25,418	17,748		17,748
20.	TOTAL ASSETS	\$2,485,431	\$2,829,987	\$2,753,039	2,778,002	853	2,778,855
<u>EQUITY & LIABILITIES</u>							
21.	City Equity	\$837,851	\$927,039	\$937,739	\$1,112,537	\$853	\$1,113,390
	Long Term Debt:						0
22.	Revenue Bonds	882,995	1,193,815	1,135,890	1,077,445		1,077,445
23.	Unamortized Discount	(40)	(36)	0	0		0
24.	Unamortized Premium	97,627	127,000	135,510	124,084		124,084
25.	Lease Obligations	60,728	52,549	60,740	60,677		60,677
	Notes Payable	35,000	-	-	-		-
	Accounts Payable:						
26.	Natural Gas	5,165	12,700	12,700	15,737		15,737
27.	General	68,192	74,037	67,869	67,548		67,548
28.	Customer Deposits	2,396	2,433	2,296	2,201		2,201
29.	Other Current Liabilities	2,669	3,719	1,424	1,582		1,582
30.	Pension Liability	186,671	223,240	181,867	177,701		177,701
31.	OPEB Liability	113,707	149,095	82,050	46,917		46,917
32.	Deferred Credits	40,523	1,717	2,458	2,712		2,712
33.	Deferred Inflows - Gain on Bond Refunding	145	-	1,840	1,486		1,486
34.	Deferred Pension Inflows	20,160	15,634	38,143	27,200		27,200
35.	Deferred OPEB Inflows	82,154	-	45,283	19,276		19,276
	Accrued Credits:						
36.	Interest	6,754	6,882	5,350	5,769		5,769
37.	Taxes & Wages	5,078	5,561	5,457	5,713		5,713
38.	Distribution to City	3,000	3,000	3,000	3,000		3,000
39.	Other Liabilities	34,662	31,603	33,424	26,413		26,413
40.	TOTAL EQUITY & LIABILITIES	\$2,485,431	\$2,829,987	\$2,753,039	\$2,778,002	\$853	\$2,778,855
41.	Debt to Equity	53.9%	58.8%	57.6%	51.9%	0.0%	51.9%

Philadelphia Gas Works
Fiscal Year 2026
Operating Budget Adjustment

Statement of Income

- a) The Compliance Budget reflects a \$853,000 overall decrease in Non-Fuel Operating Expenses. See below for details:
 - a. Expenses associated with Gas Processing - Purchased Services were adjusted downward (\$800,000) as a result of disagreements concerning budgeting estimate calculations.
 - b. Expenses associated with Administrative Consulting were adjusted downward (\$48,000) because of a formula error made by PGW in the budget as presented.
 - c. Expenses associated with Distribution – General Materials were adjusted downward (\$4,533) due to re-calculation of prior year averages used to develop the budget request.

Cash Flow Statement

- b) Ending cash increased \$853,000 from \$54,094,000 to \$54,947,000. This was caused by the increase to Net income as described above.

Debt Service Coverage

- c) The Fixed Coverage Charge (Including the \$18.0 MM City Fee) increased 0.01 from 2.43 to 2.44. This was caused by the \$853,000 reduction to other operating costs described above.

Balance Sheet

- d) Cash increased by \$853,000 as a result of lower non-fuel operating expenses outlined above.
- e) City Equity increased by \$853,000; this is due to the revised FY2026 Net Income.