



PHILADELPHIA GAS WORKS

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October 4, 2016

The Honorable Derek S. Green
Chairman
PHILADELPHIA GAS COMMISSION
One Parkway Building
1515 Arch Street, 9th Floor
Philadelphia, PA 19102

Re: PGW's Fiscal Year 2017 Compliance Operating Budget

Dear Chairman Green:

Enclosed is an original along with seven (7) copies of the schedules that detail the revisions made to PGW's Fiscal Year 2017 Operating Budget. These adjustments reflect the Commission's Motion adopted at the September 20, 2016 meeting.

If you have any questions regarding the enclosed schedules, please feel free to call me.

Sincerely,

A handwritten signature in black ink, appearing to read 'William J. Gallagher', is written over a printed name.

William J. Gallagher

WJG/mlo'b
Enclosures

cc: All Gas Commissioners
Robert W. Ballenger, Esq.
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Janet Parrish, Esq.
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PHILADELPHIA GAS WORKS

FISCAL YEAR 2017 COMPLIANCE OPERATING BUDGET

PHILADELPHIA GAS WORKS
STATEMENT OF INCOME
(Dollars in Thousands)

Line No.	Actual 2014-15	Budget 2015-16	Estimate 2015-16	Budget 2016-17	Adjustment	Compliance Budget 2016-17	Line No.
OPERATING REVENUES							
1.	30,753	26,431	23,693	26,732		26,732	1.
2.	39,962	43,872	37,243	45,674		45,674	2.
3.	618,164	578,682	473,195	530,631		530,631	3.
4.	(10,747)	5,952	37,355	5,905		5,905	4.
5.	(2,105)	(196)	(107)	(51)		(51)	5.
6.	676,027	654,741	571,379	608,891		608,891	6.
7.	8,727	8,431	7,508	8,914		8,914	7.
8.	12,493	11,616	9,478	13,023		13,023	8.
9.	21,220	20,047	16,966	21,937		21,937	9.
10.	697,247	674,788	588,365	630,828		630,828	10.
OPERATING EXPENSES							
11.	252,158	220,857	145,214	176,731		176,731	11.
12.	11	10	10	10		10	12.
13.	252,169	220,867	145,224	176,741		176,741	13.
14.	445,078	453,921	443,141	454,087		454,087	14.
CONTRIBUTION MARGINS							
15.	18,180	15,853	17,229	17,666		17,666	15.
16.	36,874	38,378	36,570	39,369		39,369	16.
17.	38,629	38,429	38,525	42,154	(464)	41,690	17.
18.	3,457	3,406	3,224	4,354		4,354	18.
19.	12,262	13,011	12,583	13,503		13,503	19.
20.	7,735	8,298	7,833	8,399		8,399	20.
21.	34,833	35,216	29,400	30,654	(1,340)	29,314	21.
22.	6,956	4,287	3,973	4,355		4,355	22.
23.	60,253	69,463	67,782	69,851	(826)	69,025	23.
24.	51,051	56,409	53,794	59,110	(805)	58,305	24.
25.	(8,860)	(10,838)	(10,653)	(11,537)		(11,537)	25.
26.	(9,097)	(12,285)	(11,267)	(15,791)		(15,791)	26.
27.	43,748	49,092	50,352	50,724		50,724	27.
28.	7,823	7,875	7,747	8,232		8,232	28.
29.	6,726	5,445	11,341	7,208		7,208	29.
30.	-	(3,142)	-	-	(2,073)	(2,073)	30.
31.	310,570	318,897	318,433	328,251	(5,508)	322,743	31.
32.	46,474	46,654	47,231	48,842		48,842	32.
33.	2,897	2,600	3,250	4,100		4,100	33.
34.	(5,584)	(6,231)	(6,061)	(6,771)		(6,771)	34.
35.	43,787	43,023	44,420	46,171		46,171	
35.	354,357	361,920	362,853	374,422	(5,508)	368,914	35.
36.	606,526	582,787	508,077	551,163	(5,508)	545,655	36.
37.	90,721	92,001	80,288	79,665	5,508	85,173	37.
38.	3,784	3,690	1,424	2,893	5	2,898	38.
39.	94,505	95,691	81,712	82,558	5,513	88,071	39.
INTEREST							
40.	45,756	42,249	37,640	42,582		42,582	40.
41.	7,448	1,311	1,430	690		690	41.
42.	(781)	(891)	(843)	(1,136)		(1,136)	42.
43.	4,100	4,814	4,167	3,776		3,776	43.
44.	56,523	47,483	42,394	45,912		45,912	44.
45.	37,982	48,208	39,318	38,648	5,513	42,159	45.
46.	18,000	18,000	18,000	18,000		18,000	46.
47.	19,982	30,208	21,318	18,648	5,513	24,159	47.

PHILADELPHIA GAS WORKS
STATEMENT OF INCOME
(Dollars in Thousands)

Line No.	Actual 2014-15	Budget 2015-16	Estimate 2015-16	Budget 2016-17	Adjustment	Compliance Budget 2016-17	Line No.
OPERATING REVENUES							
1.	30,753	26,431	23,693	26,732		26,732	1.
2.	39,962	43,872	37,243	45,674		45,674	2.
3.	618,164	578,682	473,195	530,631		530,631	3.
4.	(10,747)	5,952	37,355	5,905		5,905	4.
5.	(2,105)	(196)	(107)	(51)		(51)	5.
6.	676,027	654,741	571,379	608,891		608,891	6.
7.	8,727	8,431	7,508	8,914		8,914	7.
8.	12,493	11,616	9,478	13,023		13,023	8.
9.	21,220	20,047	16,986	21,937		21,937	9.
10.	697,247	674,788	588,365	630,828		630,828	10.
OPERATING EXPENSES							
11.	252,158	220,857	145,214	176,731		176,731	11.
12.	11	10	10	10		10	12.
13.	252,169	220,867	145,224	176,741		176,741	13.
14.	445,078	453,921	443,141	454,087		454,087	14.
15.	203,067	214,429	211,360	223,735	(2,825) a)	220,910	15.
16.	34,833	35,216	29,400	30,654	(1,340) b)	29,314	16.
17.	116,457	112,275	122,093	120,033	(1,343) c)	118,690	17.
18.	354,357	361,920	362,853	374,422	(5,508)	368,914	18.
19.	606,526	582,787	508,077	551,163	(5,508)	545,655	19.
20.	90,721	92,001	80,288	79,665	5,508	85,173	20.
21.	3,784	3,690	1,424	2,893	5 d)	2,898	21.
22.	94,505	95,691	81,712	82,558	5,513	88,071	22.
INTEREST							
23.	45,756	42,249	37,640	42,582		42,582	23.
24.	7,448	1,311	1,430	690		690	24.
25.	(781)	(891)	(843)	(1,136)		(1,136)	25.
26.	4,100	4,814	4,167	3,776		3,776	26.
27.	56,523	47,483	42,394	45,912	-	45,912	27.
28.	37,982	48,208	39,318	36,646	5,513	42,159	28.
29.	18,000	18,000	18,000	18,000		18,000	29.
30.	19,982	30,208	21,318	18,646	5,513	24,159	30.

PHILADELPHIA GAS WORKS
CASH FLOW STATEMENT
(Dollars in Thousands)

Line No.	Actual 2014-15	Budget 2015-16	Estimate 2015-16	Budget 2016-17	Adjustment	Compliance Budget 2016-17	Line No.
SOURCES							
1.	37,982	48,208	39,318	36,646	5,513 e)	42,159	1.
2.	53,258	46,734	46,892	47,493		47,493	2.
3.	7,051	(1,098)	(610)	(1,704)		(1,704)	3.
4.	-	-	250	2,700		2,700	4.
5.	23,696	13,068	19,378	13,759		13,759	5.
6.	121,987	106,912	105,228	98,894	5,513	104,407	6.
7.				65,000		65,000	7.
8.	-	-	-	-			8.
9.	8,562	-	3,223	-			9.
10.	-	-	-	71,000		71,000	10.
11.	30,000	48,600	41,000	-			11.
12.	160,549	155,512	149,451	234,894	5,513	240,407	12.
USES							
13.	85,499	110,752	98,983	133,415		133,415	13.
14.	13,503	-	-	-			14.
15.	62,190	48,655	38,215	44,740		44,740	15.
16.	-	-	-	-			16.
19.	-	-	-	71,000		71,000	19.
20.	18,000	18,000	18,000	18,000		18,000	20.
Additions to (Reductions of):							
21.	(27,736)	(14,687)	(2,321)	(31,987)		(31,987)	21.
22.	137,953	162,720	152,877	235,168		235,168	22.
23.	22,596	(7,208)	(3,426)	(274)	5,513	5,239	23.
24.	160,549	155,512	149,451	234,894	5,513	240,407	24.
25.	105,734	106,136	114,327	110,901		110,901	25.
26.	8,593	(7,208)	(3,426)	(274)	5,513	5,239	26.
27.	114,327	98,928	110,901	110,627	5,513	116,140	27.
28.	-	-	-	-			28.
29.	30,000	78,600	71,000	-			29.
30.	13,764	27,116	22,518	32,541		32,541	30.
31.	31,735	35,036	35,465	35,874		35,874	31.
32.	45,499	62,152	57,983	68,415		68,415	32.

**PHILADELPHIA GAS WORKS
DEBT SERVICE COVERAGE**
(Dollars in Thousands)

Line No.	Actual 2014-15	Budget 2015-16	Estimate 2015-16	Budget 2016-17	Adjustment	Compliance Budget 2016-17	Line No.
FUNDS PROVIDED							
1.	\$676,027	\$654,741	\$571,379	\$608,891		608,891	1.
2.	21,220	20,047	16,986	21,937		21,937	2.
3.	697,247	674,788	588,365	630,828		630,828	3.
4.	10,835	2,592	814	1,189	5 d)	1,194	4.
5.	781	891	843	1,136		1,136	5.
6.	\$708,863	\$678,271	\$590,022	\$633,153	\$5	633,158	6.
FUNDS APPLIED							
7.	\$252,169	\$220,867	\$145,224	\$176,741		176,741	7.
8.	354,357	361,920	362,853	374,422	(5,508) η	368,914	8.
9.	606,526	582,787	508,077	551,163	(5,508)	545,655	9.
10.	74,535	75,320	78,966	80,727		80,727	10.
11.	\$531,991	\$507,467	\$429,111	\$470,436	(\$5,508)	464,928	11.
12.	176,872	170,804	160,911	162,717	5,513	168,230	12.
13.	\$26,904	-	-	-			13.
14.	6.57	-	-	-			14.
15.	\$149,968	\$170,804	\$160,911	\$162,717	\$5,513	168,230	15.
16.	-	-	-	-			16.
17.	149,968	170,804	160,911	162,717	5,513	168,230	17.
18.	\$70,139	\$91,175	78,653	82,380		82,380	18.
19.	-	1,917	1,917	-			19.
20.	\$70,139	\$93,092	\$80,570	\$82,380		82,380	20.
21.	2.14	1.83	2.00	1.98	0.06	2.04	21.
22.	\$79,829	\$77,712	\$80,341	\$80,337	\$5,513	85,850	22.
23.	\$97,043	\$93,092	\$80,570	\$82,380		82,380	23.
24.	1.82	1.83	2.00	1.98	0.06	2.04	24.
25.	1.64	1.64	1.77	1.76	0.06	1.82	25.

PHILADELPHIA GAS WORKS
BALANCE SHEET
(Dollars in Thousands)

Line No.	Actual 2014-15	Budget 2015-16	Estimate 2015-16	Budget 2016-17	Adjustment	Compliance	
						Budget 2016-17	Line No.
ASSETS							
1.	\$1,232,370	\$1,302,577	\$1,284,122	\$1,368,695		1,368,695	1.
2.	90,141	107,463	90,748	109,333		109,333	2.
3.	-	-	-	113,603		113,603	3.
4.	-	-	-	-		0	4.
5.	5,820	5,850	2,601	2,607		2,607	5.
6.	114,327	98,928	110,901	110,627	5,513	116,140	6.
Accounts Receivable:							
7.	182,433	188,523	154,885	148,034		148,034	7.
8.	1,250	4,443	1,500	1,500		1,500	8.
9.	5,199	6,676	5,092	5,041		5,041	9.
10.	(102,029)	(111,373)	(92,418)	(90,022)		(90,022)	10.
11.	86,853	88,269	69,059	64,553		64,553	11.
12.	50,908	57,776	46,873	47,005		47,005	12.
13.	460	534	450	455		455	13.
14.	13,135	2,833	23,131	4,782		4,782	14.
15.	3,473	3,181	663	582		582	15.
16.	30,953	33,698	25,347	21,571		21,571	16.
17.	29,609	28,792	28,767	28,767		28,767	17.
18.	78,129	47,927	47,928	17,908		17,908	18.
19.	35,503	38,052	41,186	39,720		39,720	19.
20.	<u>\$1,771,681</u>	<u>\$1,815,880</u>	<u>\$1,771,776</u>	<u>\$1,930,208</u>	<u>\$5,513</u>	<u>\$1,935,721</u>	20.
EQUITY & LIABILITIES							
21.	\$277,984	\$311,160	\$299,302	\$317,948	5,513	323,461	21.
Long Term Debt:							
22.	915,175	890,740	857,615	1,082,875		1,082,875	22.
23.	(787)	(2,035)	(877)	(1,613)		(1,613)	23.
24.	43,360	40,516	54,294	49,013		49,013	24.
25.	30,000	78,600	71,000	-		0	25.
Accounts Payable:							
26.	9,713	14,140	8,586	11,436		11,436	26.
27.	46,314	45,685	44,765	44,648		44,648	27.
28.	2,858	2,500	2,900	3,000		3,000	28.
29.	6,196	5,173	5,221	4,930		4,930	29.
30.	239,869	239,476	239,476	237,239		237,239	30.
31.	7,895	2,405	2,668	2,091		2,091	31.
32.	11,653	7,066	7,066	3,876		3,876	32.
Accrued Credits:							
33.	6,709	11,591	3,911	10,692		10,692	33.
34.	3,342	5,535	5,451	5,975		5,975	34.
35.	3,000	3,000	3,000	3,000		3,000	35.
36.	168,400	160,328	167,398	155,098		155,098	36.
37.	<u>\$1,771,681</u>	<u>\$1,815,880</u>	<u>\$1,771,776</u>	<u>\$1,930,208</u>	<u>\$5,513</u>	<u>\$1,935,721</u>	37.
38.	77.5%	74.9%	75.3%	78.0%	-0.3%	77.7%	38.

**Philadelphia Gas Works
Fiscal Year 2017
Operating Budget Adjustments**

Statement of Income

- a) The \$2,825,000 overall decrease in Labor and Fringe Benefit expenses primary reflects the impact of reducing personnel levels and associated payroll taxes from 1,690 FTEs to 1,650 FTEs and other related healthcare benefit expenses. The breakdown of the savings is as follows:
- \$2,862,000 decrease in regular labor expenses:
 - (40.0 FTEs @ \$71,550 annual salary);
 - \$805,000 decrease in healthcare benefit expenses;
 - \$219,000 decrease in payroll taxes:
 - (2,862,000 Labor Savings @ 6.20% FICA Rate);
 - (2,862,000 Labor Savings @ 1.45% Medicare Rate);
 - \$887,000 increase in retirement benefit allocation expenses;
 - \$121,000 increase in vacation cash-out program expenses;
 - \$53,000 increase in the Internal Auditing Department's labor expenses resulting from the increase of 1.0 FTE to replace eliminated contractor expenses.
- b) The \$1,340,000 overall decrease in Bad Debt Expense reflects an increase in the collection rate from 96% to 97%.
- c) The \$1,343,000 overall decrease in Other Expenses and Depreciation costs reflects the following expenditure adjustments:
- \$464,000 decrease in the Distribution Department's purchase services budget relating to the External Corrosion Direct Assessment program (ECDA);
 - \$414,000 decrease in the PFMC's purchase services budget relating to the removal of unforeseen independent analyses;
 - \$396,000 decrease in the Internal Auditing Department's purchase services budget relating to contractor expenses;
 - \$100,000 decrease in the Administrative Consulting purchase services budget relating to building consolidation;
 - \$50,000 decrease in the Corporate Communication Department's advertising budget relating to the Landlord Cooperation program;
 - \$43,000 decrease in the Administrative Consulting purchase services budget relating to energy consultant expenses;
 - \$33,000 decrease in the Corporate Communication Department's equipment rental budget;
 - \$31,000 decrease in the Administrative Consulting purchase services budget reflecting the removal of double counted costs associated with asset management financial services.

**Philadelphia Gas Works
Fiscal Year 2017
Operating Budget Adjustments**

- \$188,000 upward adjustment to budgeted outside legal counsel for Special Legal projects.

- d) The \$5,000 increase in Other Income represents additional earnings on increased investable cash balances associated with lower operating and maintenance expenses.

Cash Flow Statement

- e) Net income increased by \$5,513,000 reflecting increased earnings.

Debt Service Coverage

- f) Operating expenses are anticipated to decrease reflecting previously mentioned adjustments.