



October 26, 2018

Gemela McClendon
Executive Director
PHILADELPHIA GAS COMMISSION
One Parkway Building
1515 Arch Street, 9th Floor
Philadelphia, PA 19102

Re: PGW's Fiscal Year 2019 Compliance Operating Budget

Dear Ms. McClendon:

As directed in the Motion approved by the Philadelphia Gas Commission at its October 16, 2018 meeting, enclosed is an original along with five (5) copies of PGW's Fiscal Year 2019 Compliance Operating Budget.

Please note the FY 2019 Compliance Operating Budget reflects an ancillary adjustment that was identified in PGW's response to HE-5-B (see attachment) and detailed in the Statement of Income, note c.

If you have any questions, please let me know.

Thank you.

Sincerely,

A handwritten signature in blue ink, appearing to read "W. Gallagher", is written over a faint, larger version of the same signature.

William J. Gallagher
VP Budget and Strategic Development

WJG/mlo'b
Enclosures

cc: Service List



PHILADELPHIA GAS WORKS

FISCAL YEAR 2019 COMPLIANCE OPERATING BUDGET

PHILADELPHIA GAS WORKS
STATEMENT OF INCOME
(Dollars in Thousands)

Line No.		Actual 2016-17	Budget 2017-18	Estimate 2017-18	Budget 2018-19	Adjustments	Budget 2018-19
OPERATING REVENUES							
1.	Non-Heating	21,694	22,213	23,490	22,559	-	22,559
2.	Gas Transportation Service	42,524	44,614	51,108	54,525	-	54,525
3.	Heating	522,423	534,832	584,682	606,349	-	606,349
4.	Revenue Enhancement / Cost Reduction	-	40,000	-	-	-	-
5.	Weather Normalization Adjustment	29,594	-	660	606	-	606
6.	Pro Forma Adjustment 20HDD Avg.	-	11,824	-	-	-	-
7.	Unbilled Gas Adjustment	2,171	315	(21)	20	-	20
8.	Total Gas Revenues	618,406	653,798	659,919	684,059	-	684,059
9.	Appliance Repair & Other Revenues	8,199	8,265	7,993	7,909	-	7,909
10.	Other Operating Revenues	9,598	11,266	12,083	11,658	-	11,658
11.	Total Other Operating Revenues	17,797	19,531	20,076	19,567	-	19,567
12.	Total Operating Revenues	636,203	673,329	679,995	703,626	-	703,626
OPERATING EXPENSES							
13.	Natural Gas	179,222	187,001	185,679	194,920	-	194,920
14.	Other Raw Material	8	10	5	10	-	10
15.	Sub-Total Fuel	179,230	187,011	185,684	194,930	-	194,930
16.	CONTRIBUTION MARGINS	456,973	486,318	494,311	508,696	-	508,696
17.	Gas Processing	16,789	17,671	19,936	19,944	(14)	19,930
18.	Field Services	37,715	40,368	37,916	-	-	-
19.	Distribution	41,318	43,714	46,562	-	-	-
20.	Field Operations	-	-	-	85,373	(2,306)	83,067
21.	Collection	3,348	4,020	4,133	4,390	-	4,390
22.	Customer Service	13,230	13,702	14,571	15,327	-	15,327
23.	Account Management	7,852	8,409	8,333	8,805	-	8,805
24.	Bad Debt Expense	29,992	29,048	34,978	30,983	-	30,983
25.	Marketing	3,644	4,439	4,322	4,683	-	4,683
26.	Administrative & General	64,328	70,717	72,609	81,387	2	81,389
27.	Health Insurance	48,670	27,058	23,146	29,056	(5,404)	23,652
28.	Capitalized Fringe Benefits	(10,999)	(11,620)	(11,710)	(10,322)	-	(10,322)
29.	Capitalized Administrative Charges	(13,062)	(12,945)	(14,899)	(14,028)	-	(14,028)
30.	Pensions	54,826	51,800	44,972	32,672	-	32,672
31.	Taxes	7,890	8,437	8,757	8,853	-	8,853
32.	Other Post Employment Benefits	7,349	31,511	31,631	30,325	-	30,325
33.	Labor Savings	-	1,065	(397)	(2,776)	-	(2,776)
34.	Sub-Total Other Oper. & Maintenance	312,890	327,394	324,860	324,672	(7,722)	316,950
35.	Depreciation	49,634	50,596	55,289	58,113	-	58,113
36.	Cost of Removal	4,713	4,100	4,500	4,500	-	4,500
37.	To Clearing Accounts	(6,770)	(7,516)	(6,837)	(6,905)	-	(6,905)
		47,577	47,180	52,952	55,708	-	55,708
38.	Sub-Total Other Oper. & Maint. & Depreciation	360,467	374,574	377,812	380,380	(7,722)	372,658
39.	TOTAL OPERATING EXPENSES	539,697	561,585	563,496	575,310	(7,722)	567,588
40.	OPERATING INCOME	96,506	111,744	116,499	128,316	7,722	136,038
41.	Interest Gain / (Loss) and Other Income	1,989	3,031	2,788	2,976	27	3,003
42.	INCOME BEFORE INTEREST	98,495	114,775	119,287	131,292	7,749	139,041
INTEREST							
43.	Long-Term Debt	39,104	49,160	48,590	46,704	-	46,704
44.	Other	(2,776)	(6,893)	(10,673)	(10,516)	-	(10,516)
45.	AFUDC	(1,408)	(920)	(1,352)	(1,374)	-	(1,374)
46.	Loss From Extinguishment of Debt	6,088	5,666	5,560	5,262	-	5,262
47.	Total Interest	41,008	47,013	42,125	40,076	-	40,076
48.	NET INCOME	\$ 57,487	\$ 67,762	\$ 77,162	\$ 91,216	\$ 7,749	\$ 98,965
49.	City Payment	18,000	18,000	18,000	18,000	-	18,000
50.	NET EARNINGS	\$ 39,487	\$ 49,762	\$ 59,162	\$ 73,216	\$ 7,749	\$ 80,965

PHILADELPHIA GAS WORKS
STATEMENT OF INCOME
(Dollars in Thousands)

Line No.	Actual 2016-17	Budget 2017-18	Estimate 2017-18	Budget 2018-19	Adjustments	Compliance Budget 2018-19
<u>OPERATING REVENUES</u>						
1. Non-Heating	21,694	22,213	23,490	22,559	-	22,559
2. Gas Transportation Service	42,524	44,614	51,108	54,525	-	54,525
3. Heating	522,423	534,832	584,682	606,349	-	606,349
4. Revenue Enhancement / Cost Reduction	-	40,000	-	-	-	-
5. Weather Normalization Adjustment	29,594	11,824	660	606	-	606
6. Unbilled Gas Adjustment	2,171	315	(21)	20	-	20
7. Total Gas Revenues	618,406	653,798	659,919	684,059	-	684,059
8. Appliance Repair & Other Service Revenues	8,199	8,265	7,993	7,909	-	7,909
9. Other Operating Revenues	9,598	11,266	12,083	11,658	-	11,658
10. Total Other Revenues	17,797	19,531	20,076	19,567	-	19,567
11. Total Operating Revenues	636,203	673,329	679,995	703,626	-	703,626
<u>OPERATING EXPENSES</u>						
12. Natural Gas	179,222	187,001	185,679	194,920	-	194,920
13. Other Raw Material	8	10	5	10	-	10
14. Sub-Total Fuel	179,230	187,011	185,684	194,930	-	194,930
15. Contribution Margins	456,973	486,318	494,311	508,696	-	508,696
16. Labor & Fringe Benefits	216,111	197,551	187,914	182,737	-	182,737
17. Bad Debt Expense	29,992	29,048	34,978	30,983	-	30,983
18. Other Expenses & Depreciation	114,364	147,975	154,920	166,660	(7,722)	158,938
19. Sub-Total Other O&M & Depreciation	360,467	374,574	377,812	380,380	(7,722)	372,658
20. Total Operating Expenses	539,697	561,585	563,496	575,310	(7,722)	567,588
21. Operating Income	96,506	111,744	116,499	128,316	7,722	136,038
22. Interest Gain / (Loss) and Other Income	1,989	3,031	2,788	2,976	27	3,003
23. Income Before Interest	98,495	114,775	119,287	131,292	7,749	139,041
<u>INTEREST</u>						
24. Long Term Debt	39,104	49,160	48,590	46,704	-	46,704
25. Other Interest	(2,776)	(6,893)	(10,673)	(10,516)	-	(10,516)
26. AFUDC	(1,408)	(920)	(1,352)	(1,374)	-	(1,374)
27. Loss from Extinguishment of Debt	6,088	5,666	5,560	5,262	-	5,262
28. Total Interest	41,008	47,013	42,125	40,076	-	40,076
29. Net Income	<u>\$ 57,487</u>	<u>\$ 67,762</u>	<u>\$ 77,182</u>	<u>\$ 91,216</u>	<u>\$ 7,749</u>	<u>\$ 98,965</u>
30. City Payment	18,000	18,000	18,000	18,000	-	18,000
31. Net Earnings	<u>\$ 39,487</u>	<u>\$ 49,762</u>	<u>\$ 59,182</u>	<u>\$ 73,216</u>	<u>\$ 7,749</u>	<u>\$ 80,965</u>

PHILADELPHIA GAS WORKS
CASH FLOW STATEMENT
(Dollars in Thousands)

Line No.	Actual 2016-17	Budget 2017-18	Estimate 2017-18	Budget 2018-19	Adjustments	Budget 2018-19
SOURCES						
1. Net Income	57,487	67,762	77,162	91,216	7,749	98,965
2. Depreciation & Amortization	44,998	47,020	49,415	52,525	-	52,525
3. Earnings on Restricted Funds	(773)	(1,825)	(3,148)	(3,217)	-	(3,217)
4. Proceeds from Bond Refunding to Pay Cost of Issuance	2,521	-	-	-	-	-
5. Increased/(Decreased) Other Assets/Liabilities	16,687	(6,100)	6,278	(19,268)	3,040	(16,228)
6. Available From Operations	120,920	106,857	129,707	121,256	10,789	132,045
7. Drawdown of Bond Proceeds	25,000	52,000	60,000	61,000	-	61,000
8. Release of Bond Proceeds to Pay Temporary Financing	101,000	-	-	-	-	-
9. Temporary Financing	30,000	-	-	-	-	-
10. TOTAL SOURCES	<u>\$ 276,920</u>	<u>\$ 158,857</u>	<u>\$ 189,707</u>	<u>\$ 182,256</u>	<u>\$ 10,789</u>	<u>\$ 193,045</u>
USES						
11. Net Construction Expenditures	102,254	109,010	122,147	124,205	-	124,205
12. Funded Debt Reduction:	-	-	-	-	-	-
13. Revenue Bonds	48,900	51,834	38,425	51,820	-	51,820
14. Temporary Financing Repayment	101,000	-	-	-	-	-
15. Distribution of Earnings	18,000	18,000	18,000	18,000	-	18,000
Additions to (Reductions of):	-	-	-	-	-	-
16. Non-Cash Working Capital	9,975	(7,250)	(15,285)	(1,961)	-	(1,961)
17. Cash Needs	280,129	171,594	163,287	192,064	-	192,064
18. Cash Surplus (Shortfall)	(3,209)	(12,737)	26,420	(9,808)	10,789	981
19. TOTAL USES	<u>\$ 276,920</u>	<u>\$ 158,857</u>	<u>\$ 189,707</u>	<u>\$ 182,256</u>	<u>\$ 10,789</u>	<u>\$ 193,045</u>
20. Cash - Beginning of Period	91,743	102,599	88,534	114,954	-	114,954
21. Cash - Surplus (Shortfall)	(3,209)	(12,737)	26,420	(9,808)	10,789	981
22. Ending Cash	<u>\$ 88,534</u>	<u>\$ 89,862</u>	<u>\$ 114,954</u>	<u>\$ 105,146</u>	<u>\$ 10,789</u>	<u>\$ 115,935</u>
23. Outstanding Commercial Paper - Working Capital	-	-	-	-	-	-
24. Outstanding Commercial Paper - Capital	-	-	-	-	-	-
25. Incremental DSIC Revenue	22,938	30,579	33,000	33,000	-	33,000
26. Internally Generated Funds	24,316	26,431	29,147	30,205	-	30,205
27. TOTAL IGF + Incremental DSIC Revenue	47,254	57,010	62,147	63,205	-	63,205

**PHILADELPHIA GAS WORKS
DEBT SERVICE COVERAGE**

(Dollars in Thousands)

Line No.	Actual 2016-17	Budget 2017-18	Estimate 2017-18	Budget 2018-19	Adjustments	Budget 2018-19
FUNDS PROVIDED						
1.	618,406	653,798	659,919	684,059	-	684,059
2.	17,797	19,531	20,076	19,567	-	19,567
3.	636,203	673,329	679,995	703,626		703,626
4.	1,087	1,206	(360)	(241)	27	(214)
5.	1,408	920	1,352	1,374	-	1,374
6.	638,698	675,455	680,987	704,759	27	704,786
FUNDS APPLIED						
7.	179,230	187,011	185,684	194,930	-	194,930
8.	360,467	374,574	377,812	380,380	(7,722)	372,658
9.	539,697	561,585	563,496	575,310	(7,722)	567,588
10.	84,027	80,185	79,907	70,823	-	70,823
11.	455,670	481,400	483,589	504,487	(7,722)	496,765
12.	183,028	194,055	197,398	200,273	7,749	208,021
13.	183,028	194,055	197,398	200,273	7,749	208,021
14.	-	-	-	-	-	-
15.	183,028	194,055	197,398	200,273	7,749	208,021
16.	67,582	86,720	86,807	99,051	99,051	99,051
17.	2.71	2.24	2.27	2.02	0.08	2.10
18.	\$115,446	\$107,335	\$110,591	\$101,222	-	\$108,970
19.	67,582	86,720	86,807	99,051	99,051	99,051
20.	2.71	2.24	2.27	2.02	0.08	2.10
21.	2.44	2.03	2.07	1.84	0.08	1.92

**PHILADELPHIA GAS WORKS
BALANCE SHEET
(Dollars in Thousands)**

Line No.		Actual 2016-17	Budget 2017-18	Estimate 2017-18	Budget 2018-19	Adjustments	Budget 2018-19
	ASSETS						
1.	Utility Plant Net	1,338,115	1,402,180	1,404,973	1,471,065	-	1,471,065
2.	Sinking Fund Reserve	102,202	106,208	103,605	105,170	-	105,170
3.	Capital Improvement Fund	165,000	71,651	106,714	47,326	-	47,326
4.	Restricted Investment Worker Comp Fund	2,616	2,622	2,648	2,688	-	2,688
5.	Cash	88,534	104,862	114,954	105,146	10,789	115,935
	Accounts Receivable:						
6.	Gas Receivable	139,327	134,059	145,745	142,232	-	142,232
7.	Other	2,286	1,525	2,311	2,311	-	2,311
8.	Accrued Gas Revenues	5,539	5,484	5,518	5,538	-	5,538
9.	Reserve for Uncollectible	(65,124)	(71,601)	(67,840)	(67,146)	-	(67,146)
10.	Accounts Receivable Net	82,028	69,467	85,734	82,935	-	82,935
11.	Materials & Supplies	55,414	49,220	59,605	53,550	-	53,550
12.	Other Current Assets	2,812	459	479	483	-	483
13.	Deferred Debits	25,903	4,780	10,127	10,427	-	10,427
14.	Unamortized Bond Issuance Expense	322	341	290	259	-	259
15.	Unamortized Extraordinary Loss	47,614	42,199	42,054	36,792	-	36,792
16.	Deferred Environmental	30,010	28,767	29,115	29,115	-	29,115
17.	Deferred Pension Outflows	27,125	13,952	-	-	-	0
18.	Other Assets	19,212	40,604	21,395	20,503	-	20,503
19.	TOTAL ASSETS	\$1,986,907	\$1,937,312	\$1,981,693	\$1,965,459	\$10,789	\$1,976,248
	EQUITY & LIABILITIES						
20.	City Equity	\$53,074	\$89,157	\$112,236	\$185,452	7,749	\$193,201
	Long Term Debt:						
21.	Revenue Bonds	1,054,725	1,021,207	1,016,300	964,480	-	\$964,480
22.	Unamortized Discount	(68)	(825)	(64)	(60)	-	(\$60)
23.	Unamortized Premium	120,705	69,303	109,237	98,352	-	\$98,352
	Accounts Payable:						
24.	Natural Gas	9,637	12,784	11,572	13,206	-	\$13,206
25.	General	45,285	44,437	44,281	44,060	-	\$44,060
26.	Customer Deposits	3,385	2,870	3,236	3,094	-	\$3,094
27.	Other Current Liabilities	7,039	4,932	4,308	5,829	-	\$5,829
28.	Pension Liability	261,945	285,870	255,713	249,695	-	\$249,695
29.	Deferred Credits	4,793	4,497	12,446	3,338	-	\$3,338
30.	Deferred Pension Inflows	-	-	2,559	13,488	-	\$13,488
	Accrued Credits:						
31.	Interest	9,136	8,646	8,411	7,883	-	\$7,883
32.	Taxes & Wages	3,820	4,100	3,914	4,169	-	\$4,169
33.	Distribution to City	3,000	3,000	3,000	3,000	-	\$3,000
34.	Other Liabilities	410,431	387,334	394,544	369,473	3,040	372,513
35.	TOTAL EQUITY & LIABILITIES	\$1,986,907	\$1,937,312	\$1,981,693	\$1,965,459	\$10,789	\$1,976,248
36.	Debt to Equity	95.7%	92.4%	90.9%	85.1%		84.6%

**Philadelphia Gas Works
Fiscal Year 2019
Operating Budget Adjustments**

Statement of Income

- a) The \$5,404,000 overall decrease in Health Insurance Expense is due to a downward adjustment to active employee costs due to revised projections from PGW Health Insurance Actuaries. The \$3,036,000 in Health Insurance costs associated with retirees is shown on the Balance Sheet in accordance with GASB Statement No. 75.

- b) The \$2,000 overall increase in Administrative & General Expenses breakdown as follows:
 - 1. The \$500,000 decrease in Purchase Services Expense reflects a downward adjustment to PFMC purchase services expense consistent with the historical level of funding.

 - 2. The \$555,000 increase in Outside Legal Counsel Expense reflects addition of omitted budget for anticipated FY 2019 initiatives, including: Rate case work, ongoing FERC monitoring, building consolidation, initiative and LNG projects.

 - 3. The \$25,000 increase to Organizational Development Video Expense.

 - 4. The \$78,000 decrease in amortizing costs associated with the 2017 PUC rate case to reflect the change to 5 year amortization.

- c) The \$2,320,000 overall decrease in expenses associated with allocations for Fleet and Street Machinery. Parts 1 & 2 shown on PGW's response to HE-5-B.
 - 1. \$1,901,000 overall decrease for Distribution
 - 2. \$405,000 overall decrease for Field Services
 - 3. \$14,000 overall decrease for Gas Processing

- d) The \$27,000 overall increase in Other Income associated with additional investment income as a result of additional cash balances as a result of the adjustments outlined above.

Cash Flow Statement

- e) Net income increases by \$7,749,000 which is described in detail in the previously mentioned adjustments.

- f) Increase/(Decreased) Other Assets/Liabilities increases by \$3,040,000, this is due to the revised Retiree Healthcare projected costs.

**Philadelphia Gas Works
Fiscal Year 2019
Operating Budget Adjustments**

Debt Service Coverage

- g) Other Income Inc. / (Dec.) Restricted Funds increases by \$27,000; please reference d) for the explanation.
- h) Other Operating Costs decreases by \$7,722,000; please reference a),b) and c) for the explanation.

Balance Sheet

- i) Cash increases by \$10,789,000; please refer to the previously mentioned adjustments on the Cash Flow Statement
- j) City Equity increases by \$7,749,000; this is due to the revised 2019 net income.
- k) Other Liabilities increases by \$3,040,000; this is due to the revised 2019 retiree healthcare detailed in a) and f) above

**RESPONSE TO HEARING EXAMINER'S DATA REQUESTS REGARDING
FISCAL YEAR 2019 OPERATING BUDGET PROCEEDING**

Question HE-5-B:

Regarding total O&M (non-fuel) expenses in the proposed FY 2019 Budget as set forth in Exhibit A-1-1, please detail the reasons for the variances of about \$1 million or more in the following budget areas: b. Field Operations

Response provided by: Dan Furtek, Vice President – Resource Management & Technology

Response:

The as-filed budget submission for Field Operations is composed of the budgets for the following departments:

Department	FY 2018 Est / Act	FY 2019 Budget	Variance
Distribution	\$46,562,000	\$45,228,000	(\$1,334,000)
Field Services	\$37,916,000	\$38,676,000	\$760,000
Resource Mgmt	\$780,000	\$1,469,000	\$689,000
Field Operations Total	\$85,258,000	\$85,373,000	(\$115,000)

The Fleet Operations allocated service budget number has been updated for the Distribution and Field Services Departments resulting in new proposed gross budgets of \$43,327,000 and 38,271,000, respectively. This update will have the following effect on the proposed budget:

Department	FY 2018 Est / Act	FY 2019 Budget	Variance
Distribution	\$44,730,000	\$43,327,000	(\$1,403,000)
Field Services	\$37,512,000	\$38,271,000	\$759,000
Resource Mgmt	\$780,000	\$1,469,000	\$689,000
Field Operations Total	\$83,022,000	\$83,067,000	\$45,000

The variance within Field Operations is very minimal with an increase of \$45K. The primary reason is the completion of the GIS conflation project within Distribution offset by general wage increases.