



August 20, 2020

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

Re: PGW's Fiscal Year 2021 Compliance Operating Budget and Forecast

Dear Ms. McClendon:

Enclosed is PGW's Fiscal Year 2021 Compliance Operating Budget and Forecast.

I would like to commend the Gas Commission's efforts in granting this approval prior to the beginning of PGW's FY 2021 Fiscal Year. This accomplishment allowed PGW to avoid the need to prepare an interim budget, thereby improving the efficiency of the budget review process.

Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read "William J. Gallagher", written in a cursive style.

William J. Gallagher
VP Budget and Strategic Development

WJG/mlb'b
Enclosures

cc: Service List



PHILADELPHIA GAS WORKS

**COMPLIANCE
FISCAL 2021 OPERATING BUDGET
AND
FORECAST FISCAL 2021-2026**

PHILADELPHIA GAS WORKS
STATEMENT OF INCOME
(Dollars in Thousands)

Line No.	Actual 2018-19	Budget 2019-20	Estimate 2019-20	Budget 2020-21	Adjustment	Compliance Budget 2020-21
<u>OPERATING REVENUES</u>						
1. Non-Heating	25,065	23,203	24,026	21,466	-	21,466
2. Gas Transportation Service	63,565	61,882	66,378	67,767	-	67,767
3. Heating	603,521	598,875	579,656	576,418	-	576,418
4. Revenue Adjustment (TED/BUS Rate)	-	-	270	400	-	400
5. Revenue Enhancement / Cost Reduction	-	-	-	70,000	-	70,000
6. Weather Normalization Adjustment	1,596	436	92	-	-	-
7. Pro Forma Adjustment 20HDD Avg.	-	-	-	-	-	-
8. Unbilled Gas Adjustment	320	(191)	617	(36)	-	(36)
9. Total Gas Revenues	694,067	684,205	671,039	736,015	-	736,015
10. Appropriation for Uncollectible Reserve	(29,983)	(30,588)	(30,927)	(33,101)	-	(33,101)
11. Appliance Repair & Other Revenues	7,908	6,835	7,910	7,964	-	7,964
12. Other Operating Revenues	12,736	11,397	11,264	12,161	-	12,161
13. Total Other Operating Revenues	(9,339)	(12,356)	(11,753)	(12,976)	-	(12,976)
14. Total Operating Revenues	684,728	671,849	659,286	723,039	-	723,039
<u>OPERATING EXPENSES</u>						
15. Natural Gas	206,801	195,123	195,397	191,548	-	191,548
16. Other Raw Material	24	10	10	10	-	10
17. Sub-Total Fuel	206,825	195,133	195,407	191,558	-	191,558
18. CONTRIBUTION MARGINS	477,903	476,716	463,879	531,481	-	531,481
19. Gas Processing	22,028	22,512	22,512	21,740	-	21,740
20. Field Operations	79,341	85,188	85,188	86,412	-	86,412
21. Collection	4,212	4,383	4,383	4,430	-	4,430
22. Customer Service	13,983	15,248	15,248	15,751	-	15,751
23. Account Management	8,277	9,206	9,206	9,245	-	9,245
24. Marketing	4,232	4,999	4,999	4,916	-	4,916
25. Administrative & General	69,631	84,074	84,074	86,167	(976)	85,191
26. Health Insurance	22,080	25,340	25,340	27,151	-	27,151
27. Environmental	-	792	792	1,059	-	1,059
28. Capitalized Fringe Benefits	(9,786)	(9,664)	(13,716)	(8,969)	-	(8,969)
29. Capitalized Administrative Charges	(14,276)	(17,050)	(16,793)	(22,707)	-	(22,707)
30. Pensions	30,268	29,531	29,844	23,577	-	23,577
31. Taxes	8,705	9,280	9,280	9,435	-	9,435
32. Other Post Employment Benefits	28,351	17,892	24,732	25,422	-	25,422
33. Proposed Bond Refunding Savings	-	-	(1,437)	(589)	-	(589)
34. Cost/ Labor Savings	-	114	144	(164)	-	(164)
35. Sub-Total Other Oper. & Maintenance	267,046	281,845	283,796	282,876	(976)	281,900
36. Depreciation	63,686	60,602	65,602	67,934	-	67,934
37. Cost of Removal	4,500	4,500	4,500	4,500	-	4,500
38. To Clearing Accounts	-	-	-	-	-	-
	68,186	65,102	70,102	72,434	-	72,434
39. Sub-Total Other Oper. & Maint. & Depreciation	335,232	346,947	353,898	355,310	(976)	354,334
40. TOTAL OPERATING EXPENSES	542,057	542,080	549,305	546,868	(976)	545,892
41. OPERATING INCOME	142,671	129,769	109,981	176,171	(976)	177,147
42. Interest Gain / (Loss) and Other Income	10,787	3,885	4,369	7,400	-	7,400
43. INCOME BEFORE INTEREST	153,458	133,654	114,350	183,571	(976)	184,547
<u>INTEREST</u>						
44. Long-Term Debt	46,136	44,020	50,520	54,442	-	54,442
45. Other	(10,523)	(9,716)	(11,337)	(9,612)	-	(9,612)
46. AFUDC	(1,295)	(1,959)	(1,718)	(2,212)	-	(2,212)
47. Loss From Extinguishment of Debt	5,278	4,845	4,845	4,460	-	4,460
48. Total Interest	39,596	37,190	42,310	47,078	-	47,078
49. NET INCOME	<u>\$ 113,862</u>	<u>\$ 96,464</u>	<u>\$ 72,040</u>	<u>\$ 136,493</u>	<u>\$ (976)</u>	<u>\$ 137,469</u>
50. City Payment	18,000	18,000	18,000	18,000	-	18,000
51. NET EARNINGS	<u>\$ 95,862</u>	<u>\$ 78,464</u>	<u>\$ 54,040</u>	<u>\$ 118,493</u>	<u>\$ (976)</u>	<u>\$ 119,469</u>

PHILADELPHIA GAS WORKS
STATEMENT OF INCOME
(Dollars in Thousands)

Line No.	Budget <u>2019-20</u>	Estimate <u>2019-20</u>	Budget <u>2020-21</u>	<u>Adjustments</u>	Compliance Budget <u>2020-21</u>	
<u>OPERATING REVENUES</u>						
1.	Non-Heating	23,203	24,026	21,466	-	21,466
2.	Gas Transportation Service	61,882	66,378	67,767	-	67,767
3.	Heating	598,875	579,656	576,418	-	576,418
4.	Revenue Adjustment (TED/BUS Rate)	-	270	400	-	400
5.	Revenue Enhancement / Cost Reduction - FY2021	-	-	70,000	-	70,000
6.	Weather Normalization Adjustment	436	92	-	-	-
7.	Unbilled Gas Adjustment	(191)	617	(36)	-	(36)
8.	Total Gas Revenues	684,205	671,039	736,015	-	736,015
9.	Appropriation for Uncollectible Reserve	(30,588)	(30,927)	(33,101)	-	(33,101)
10.	Appliance Repair & Other Service Revenues	6,835	7,910	7,964	-	7,964
11.	Other Operating Revenues	11,397	11,264	12,161	-	12,161
12.	Total Other Revenues	(12,356)	(11,753)	(12,976)	-	(12,976)
13.	Total Operating Revenues	671,849	659,286	723,039	-	723,039
<u>OPERATING EXPENSES</u>						
14.	Natural Gas	195,123	195,397	191,548	-	191,548
15.	Other Raw Material	10	10	10	-	10
16.	Sub-Total Fuel	195,133	195,407	191,558	-	191,558
17.	Contribution Margins	476,716	463,879	531,481	-	531,481
18.	Labor & Fringe Benefits	184,058	184,401	181,580	-	181,580
19.	Other Expenses & Depreciation	162,889	169,497	173,730	(976)	174,706
20.	Sub-Total Other O&M & Depreciation	346,947	353,898	355,310	(976)	356,286
21.	Total Operating Expenses	542,080	549,305	546,868	(976)	545,892
22.	Operating Income	129,769	109,981	176,171	(976)	177,147
23.	Interest Gain / (Loss) and Other Income	3,885	4,369	7,400	-	7,400
24.	Income Before Interest	133,654	114,350	183,571	(976)	184,547
<u>INTEREST</u>						
25.	Long Term Debt	44,020	50,520	54,442	-	54,442
26.	Other Interest	(9,716)	(11,337)	(9,612)	-	(9,612)
27.	AFUDC	(1,959)	(1,718)	(2,212)	-	(2,212)
28.	Loss from Extinguishment of Debt	4,845	4,845	4,460	-	4,460
29.	Total Interest	37,190	42,310	47,078	-	47,078
30.	Net Income	<u>\$ 96,464</u>	<u>\$ 72,040</u>	<u>\$ 136,493</u>	<u>\$ (976)</u>	<u>\$ 137,469</u>
31.	City Payment	18,000	18,000	18,000	-	18,000
32.	Net Earnings	<u>\$ 78,464</u>	<u>\$ 54,040</u>	<u>\$ 118,493</u>	<u>\$ (976)</u>	<u>\$ 119,469</u>

PHILADELPHIA GAS WORKS
CASH FLOW STATEMENT
(Dollars in Thousands)

Line No.	Budget <u>2019-20</u>	Estimate <u>2019-20</u>	Budget <u>2020-21</u>	<u>Adjustments</u>	Compliance Budget <u>2020-21</u>
<u>SOURCES</u>					
1.	96,464	72,040	136,493	976	137,469
2.	55,396	60,396	63,079	-	63,079
3.	2,011	(3,491)	(4,708)	-	(4,708)
4.	-	2,600	-	-	-
5.	(33,128)	(27,609)	(37,908)	-	(37,908)
6.	120,743	103,935	156,956	976	157,932
7.	60,805	65,009	78,084	-	78,084
8.	-	-	-	-	-
9.	-	-	-	-	-
10.	-	-	-	-	-
11.	10,000	-	-	-	-
12.	<u>\$ 191,548</u>	<u>\$ 168,944</u>	<u>\$ 235,040</u>	<u>\$ 976</u>	<u>\$ 236,016</u>
<u>USES</u>					
13.	135,739	119,673	154,084	-	154,084
14.	-	-	-	-	-
15.	52,870	52,870	54,956	-	54,956
16.	-	-	-	-	-
19.	-	-	-	-	-
20.	18,000	18,000	18,000	-	18,000
Additions to (Reductions of):					
21.	(1,969)	742	(3,470)	-	(3,470)
22.	204,640	191,285	223,570	-	223,570
23.	(13,092)	(22,341)	11,471	-	12,447
24.	<u>\$ 191,548</u>	<u>\$ 168,944</u>	<u>\$ 235,040</u>	<u>\$ -</u>	<u>\$ 236,016</u>
25.	124,045	124,146	101,805	-	101,805
26.	(13,092)	(22,341)	11,471	-	12,447
27.	<u>\$ 110,954</u>	<u>\$ 101,805</u>	<u>\$ 113,276</u>	<u>\$ 976</u>	<u>\$ 114,252</u>
28.	-	-	-	-	-
29.	10,000	-	-	-	-
30.	33,000	33,000	35,000	-	35,000
31.	31,934	21,664	41,000	-	41,000
32.	64,934	54,664	76,000	-	76,000

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

Line No.	Budget <u>2019-20</u>	Estimate <u>2019-20</u>	Budget <u>2020-21</u>	<u>Adjustments</u>	Compliance Budget <u>2020-21</u>
<u>FUNDS PROVIDED</u>					
1. Total Gas Revenues	684,205	671,039	736,015	-	736,015
2. Other Operating Revenues	(12,356)	(11,753)	(12,976)	-	(12,976)
3. Total Operating Revenues	671,849	659,286	723,039	-	723,039
4. Other Income Inc. / (Dec.) Restricted Funds	5,897	878	2,692	-	2,692
5. AFUDC (Interest)	1,959	1,718	2,212	-	2,212
6. TOTAL FUNDS PROVIDED	679,705	661,882	727,942	-	727,943
<u>FUNDS APPLIED</u>					
7. Fuel Costs	195,133	195,407	191,558	-	191,558
8. Other Operating Costs	346,947	353,898	355,310	(976)	354,334
9. Total Operating Expenses	542,080	549,305	546,868	(976)	545,892
10. Less: Non-Cash Expenses	70,588	73,083	69,157	-	69,157
11. TOTAL FUNDS APPLIED	471,492	476,222	477,711	(976)	476,735
12. Funds Available to Cover Revenue Bond Debt	208,212	185,659	250,231	(976)	251,207
13. 1975 Ordinance Bonds Debt Service	-	-	-	-	-
14. Debt Service Coverage 1975 Revenue Bonds	-	-	-	-	-
15. Net Available after Prior Debt Service	208,212	185,659	250,231	(976)	251,207
16. Equipment Leasing Debt Service	-	-	-	-	-
17. Net Available After Prior Capital Leases	208,212	185,659	250,231	(976)	251,207
18. 1998 Ordinance Bonds Debt Service	97,534	100,784	106,790	-	106,790
19. 1999 Ordinance Subordinate Bonds Debt Service - (TXCP)	-	-	-	-	-
20. Total New Debt Service	97,534	100,784	106,790	-	106,790
21. Debt Service Coverage 1998 Revenue Bonds	2.13	1.84	2.34	-	2.35
22. Net Available After 1998 Debt Service	\$110,678	\$84,875	\$143,441	(976)	\$144,417
23. Aggregate Debt Service (Combined Liens)	97,534	100,784	106,790	-	106,790
24. Fixed Coverage Charge (Combined Liens)	2.13	1.84	2.34	-	2.35
25. Fixed Coverage Charge including \$18.0MM City Fee	1.95	1.66	2.17	-	2.18

PHILADELPHIA GAS WORKS
BALANCE SHEET
(Dollars in Thousands)

Line No.	Actual 2018-19	Budget 2019-20	Estimate 2019-20	Budget 2020-21	Adjustments	Compliance Budget 2020-21
ASSETS						
1. Utility Plant Net	\$ 1,451,470	\$ 1,521,281	\$ 1,505,541	\$ 1,591,691	-	\$ 1,591,691
2. Leasehold Asset	-	-	-	852	-	852
3. Sinking Fund Reserve	106,509	106,837	125,588	127,803	-	127,803
4. Capital Improvement Fund	68,634	-	245,417	169,798	-	169,798
5. Capital Expenditures Restricted Investment Worker Comp Fund	-	-	-	-	-	-
6. & Health Insurance Escrow	2,711	2,693	2,731	2,759	-	2,759
7. Cash	124,146	110,954	101,805	113,276	976	114,252
Accounts Receivable:						
8. Gas Receivable	146,018	135,204	144,249	140,392	-	140,392
9. Other	1,775	2,007	1,800	1,825	-	1,825
10. Accrued Gas Revenues	4,947	5,522	5,564	5,528	-	5,528
11. Reserve for Uncollectible	(66,751)	(64,479)	(67,015)	(65,565)	-	(65,565)
12. Accounts Receivable Net	<u>85,989</u>	<u>78,254</u>	<u>84,598</u>	<u>82,180</u>	-	<u>82,180</u>
13. Materials & Supplies	51,691	53,116	51,546	50,851	-	50,851
14.	3,258	2,348	3,000	3,160	-	3,160
15. Deferred Debits	14,885	16,266	12,867	12,940	-	12,940
16. Unamortized Bond Issuance Expense	258	233	232	209	-	209
17. Unamortized Extraordinary Loss	36,776	31,946	31,931	27,471	-	27,471
18. Deferred Environmental	37,102	30,735	48,168	47,108	-	47,108
19. Deferred Pension Outflows	14,421	18,375	12,560	8,590	-	8,590
20. Deferred OPEB Outflows	91,175	65,792	71,633	52,091	-	52,091
21. Other Assets	16,387	28,817	29,174	28,934	-	28,934
22. TOTAL ASSETS	<u>\$2,105,410</u>	<u>\$2,067,647</u>	<u>\$2,326,791</u>	<u>\$2,319,711</u>	<u>976</u>	<u>\$ 2,320,687</u>
EQUITY & LIABILITIES						
23. City Equity	\$207,562	\$270,819	\$261,603	\$380,096	976	381,072
Long Term Debt:						
24. Revenue Bonds	964,476	911,610	1,171,606	1,116,650	-	1,116,650
25. Unamortized Discount	(56)	(56)	(52)	(48)	-	(48)
26. Unamortized Premium	98,000	88,270	87,919	78,577	-	78,577
27. Lease Obligations	-	-	-	852	-	852
28. Notes Payable	-	10,000	-	-	-	-
Accounts Payable:						
29. Natural Gas	12,000	13,814	14,255	14,488	-	14,488
30. General	55,530	57,593	54,527	54,281	-	54,281
31. Customer Deposits	3,090	2,425	2,956	2,828	-	2,828
32. Other Current Liabilities	4,207	6,321	3,733	4,647	-	4,647
33. Pension Liability	247,246	257,484	244,136	244,675	-	244,675
34. OPEB Liability	336,079	288,239	316,130	293,105	-	293,105
35. Deferred Credits	8,284	3,606	3,848	4,013	-	4,013
36. Deferred Pension Inflows	18,230	20,405	18,166	6,344	-	6,344
37. Deferred OPEB Inflows	69,874	54,991	45,987	22,099	-	22,099
Accrued Credits:						
38. Interest	8,326	6,827	7,601	7,073	-	7,073
39. Taxes & Wages	4,080	4,222	4,042	4,222	-	4,222
40. Distribution to City	3,000	3,000	3,000	3,000	-	3,000
41. Other Liabilities	65,482	68,077	87,334	82,810	-	82,810
42. TOTAL EQUITY & LIABILITIES	<u>\$2,105,410</u>	<u>\$2,067,647</u>	<u>\$2,326,791</u>	<u>\$2,319,711</u>	<u>976</u>	<u>2,320,687</u>
43. Debt to Equity	83.7%	84.8%	82.8%	75.9%	-	75.8%

**Philadelphia Gas Works
Fiscal Year 2021
Operating Budget Adjustment**

Statement of Income

- a) The \$976,000 overall decrease in Administrative & General Expenses reflects a downward adjustment to PFMC purchase services (\$548,000) consistent with the historical level of funding and a decrease in Legal expenses (\$428,000) agreed to during the budget proceedings.

Cash Flow Statement

- b) Net Income increases by \$976,000 which is described in detail in the previously mentioned adjustments.

Debt Service Coverage

- c) Other Operating Costs decreases by \$976,000; please reference above for the explanation.

Balance Sheet

- d) Cash increased by \$976,000; please refer to the previously mentioned adjustments on the Statement of Income and Cash Flow Statement.
- e) City Equity increases by \$976,000; this is due to the revised 2021 net income.