

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

VOLUME IV (PART 1 OF 3)

RESPONSES TO FILING REQUIREMENTS

**ON BEHALF OF
PHILADELPHIA GAS WORKS**

PHILADELPHIA GAS WORKS

R-2009-2139884

DECEMBER 2009

Philadelphia Gas Works' Base Rate Filing

52 Pa. Code § 53.52

§ 53.52. Applicability; public utilities other than canal, turnpike, tunnel, bridge and wharf companies.

(a) Whenever a public utility, other than a canal, turnpike, tunnel, bridge or wharf company files a tariff, revision or supplement effecting changes in the terms and conditions of service rendered or to be rendered, it shall submit to the Commission, with the tariff, revision or supplement, statements showing all of the following:

(1) The specific reasons for each change.

RESPONSE: PGW is seeking this rate increase to fund its post-retirement benefit obligation. Please see the testimony of PGW witnesses Bogdonavage, Bisgaier, Kikla and Hershey for additional information. PGW is proposing an increase in Residential and Commercial delivery charges and a decrease in Commercial, Philadelphia Housing Authority (Rate PHA and General Service) and Municipal delivery charges. Please see the testimony of PGW witnesses Dybalski and Gorman for an explanation of the delivery charge increases/decreases in each rate class.

(2) The total number of customers served by the utility.

RESPONSE: Please see the schedules that are attached in the response to § 53.52(b)(3).

(3) A calculation of the number of customers, by tariff subdivision, whose bills will be affected by the change.

RESPONSE: Please see the schedules that are attached in the response to § 53.52(b)(3).

(4) The effect of the change on the utility's customers.

RESPONSE: Please see the schedules that are attached in the responses to § 53.52(b)(3) and § 53.52(b)(4).

(5) The direct or indirect effect of the proposed change on the utility's revenue and expenses.

RESPONSE: Please see the direct testimony of Joseph Bogdonavage (PGW St. 2) and the accompanying Exhibits JRB-1 and JRB-2A/2B.

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(6) The effect of the change on the service rendered by the utility.

RESPONSE: The changes to rates will not have any effect on the service currently rendered by PGW.

(7) A list of factors considered by the utility in its determination to make the change. The list shall include a comprehensive statement about why these factors were chosen and the relative importance of each. This subsection does not apply to a portion of a tariff change seeking a general rate increase as defined in 66 Pa. C.S. § 1308 (relating to voluntary changes in rates).

RESPONSE: Not applicable.

(8) Studies undertaken by the utility in order to draft its proposed change. This paragraph does not apply to a portion of a tariff change seeking a general rate increase as defined in 66 Pa. C.S. § 1308.

RESPONSE: Not applicable.

(9) Customer polls take and other documents which indicate customer acceptance and desire for the proposed change. If the poll or other documents reveal discernible public opposition, an explanation of why the change is in the public interest shall be provided.

RESPONSE: No customer polls or other documentation regarding customer acceptance or desire for the proposed change exists.

(10) Plans the utility has for introducing or implementing the changes with respect to its ratepayers.

RESPONSE: The Company will notify its customers of the proposed increase by means of a billing insert in compliance with the Commissions regulations as codified at 52 Pa.Code § 53.45.

(11) FCC, FERC or Commission orders or rulings applicable to the filing.

Philadelphia Gas Works' Base Rate Filing

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RESPONSE: There are not any FERC or Commission rulings directly applicable to this change.

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§ 53.52. Applicability; public utilities other than canal, turnpike, tunnel, bridge and wharf companies.

(b) Whenever a public utility other than a canal, turnpike, tunnel, bridge or wharf company files a tariff, revision or supplement which will increase or decrease the bills to its customers, it shall submit in addition to the requirements of subsection (a), to the Commission, with the tariff, revision or supplement, statements showing the following:

(1) The specific reasons for each increase or decrease.

RESPONSE: PGW is seeking this rate increase to fund its post-retirement benefit obligation. Please see the testimony of PGW witnesses Bogdonavage, Bisgaier, Kikla and Hershey for additional information. PGW is proposing an increase in Residential and Commercial delivery charges and a decrease in Commercial, Philadelphia Housing Authority (Rate PHA and General Service) and Municipal delivery charges. Please see the testimony of PGW witnesses Dybalski and Gorman for an explanation of the delivery charge increases/decreases in each rate class.

(2) The operating income statement of the utility for a 12-month period, the end of which may not be more than 120 days prior to the filing. Water and wastewater utilities with annual revenues under \$100,000 and municipal corporations subject to Commission jurisdiction may provide operating income statements for a 12-month period, the end of which may not be more than 180 days prior to the filing.

RESPONSE: Please see attached.

(3) A calculation of the number of customers, by tariff subdivision, whose bills will be increased.

RESPONSE: Please see attached.

(4) A calculation of the total increases, in dollars, by tariff subdivision, projected to an annual basis.

RESPONSE: Please see attached.

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(5) A calculation of the number of customers, by tariff subdivision, whose bills will be decreased.

RESPONSE: See answer to 53.52(b)(3).

(6) A calculation of the total decreases, in dollars, by tariff subdivision, projected to an annual basis.

RESPONSE: See answer to 53.52(b)(3).

UNAUDITED
PGW
STATEMENT OF INCOME
TWELVE MONTHS ENDED AUGUST 31, 2009 AND 2008 WITH COMPARISONS
(Thousands of Dollars)

Line No.	2008 Actual		2009		Increase/(Decrease) Actual 2009 vs Budget	
			Actual	Budget	Amount	%
		Operating revenues				
1	\$ 78,687	Non-heating	\$ 67,295	\$ 84,369	\$ (17,074)	(20)
2	19,215	Gas transport service	24,913	27,510	(2,597)	(9)
3	735,457	Heating	820,142	969,765	(149,623)	(15)
4	8,607	Appliance & Other Revenues	9,311	9,029	282	3
5	(1,931)	Unbilled gas adjustment	(1,893)	1,580	(3,473)	-
6	840,035	Total gas revenues	919,768	1,092,263	(172,485)	(16)
7	9,592	Other operating revenues	9,673	12,268	(2,595)	(21)
8	849,627	Total operating revenues	929,441	1,104,521	(175,080)	(16)
		Operating expenses				
9	511,938	Natural gas	545,859	732,322	(186,463)	(25)
10	38	Other raw material	(13)	5	(18)	-
11	511,976	SUB-TOTAL FUEL	545,846	732,327	(186,481)	(25)
12	337,651	CONTRIBUTION MARGIN	383,595	372,194	11,401	3
13	14,436	Gas Processing	16,779	16,265	514	3
14	37,126	Field Services	37,727	38,375	(648)	(2)
15	17,319	Distribution	21,059	17,982	3,077	17
16	8,441	Collection	8,723	9,450	(727)	(8)
17	37,000	Appropriation for uncollectible reserve	42,000	44,011	(2,011)	(5)
18	12,305	Customer Services	12,897	13,510	(613)	(5)
19	7,006	Account Management	7,525	7,548	(23)	-
20	2,628	Marketing	3,436	4,064	(628)	(15)
21	44,001	Administrative & General	38,360	48,011	(9,651)	(20)
22	34,226	Health Insurance	37,061	36,551	510	1
23	(10,331)	Capitalized Fringe Benefits	(9,284)	(10,592)	1,308	(12)
24	(7,180)	Capitalized Admin. Charges	(6,973)	(7,473)	500	(7)
25	14,258	Pensions	15,425	14,419	1,006	7
26	25,834	Other Post-Employment Benefits	25,952	25,558	394	2
27	5,677	Taxes	6,588	6,799	(211)	(3)
28	-	BTI Cost (Benefits)	4,655	(1,670)	6,325	-
29	-	Cost Savings	-	(2,156)	2,156	-
30	242,746	Total operating expenses	261,930	260,652	1,278	-
31	94,905	Operating income before depreciation	121,665	111,542	10,123	9
32	42,868	Depreciation	42,200	42,408	(208)	(0)
33	(3,344)	Less depreciation distributed thru clearing accounts	(4,419)	(5,159)	740	(14)
34	39,524	Net depreciation	37,781	37,249	532	1
35	794,246	Total operating expenses	845,557	1,030,228	(184,671)	(18)
36	55,381	Operating income	83,884	74,293	9,591	13
37	15,732	Interest and other income	12,240	11,526	714	6
38	71,113	Income before interest	96,124	85,819	10,305	12
		Interest				
39	56,075	Long term debt	63,602	54,968	8,634	16
40	12,269	Other	15,558	13,119	2,439	19
41	(338)	Allowance for funds used during construction	(247)	(873)	626	(72)
42	68,006	Net interest expense	78,913	67,214	11,699	17
43	\$ 3,107	Net income	\$ 17,211	\$ 18,605	\$ (1,394)	

Philadelphia Gas Works
RATE CASE 2010
Tariff Revenue at Current Rates

	Test Year 2010				Current PUC Approved Tariff Rates										Total Full Tariff Revenue	
	No. of Customers	No. of Annual Bills	Annual Deliveries (incl)	Monthly Cust. Charge	GCR Charge	Univ. Service Charge	Restr. and Cons. Educ. Charge	Delivery Charge	Cust. Charge Revenue	GCR Charge Revenue	Univ. Service Charge Revenue	Restr. & Cons. Ed. Charge Rev.	Delivery Charge Revenue			
6 Non-Heating:																
8 Residential	31,002	372,021	638,616	\$12.00	\$7,301.10	\$2,076.00	\$0.0227	\$6,184.00	4,464	4,809	1,367	15	4,073	14,728		
9 Residential-Senior	1,942	23,306	34,450	\$12.00	\$7,301.10	\$2,076.00	\$0.0227	\$6,184.00	280	252	72	1	213	817		
10 Commercial	5,025	60,300	1,314,572	\$18.00	\$7,301.10	\$2,076.00	\$0.0227	\$5,244.9	1,085	9,598	2,729	30	6,895	20,337		
11 Industrial	206	2,467	215,345	\$50.00	\$7,301.10	\$2,076.00	\$0.0227	\$5,246.5	123	1,572	447	5	1,130	3,277		
12 Municipal/MS	114	1,368	146,486	\$18.00	\$7,301.10	\$2,076.00	\$0.0227	\$3,817.8	25	1,070	304	3	559	1,961		
13 Total Non-Heat Firm	38,289	459,462	2,369,469						5,977	17,300	4,919	54	12,870	41,120		
14																
15 Heating:																
16 Residential	400,307	4,803,683	36,122,041	\$12.00	\$7,301.10	\$2,076.00	\$0.0227	\$6,184.00	57,644	263,731	74,989	820	223,379	620,563		
17 Residential-Senior	31,728	380,740	3,023,947	\$12.00	\$7,301.10	\$2,076.00	\$0.0227	\$6,184.00	4,569	22,093	6,282	69	18,712	51,725		
18 Commercial	18,271	219,246	7,232,733	\$18.00	\$7,301.10	\$2,076.00	\$0.0227	\$5,244.9	3,946	52,807	15,015	164	37,935	109,868		
19 Industrial	510	6,120	454,809	\$50.00	\$7,301.10	\$2,076.00	\$0.0227	\$5,246.5	306	3,321	944	10	2,386	6,967		
20 Municipal/MS	408	4,891	571,593	\$18.00	\$7,301.10	\$2,076.00	\$0.0227	\$3,817.8	88	4,176	1,187	13	2,184	7,648		
21 PHA Rate 8	833	9,993	593,669	\$18.00	\$7,301.10	\$2,076.00	\$0.0227	\$5,188.9	180	4,334	1,232	13	3,080	8,841		
22 PHA/GS	1,889	22,672	202,798	\$12.00	\$7,301.10	\$2,076.00	\$0.0227	\$5,281.7	272	1,481	421	5	1,071	3,249		
23 PHA/GS-Senior	67	804	6,626	\$12.00	\$7,301.10	\$2,076.00	\$0.0227	\$5,281.7	10	48	14	0	35	107		
24 Total Heat Firm	454,012	5,448,149	48,210,558						67,015	351,990	100,085	1,094	288,782	808,967		
25 Total Heat & Non-Heat Firm	492,301	5,907,611	50,580,027						73,992	369,290	105,004	1,148	301,652	850,087		
26																
27 Firm Transport																
28 Non-Heating:																
29 Residential	0	0	0	\$12.00	0	\$2,076.00	\$0.0227	\$6,184.00	0	0	0	0	0	0	0	0
30 Commercial	382	4,584	315,313	\$18.00	0	\$2,076.00	\$0.0227	\$5,244.9	83	655	655	7	1,654	2,398		
31 Industrial	21	252	50,869	\$50.00	0	\$2,076.00	\$0.0227	\$5,246.5	13	106	106	1	267	386		
32 Municipal/MS	218	2,616	123,866	\$18.00	0	\$2,076.00	\$0.0227	\$3,817.8	47	257	257	3	473	780		
33 Total Non Heat FT	621	7,452	490,048						142	0	1,017	11	2,394	3,564		
34																
35 Heating:																
36 Residential	0	0	0	\$12.00	0	\$2,076.00	\$0.0227	\$6,184.00	0	0	0	0	0	0	0	0
37 Commercial	1,190	14,280	1,591,524	\$18.00	0	\$2,076.00	\$0.0227	\$5,244.9	257	3,304	3,304	36	8,347	11,945		
38 Industrial	42	504	268,130	\$50.00	0	\$2,076.00	\$0.0227	\$5,246.5	25	557	557	6	1,407	1,995		
39 Municipal/MS	176	2,112	455,256	\$18.00	0	\$2,076.00	\$0.0227	\$3,817.8	38	945	945	10	1,738	2,732		
40 Total Heat FT	1,408	16,896	2,314,910						320	0	4,806	53	11,492	16,671		
41 Total FT	2,029	24,348	2,804,958						462	0	5,823	64	13,886	20,235		
42																
43 Total Interruptible	129	1,546	770,488						94				7,920	8,013		
44 Total PGW	494,459	5,933,505	54,155,473						73,549	369,290	110,827	1,212	323,458	878,335		
45 GTS / IT Revenue																
46 SSPC GCR / Rounding																
47 Current Tariff Revenue at Full Tariff Rates																
48 Less: GCR Revenue																
49 Distribution Tariff Revenue																

182
369,290
519,078

**Philadelphia Gas Works
Allocated Class COS Study - 2009
Revenue at Company's Proposed Rates**

	Rate Year 2010			Company's Proposed Rates		Amounts in \$000s				
	No. of Customers	No. of Annual Bills	Annual Sales (mcf)	Cust. Charge	Delivery Charge	Cust. Revenue	GCR Revenue	USEC/RBC Revenue	Delivery Revenue	Total Full Tariff Rev.
1 Non-Heating:										
2 Residential	31,002	372,021	658,616	\$12.00	\$7.2977	4,464	4,809	1,382	4,806	15,461
3 Residential-Senior	1,942	23,306	34,450	\$12.00	\$7.2977	280	252	72	251	855
4 Commercial	5,025	60,300	1,314,572	\$18.00	\$5.0287	1,085	9,598	2,759	6,611	20,053
5 Industrial	206	2,467	215,345	\$50.00	\$6.4144	123	1,572	452	1,381	3,529
6 Municipal/MS	114	1,368	146,486	\$18.00	\$3.4344	25	1,070	307	503	1,905
7 Total Non-Heat Firm	38,289	459,462	2,369,469			5,977	17,300	4,973	13,553	41,803
8										
9 Heating:										
10 Residential	400,307	4,803,683	36,122,041	\$12.00	\$7.2977	57,644	263,731	75,809	263,608	660,792
11 Residential-Senior	31,728	380,740	3,025,947	\$12.00	\$7.2977	4,569	22,093	6,351	22,082	55,095
12 Commercial	18,271	219,246	7,232,733	\$18.00	\$5.0287	3,946	52,807	15,179	36,371	108,304
13 Industrial	510	6,120	454,809	\$50.00	\$6.4144	306	3,321	955	2,917	7,498
14 Municipal/MS	408	4,891	571,955	\$18.00	\$3.4344	88	4,176	1,200	1,964	7,428
15 PHA Rate 8	833	9,993	593,669	\$18.00	\$5.0990	180	4,334	1,246	3,027	8,787
16 PHA/GS	1,889	22,672	202,798	\$12.00	\$5.1784	272	1,481	426	1,050	3,228
17 PHA/GS - Senior	67	804	6,626	\$12.00	\$5.1784	9,648	48	14	34	106
18 Total Heat/Firm	454,012	5,448,149	48,210,558			67,015	351,990	101,179	331,055	851,239
19 Total Firm Sales	492,301	5,907,611	50,580,027			72,992	369,290	106,152	344,607	893,042
20										
21 Firm Transport										
22 Non-Heating:										
23 Residential	0	0	0	\$12.00	\$7.2977	0	0	0	0	0
24 Commercial	382	4,584	315,313	\$18.00	\$5.0287	83	662	662	1,586	2,330
25 Industrial	21	252	50,869	\$50.00	\$6.4144	13	107	107	326	446
26 Municipal/MS	218	2,616	123,866	\$18.00	\$3.4344	47	260	260	425	732
27 Total Non Heat FT	621	7,452	490,048			142	1,028	1,028	2,237	3,508
28										
29 Heating:										
30 Residential	0	0	0	\$12.00	\$7.2977	0	0	0	0	0
31 Commercial	1,190	14,280	1,591,524	\$18.00	\$5.0287	257	3,340	3,340	8,003	11,600
32 Industrial	42	504	268,130	\$50.00	\$6.4144	25	563	563	1,720	2,308
33 Municipal/MS	176	2,112	455,256	\$18.00	\$3.4344	38	955	955	1,564	2,557
34 Total Heat FT	1,408	16,896	2,314,910			320	4,858	4,858	11,287	16,463
35 Total FT	2,029	24,348	2,804,958			462	5,887	5,887	13,624	19,973
36										
37 Interruptible:	129	1,546	770,488			94			7,920	8,013
38 Total PGW	494,459	5,933,505	54,155,473			73,549	369,290	112,039	366,151	921,079
39 GTS / IT Revenue										9,844
40										
41 Proposed Tariff Revenue at Full Tariff Rates										920,872
42 Less GCR Revenue										369,290
43 Distribution Tariff Revenue at Proposed Rates										561,583
44										42,504
45										519,089
46										93,303

Target
Current Rates
Actual Increase

Rate Increase
Typical Monthly Bill
4412 Degree Days

Residential Heating

<u>Unit Costs</u>	<u>Annual Usage</u>	<u>Unit</u>	<u>Current Rates</u>		<u>Rate Change Update</u>	<u>Change In Annual Bill</u>	<u>Change In Rate</u>
Surcharges	92.0	Mcf	\$ 2.0987	Surcharges	\$ 2.0987	\$ -	\$ -
Delivery Charge	92.0	Mcf	\$ 6.1840	Delivery Charge	\$ 7.2977	\$ 1.1137	\$ 1.1137
GCR Factor	92.0	Mcf	\$ 7.3011	GCR Factor	\$ 7.3011	\$ -	\$ -
Customer Charge	12	Months	\$ 12.00	Customer Charge	\$ 12.00	\$ -	\$ -
Annual Bill/Effect on Annual Bill			\$ 1,577.71		\$ 1,680.17	\$ 102.46	6.5%
Effect on Average Monthly Bill			\$ 131.48		\$ 140.01	\$ 8.54	

Commercial Heating

<u>Unit Costs</u>	<u>Annual Usage</u>	<u>Unit</u>	<u>Current Rates</u>		<u>Rate Change Update</u>	<u>Change In Annual Bill</u>	<u>Change In Rate</u>
Surcharges	393.0	Mcf	\$ 2.0987	Surcharges	\$ 2.0987	\$ -	\$ -
Delivery Charge	393.0	Mcf	\$ 5.2449	Delivery Charge	\$ 5.0287	\$ (0.2162)	\$ (0.2162)
GCR Factor	393.0	Mcf	\$ 7.3011	GCR Factor	\$ 7.3011	\$ -	\$ -
Customer Charge	12	Months	\$ 18.00	Customer Charge	\$ 18.00	\$ -	\$ -
Annual Bill/Effect on Annual Bill			\$ 5,971.37		\$ 5,886.40	\$ (84.97)	-1.4%
Effect on Average Monthly Bill						\$ (7.08)	

Industrial Heating

<u>Unit Costs</u>	<u>Annual Usage</u>	<u>Unit</u>	<u>Current Rates</u>		<u>Rate Change Update</u>	<u>Change In Annual Bill</u>	<u>Change In Rate</u>
Surcharges	885.0	Mcf	\$ 2.0987	Surcharges	\$ 2.0987	\$ -	\$ -
Delivery Charge	885.0	Mcf	\$ 5.2465	Delivery Charge	\$ 6.4144	\$ 1.1679	\$ 1.1679
GCR Factor	885.0	Mcf	\$ 7.3011	GCR Factor	\$ 7.3011	\$ -	\$ -
Customer Charge	12	Months	\$ 50.00	Customer Charge	\$ 50.00	\$ -	\$ -
Annual Bill/Effect on Annual Bill			\$ 13,561.98		\$ 14,595.57	\$ 1,033.59	7.6%
Effect on Average Monthly Bill						\$ 86.13	

PHA Heating

<u>Unit Costs</u>	<u>Annual Usage</u>	<u>Unit</u>	<u>Current Rates</u>		<u>Rate Change Update</u>	<u>Change In Annual Bill</u>	<u>Change In Rate</u>
Surcharges	712.0	Mcf	\$ 2.0987	Surcharges	\$ 2.0987	\$ -	\$ -
Delivery Charge	712.0	Mcf	\$ 5.1889	Delivery Charge	\$ 5.0990	\$ (0.0899)	\$ (0.0899)
GCR Factor	712.0	Mcf	\$ 7.3011	GCR Factor	\$ 7.3011	\$ -	\$ -
Customer Charge	12	Months	\$ 18.00	Customer Charge	\$ 18.00	\$ -	\$ -
Annual Bill/Effect on Annual Bill			\$ 10,603.15		\$ 10,539.15	\$ (64.01)	-0.6%
Effect on Average Monthly Bill						\$ (5.33)	

PHA/GS Heating

<u>Unit Costs</u>	<u>Annual Usage</u>	<u>Unit</u>	<u>Current Rates</u>		<u>Rate Change Update</u>	<u>Change In Annual Bill</u>	<u>Change In Rate</u>
Surcharges	107.0	Mcf	\$ 2.0987	Surcharges	\$ 2.0987	\$ -	\$ -
Delivery Charge	107.0	Mcf	\$ 5.2817	Delivery Charge	\$ 5.1784	\$ (0.1033)	\$ (0.1033)
GCR Factor	107.0	Mcf	\$ 7.3011	GCR Factor	\$ 7.3011	\$ -	\$ -
Customer Charge	12	Months	\$ 12.0000	Customer Charge	\$ 12.00	\$ -	\$ -
Annual Bill/Effect on Annual Bill			\$ 1,714.92		\$ 1,703.87	\$ (11.05)	-0.6%
Effect on Average Monthly Bill						\$ (0.92)	

Municipal Heating

<u>Unit Costs</u>	<u>Annual Usage</u>	<u>Unit</u>	<u>Current Rates</u>		<u>Rate Change Update</u>	<u>Change In Annual Bill</u>	<u>Change In Rate</u>
Surcharges	1,420.0	Mcf	\$ 2.0987	Surcharges	\$ 2.0987	\$ -	\$ -
Delivery Charge	1,420.0	Mcf	\$ 3.8178	Delivery Charge	\$ 3.4344	\$ (0.3834)	\$ (0.3834)
GCR Factor	1,420.0	Mcf	\$ 7.3011	GCR Factor	\$ 7.3011	\$ -	\$ -
Customer Charge	12	Months	\$ 18.00	Customer Charge	\$ 18.00	\$ -	\$ -
Annual Bill/Effect on Annual Bill			\$ 18,984.99		\$ 18,440.56	\$ (544.43)	-2.9%
Effect on Average Monthly Bill						\$ (45.37)	

Philadelphia Gas Works' Base Rate Filing

52 Pa. Code § 53.52

§ 53.52. Applicability; public utilities other than canal, turnpike, tunnel, bridge and wharf companies.

(c) If a public utility files a tariff, revision or supplement which it is calculated will increase the bills of a customer or a group of customers by an amount, when projected to an annual basis, exceeding 3% of the operating revenues of the utility—subsection (b)(4) divided by the operating revenues of the utility for a 12-month period as defined in subsection (b)(2)—or which it is calculated will increase the bills of 5% or more of the number of customers served by the utility—subsection (b)(3) divided by subsection (a)(2)—it shall submit to the Commission with the tariff, revision or supplement, in addition to the statements required by subsections (a) and (b), all of the following information:

(1) A statement showing the utility's calculation of the rate of return or operating ratio (if the utility qualifies to use an operating ratio under § 53.54 (relating to small water and wastewater utilities)) earned in the 12-month period referred to in subsection (b)(2), and the anticipated rate of return or operating ratio to be earned when the tariff, revision or supplement becomes effective. The rate base used in this calculation shall be supported by summaries of original cost for the rate of return calculation. When an operating ratio is used in this calculation, it shall be supported by studies of margin above operation and maintenance expense plus depreciation as referred to in § 53.54(b)(2)(B).

RESPONSE: Not applicable.

(2) A detailed balance sheet of the utility as of the close of the period referred to in subsection (b)(2).

RESPONSE: Please see attached.

(3) A summary, by detailed plant accounts, of the book value of the property of the utility at the date of the balance sheet required by paragraph (2).

RESPONSE: Please see attached.

(4) A statement showing the amount of the depreciation reserve, at the date of the balance sheet required by paragraph (2), applicable to the property, summarized as required by paragraph (3).

RESPONSE: Please see attached.

Philadelphia Gas Works' Base Rate Filing

52 Pa. Code § 53.52

(5) A statement of operating income, setting forth the operating revenues and expenses by detailed accounts for the 12-month period ending on the date of the balance sheet required by paragraph (2).

RESPONSE: Please see attached.

(6) A brief description of a major change in the operating or financial condition of the utility occurring between the date of the balance sheet required by paragraph (2) and the date of transmittal of the tariff, revision or supplement. As used in this paragraph, a major change is one which materially alters the operating or financial condition of the utility from that reflected in paragraphs (1)—(5).

RESPONSE: There has not been any major change in the operating or financial condition of the utility.

PGW
BALANCE SHEETS AUGUST 31, 2009 AND 2008
(Thousands of Dollars)

ASSETS

Line No.		2009	2008
	Utility Plant - At Original Cost		
1	In service	\$ 1,754,297	1,685,593
2	Under construction	<u>30,953</u>	<u>46,969</u>
3	Total	1,785,250	1,732,562
4	Less accumulated depreciation	<u>(708,783)</u>	<u>(670,467)</u>
5	Utility plant - net	1,076,467	1,062,095
6	Sinking fund - revenue bonds	110,227	106,198
7	Capital improvement funds	62,714	111,207
8	Restricted investment (City of Philadelphia)	-	-
9	Restricted investment Workers' Compensation	2,593	2,383
	Current Assets		
10	Cash and temporary investments	13,750	49,338
	Accounts receivable		
11	Customers	220,132	222,880
12	Others	2,122	8,714
13	Accrued gas revenues	6,251	8,145
14	Accumulated provisions for uncollectible accounts	<u>(123,009)</u>	<u>(140,435)</u>
15	Accounts receivable - net	105,496	99,304
16	Materials and supplies	125,023	187,539
17	Other current assets and deferred debits	<u>4,895</u>	<u>5,626</u>
18	Total Current Assets	249,164	341,807
19	Unamortized bond issuance cost	27,516	38,738
20	Unamortized loss-reacquired debt	79,945	47,902
21	Other Assets	9,233	20,475
22	Deferred Environmental	<u>14,232</u>	<u>12,650</u>
23	Total Assets	<u>\$ 1,632,091</u>	<u>\$ 1,743,455</u>

PGW
BALANCE SHEETS AUGUST 31, 2009 AND 2008
(Thousands of Dollars)

EQUITY AND LIABILITIES

			2009	2008	Line No.
City equity			\$ 243,619	\$ 226,408	1
Long term debt:					
City of Philadelphia bonds					
<u>Issued</u>	<u>Original amount</u>	<u>Current portion</u>			
1989	132,520	-	5,064	5,064	2
1990	50,421	-	-	-	3
1994	183,880	-	-	-	4
1998	287,185	12,245	81,365	93,610	5
1999	176,280	2,655	22,630	25,285	6
2001	120,225	2,700	5,815	8,515	7
2002	125,000	2,670	89,915	92,585	8
2003	186,705	7,550	132,675	140,225	9
2004	207,820	13,460	187,010	200,470	10
2006	313,390	-	-	280,454	11
2007	245,350	3,170	239,135	242,305	12
2009		1,595	311,690	0	13
TECA - 11th "C"		-	16,818	15,314	14
TECA - 12th "A"		-	-	-	15
Subordinate Lease Obligations 1997	23,000	-	-	-	16
Total Issued		46,045	1,092,117	1,103,827	17
Unamortized debt discount/premium		2,130	22,371	23,336	18
Total Long Term Bond Debt		48,175	1,114,488	1,127,163	19
Notes payable (City of Phila.)			-	-	20
Total Long Term Debt			1,114,488	1,127,163	21
Current Liabilities					
Notes payable			-	90,000	22
Accounts payable			46,205	67,508	23
Current portion of long term debt			48,175	76,030	24
Customers' deposits			4,224	7,325	25
Other current liabilities and deferred credits			16,203	32,581	26
Accrued accounts:					
Interest, taxes and wages			15,948	15,821	27
Distribution to the City			3,000	3,000	28
Total Current Liabilities			133,755	292,265	29
Other Liabilities			140,229	97,619	30
Total Equity and Liabilities			<u>\$ 1,632,091</u>	<u>\$ 1,743,455</u>	31

**PHILADELPHIA GAS WORKS
UTILITY PLANT IN SERVICE
AS OF AUGUST 31, 2009**

53.52 (c)(3)

ASSET ACCT	PUC CODE	UTILITY PLANT	ENDING BALANCE 8/31/08	ADDITIONS	ADJUSTMENTS	RETIREMENTS	RECLASSES	ENDING BALANCE 8/31/09
1010	304	Land and Land Rights -	1,452,885					1,452,885
1010	305	Structures & Improvement	11,167,854					11,167,854
1010	306	Boiler Plant Equip.	449,129					449,129
1010	307	Other Power Equip.	229,104					229,104
1010	311	Liquefied Petroleum Gas	1,424,547					1,424,547
1010	317	Purification Equip.	13,120					13,120
1010	318	Residual Refining Equip	8,489					8,489
1010	319	Gas Mixing Equip.	162					162
1010	320	Other Equip. - Prod.	16,112,651	45,088				16,157,739
		Total Production Plant	30,857,941	45,088				30,903,029
1010	360	Land and Land Rights -	327,800					327,800
1010	361	Structures & Improvement	7,350,600					7,350,600
1010	362	Gas Holders	33,584,923					33,584,923
1010	363	LNG Purification Equip.	239,299					239,299
1010	364	LNG Liquefaction Equip.	8,656,248					8,656,248
1010	365	LNG Vaporization Equip.	12,452,143					12,452,143
1010	366	LNG Compressor Equip.	12,272,174					12,272,174
1010	367	LNG Measuring & Regulator	4,798,338					4,798,338
1010	368	LNG Other Equip. - Stor	11,749,604					11,749,604
		Total Storage Plant	91,430,129					91,430,129
1010	374	Land and Land Rights -	100,977					100,977
1010	375	Structures & Improvement	2,682,974					2,682,974
1010	376	Mains	471,042,215	13,551,932		(1,292,255)		483,301,892
1010	377	Compressor Station Equip.	1,254,695					1,254,695
1010	378	Meas. & Regulator Station	14,862,380		49,141			14,862,380
1010	380	Services	531,680,698					531,680,698
1010	381	Meters	50,594,228					50,594,228
1010	382	Meter Installations	95,398,893	1,214,414				96,613,307
1010	383	House Regulators	1,788,942	25,389				1,814,331
1010	384	House Regulator Install	4,717,347	(46,645)	9			4,670,711
1010	385	Industry Mesa. & Regulator	313,528					313,528
1010	387	Other Equip. - Distr.	4,317,643	136,413				4,454,056
		Total Distribution Plant	1,178,754,520	37,651,705	49,150	(1,292,255)		1,215,163,120
1010	389	Land and Land Rights -	3,712,767					3,712,767
1010	390	Structures & Improvement	45,368,820	1,417,876				46,786,696
1010	391	Office Furniture & Equip.	61,568,914	11,220,287				72,789,201
1010	392	Transportation Equip.	16,652,220	137,579		(981,475)		15,808,324
1010	393	Stores Equip.	515,201					515,201
1010	394	Tools, Shop & Garage Equip.	7,403,338					7,403,338
1010	396	Power Operated Equip.	431,573					431,573
1010	397	Communications Equip.	15,329,248	157,534				15,486,782
1010	398	Miscellaneous Equip. -	3,001,891					3,001,891
		Total General Plant	153,983,972	12,933,276		(981,475)		165,935,773
		Account Totals for 1010	1,455,026,562	50,630,069	49,150	(2,273,730)		1,503,432,051

**PHILADELPHIA GAS WORKS
UTILITY PLANT IN SERVICE
AS OF AUGUST 31, 2009**

53.52 (c)(3)

ASSET ACCT	PUC CODE	UTILITY PLANT	ENDING BALANCE 8/31/08	ADDITIONS	ADJUSTMENTS	RETIREMENTS	RECLASSES	ENDING BALANCE 8/31/09
1060	305	Structures & Improvement	8,119,006		586			8,119,592
1060	306	Boiler Plant Equip.	2,423,190					2,423,190
1060	320	Other Equip. - Prod.	5,641,085	158,834				5,799,929
		Total Production Plant	16,183,291	158,834	586			16,342,711
1060	361	Structures & Improvement	948,436	275,761				1,224,197
1060	362	Gas Holders	143,807					143,807
1060	363	LNG Purification Equip.	12,171					12,171
1060	364	LNG Liquefaction Equip.	21,942,399	485,012				22,427,411
1060	365	LNG Vaporization Equip.	1,050,451					1,050,451
1060	366	LNG Compressor Equip.	3,931,631	212,572				4,144,203
1060	367	LNG Measuring & Regulator	1,276,704	144,984				1,421,688
1060	368	LNG Other Equip. - Stor	6,002,328					6,002,328
		Total Storage Plant	35,307,927	1,118,329				36,426,256
1060	375	Structures & Improvement	12					12
1060	376	Mains	104,431,845	14,295,625	(68,674)			118,658,796
1060	378	Meas. & Regulator Station	1,760,636					1,760,636
1060	380	Services	4,036,069	86,055				4,122,124
1060	381	Meters	4,745,863					4,745,863
1060	382	Meter Installations	3,182,719					3,182,719
1060	384	House Regulator Install	503	416,290				503
1060	387	Other Equip. - Distr.	1,352,847					1,769,137
		Total Distribution Plant	119,510,494	14,797,970	(68,674)			134,239,790
1060	390	Structures & Improvement	22,869,721	510,559				23,380,280
1060	391	Office Furniture & Equip.	17,595,928	2,293,532				19,889,460
1060	392	Transportation Equip.	11,778,869	482,725				12,261,594
1060	393	Stores Equip.	240,221					240,221
1060	394	Tools, Shop & Garage Equip.	879,228	628,258				1,507,486
1060	396	Power Operated Equip.	50,870					50,870
1060	397	Communications Equip.	4,670,902	229,318				4,900,220
1060	398	Miscellaneous Equip. -	1,479,251	146,679				1,625,930
		Total General Plant	59,584,990	4,291,071				63,876,061
		Account Totals for 1060	230,566,702	20,366,204	(68,088)			250,864,818
		FIXED ASSET TOTALS	1,685,593,263	70,996,274	(18,939)	(2,273,730)		1,754,296,869
		ADD CWIP TOTALS	46,969,013	54,961,110	(70,977,335)			30,952,788
		TOTAL UTILITY PLANT	1,732,562,276	125,957,384	(18,939)	(73,251,065)		1,785,249,657

**PHILADELPHIA GAS WORKS
DEPRECIATION BY PUC CODE
YEAR ENDED AUGUST 31, 2009**

PUC	CATEGORY	COST	ACCUMULATED DEPRECIATION	YTD DEPRECIATION
304	Land and Land Rights	1,452,885.00	-	-
305	Structures & Improvement	19,287,446.54	10,349,606.06	536,832.18
306	Boiler Plant Equip.	2,872,318.73	1,655,563.37	106,889.36
307	Other Power Equip.	229,104.00	161,569.10	3,753.09
311	Liquefied Petroleum Gas	1,424,547.00	1,278,406.97	-
317	Purification Equip.	13,120.00	11,774.06	-
318	Residual Refining Equip	8,489.00	7,618.14	-
319	Gas Mixing Equip.	162.00	102.05	2.23
320	Other Equip. - Prod.	21,957,668.24	11,935,260.86	669,485.79
360	Land and Land Rights	327,799.59	-	-
361	Structures & Improvement	8,574,796.97	4,763,478.29	185,684.44
362	Gas Holders	33,728,730.33	28,886,815.90	792,827.26
363	LNG Purification Equip.	251,469.62	218,528.49	495.34
364	LNG Liquefaction Equip.	31,083,659.53	11,767,459.98	858,326.03
365	LNG Vaporization Equip.	13,502,593.09	9,831,564.84	327,696.27
366	LNG Compressor Equip.	16,416,377.67	7,152,978.26	298,663.60
367	LNG Measuring & Regulator	6,220,025.10	3,223,989.37	168,510.63
368	LNG Other Equip. - Stor	17,750,932.83	6,932,091.55	423,163.38
374	Land and Land Rights	100,977.00	-	-
375	Structures & Improvement	2,682,986.00	2,359,356.26	27,509.17
376	Mains	601,960,689.34	205,077,013.67	9,675,210.23
377	Compressor Station Equip.	1,254,695.00	1,214,156.00	2,260.92
378	Meas. & Regulator Station	16,623,015.91	9,770,091.09	333,572.94
380	Services	556,953,924.28	229,046,600.22	14,382,020.03
381	Meters	57,008,331.93	27,427,934.66	1,599,602.84
382	Meter Installations	99,796,025.08	30,556,428.01	2,372,057.58
383	House Regulators	1,814,331.34	999,626.81	34,090.31
384	House Regulator Install	4,671,213.49	3,282,159.73	96,433.23
385	Industry Mesa. & Regulator	313,528.00	164,199.88	8,433.46
387	Other Equip. - Distr.	6,223,194.16	3,275,683.70	202,455.12
389	Land and Land Rights	3,712,767.00	-	-
390	Structures & Improvement	70,166,975.27	26,503,960.56	1,364,228.52
391	Office Furniture & Equip.	92,678,661.76	33,616,283.00	2,873,240.44
392	Transportation Equip.	28,069,917.70	19,702,494.01	1,778,444.87
393	Stores Equip.	755,422.00	466,000.26	20,268.03
394	Tools, Shop & Garage Equip.	8,910,823.70	4,281,996.99	311,291.89
396	Power Operated Equip.	482,442.79	409,923.84	9,525.05
397	Communications Equip.	20,387,001.72	9,527,190.18	876,426.32
398	Miscellaneous Equip.	4,627,820.29	2,924,804.69	151,105.96
Grand Total		1,754,296,869.00	708,782,710.85	40,490,506.51
Cost of Removal				1,709,904.00
TOTAL				42,200,410.51

PHILADELPHIA GAS WORKS
STATEMENT OF OPERATING INCOME
TWELVE MONTHS ENDED AUGUST 31, 2009

OPERATING REVENUES	<u>August 31, 2009</u>
SALES OF GAS	
480.0 Residential Sales	668,932,805
481.0 Commercial & Industrial Sales	184,098,260
482.0 Public Authority Sales	24,777,854
483.0 Sales for Resale	6,866
489.3 Gas Transportation Service Sales	24,913,047
495.0 Other Gas Revenues	7,737,131
Total Gas Revenues	<u>\$ 910,465,963</u>
APPLIANCE REVENUE	
903.0 Customer Records & Collection	2,234,418
879.0 Customer Installations	7,077,487
880.0 Other Expenses	(1,089)
	<u>\$ 9,310,816</u>
OTHER OPERATING	
487.0 Forfeited Discounts	9,506,252
488.0 Miscellaneous Service Revenue	157,564
	<u>\$ 9,663,816</u>
TOTAL OPERATING REVENUE	<u><u>\$ 929,440,595</u></u>
OPERATING & MAINTENANCE EXPENSES	
700.0 - 708.0 Steam Production	(1,269,362)
710.0 - 742.0 Manufactured Gas Production	(2,225,648)
800.0 - 813.0 Other Gas Supply	(547,473,755)
840.0 - 843.9 Other Storage	(9,738,860)
850.0 - 870.0 Transmission	(1,600,680)
871.0 - 894.0 Distribution	(60,086,534)
901.0 - 905.0 Customer Accounts	(71,120,037)
907.0 - 910.0 Customer Service	(6,176,125)
920.0 - 931.0 Administrative & General	(101,496,283)
Total O&M Expenses	<u>\$ (801,187,284)</u>
OTHER EXPENSES	
403.0 Depreciation Expenses	(37,781,591)
408.1 Taxes Other than Income Taxes	(6,588,227)
Total Depreciation and Taxes	<u>\$ (44,369,818)</u>
TOTAL OPERATING EXPENSES	<u><u>\$ (845,557,102)</u></u>
OTHER INCOME	
417.0 Other Non Operating Income	37,058
418.0 Non Operating Rental Income	64,173
419.0 Interest & Dividend Income	5,513,186
421.0 Miscellaneous Non Operating Income	6,626,038
426.3 Reserved Penalties	-
426.5 Other Deductions	-
Total Other Income	<u>\$ 12,240,455</u>
INTEREST	
427.0 Interest on Long Term Debt	(63,601,770)
428.0 Amortization of Debt Discount & Expense	(3,678,757)
428.1 Amortization of Loss on Required Debt	(9,603,053)
429.0 Amortization of Premium on Debt	2,576,579
431.0 Other Interest Expenses	(4,853,244)
432.0 Allowance for Borrowed Funds Used During Construction	247,437
Total Interest	<u>\$ (78,912,808)</u>
NET INCOME	<u><u>\$ 17,211,140</u></u>

Philadelphia Gas Works' Base Rate Filing

52 Pa. Code § 53.52

§ 53.52. Applicability; public utilities other than canal, turnpike, tunnel, bridge and wharf companies.

(d) If a utility renders more than one time of public service, such as electric and gas, information required by §§ 53.51 – 53.53 (relating to information furnished with the filing of rate changes), except subsection (c)(2), relates solely to the kind of service to which the tariff or tariff supplement is applicable. In subsection (c)(2), the book value of the property used in furnishing each type of public service, as well as the depreciation reserve applicable to the property, shall be shown separately.

RESPONSE: Not applicable.

Philadelphia Gas Works' Base Rate Filing

II. RATE OF RETURN

A. ALL UTILITIES

II.A.1. Provide capitalization and capitalization ratios for the last five-year period and projected through the next two years. (with short-term debt and without short-term debt.) (Company, Parent and System (consolidated)).

II.A.1.a. Provide year-end interest coverages before and after taxes for the last three years and at latest date. (Indenture and SEC Bases.) (Company, Parent and System (consolidated)).

II.A.1.b. Provide year-end preferred stock dividend coverages for last three years and at latest date (Charter and SEC bases).

RESPONSE: Not applicable.

Philadelphia Gas Works' Base Rate Filing

II. RATE OF RETURN

II.A.2. Provide latest quarterly financial report (Company and Parent).

RESPONSE:

PGW's unaudited financial report for the twelve months ended August 31, 2009 is attached.



FINANCIAL REPORT
FOR THE TWELVE MONTHS ENDED AUGUST 31, 2009
UNAUDITED

**UNAUDITED
PGW
STATEMENT OF INCOME
TWELVE MONTHS ENDED AUGUST 31, 2009 AND 2008 WITH COMPARISONS
(Thousands of Dollars)**

Line No.	2008 Actual		2009		Increase/(Decrease) Actual 2009 vs Budget	
			Actual	Budget	Amount	%
		Operating revenues				
1	\$ 78,687	Non-heating	\$ 67,295	\$ 84,369	\$ (17,074)	(20)
2	19,215	Gas transport service	24,913	27,510	(2,597)	(9)
3	735,457	Heating	820,142	969,765	(149,623)	(15)
4	8,607	Appliance & Other Revenues	9,311	9,029	282	3
5	(1,931)	Unbilled gas adjustment	(1,893)	1,580	(3,473)	-
6	840,035	Total gas revenues	919,768	1,092,253	(172,485)	(16)
7	9,592	Other operating revenues	9,673	12,268	(2,595)	(21)
8	849,627	Total operating revenues	929,441	1,104,521	(175,080)	(16)
		Operating expenses				
9	511,938	Natural gas	545,859	732,322	(186,463)	(25)
10	38	Other raw material	(13)	5	(18)	-
11	511,976	SUB-TOTAL FUEL	545,846	732,327	(186,481)	(25)
12	337,651	CONTRIBUTION MARGIN	383,595	372,194	11,401	3
13	14,436	Gas Processing	16,779	16,265	514	3
14	37,126	Field Services	37,727	38,375	(648)	(2)
15	17,319	Distribution	21,059	17,982	3,077	17
16	8,441	Collection	8,723	9,450	(727)	(8)
17	37,000	Appropriation for uncollectible reserve	42,000	44,011	(2,011)	(5)
18	12,305	Customer Services	12,897	13,510	(613)	(5)
19	7,006	Account Management	7,525	7,548	(23)	-
20	2,628	Marketing	3,436	4,064	(628)	(15)
21	44,001	Administrative & General	38,360	48,011	(9,651)	(20)
22	34,226	Health insurance	37,061	36,551	510	1
23	(10,331)	Capitalized Fringe Benefits	(9,284)	(10,592)	1,308	(12)
24	(7,180)	Capitalized Admin. Charges	(6,973)	(7,473)	500	(7)
25	14,258	Pensions	15,425	14,419	1,006	7
26	25,834	Other Post-Employment Benefits	25,952	25,558	394	2
27	5,677	Taxes	6,588	6,799	(211)	(3)
28	-	BTI Cost (Benefits)	4,655	(1,670)	6,325	-
29	-	Cost Savings	-	(2,156)	2,156	-
30	242,746	Total operating expenses	261,930	260,652	1,278	-
31	94,905	Operating Income before depreciation	121,665	111,542	10,123	9
32	42,868	Depreciation	42,200	42,408	(208)	(0)
33	(3,344)	Less depreciation distributed thru clearing accounts	(4,419)	(5,159)	740	(14)
34	39,524	Net depreciation	37,781	37,249	532	1
35	784,246	Total operating expenses	845,657	1,030,228	(184,671)	(18)
36	55,381	Operating Income	83,884	74,293	9,591	13
37	15,732	Interest and other income	12,240	11,526	714	6
38	71,113	Income before interest	96,124	85,819	10,305	12
		Interest				
39	56,075	Long term debt	63,602	54,968	8,634	16
40	12,269	Other	15,558	13,119	2,439	19
41	(338)	Allowance for funds used during construction	(247)	(873)	626	(72)
42	68,006	Net interest expense	78,913	67,214	11,699	17
43	\$ 3,107	Net Income	\$ 17,211	\$ 18,605	\$ (1,394)	

PGW
BALANCE SHEETS AUGUST 31, 2009 AND 2008
(Thousands of Dollars)

ASSETS

Line No.	2009	2008
Utility Plant - At Original Cost		
1 In service	\$ 1,754,297	1,685,593
2 Under construction	<u>30,953</u>	<u>46,969</u>
3 Total	1,785,250	1,732,562
4 Less accumulated depreciation	<u>(708,783)</u>	<u>(670,467)</u>
5 Utility plant - net	1,076,467	1,062,095
6 Sinking fund - revenue bonds	110,227	106,198
7 Capital improvement funds	62,714	111,207
8 Restricted investment (City of Philadelphia)	-	-
9 Restricted investment Workers' Compensation	2,593	2,383
Current Assets		
10 Cash and temporary investments	13,750	49,338
Accounts receivable		
11 Customers	220,132	222,880
12 Others	2,122	8,714
13 Accrued gas revenues	6,251	8,145
14 Accumulated provisions for uncollectible accounts	<u>(123,009)</u>	<u>(140,435)</u>
15 Accounts receivable - net	105,496	99,304
16 Materials and supplies	125,023	187,539
17 Other current assets and deferred debits	<u>4,895</u>	<u>5,628</u>
18 Total Current Assets	249,164	341,807
19 Unamortized bond issuance cost	27,516	38,738
20 Unamortized loss-reacquired debt	79,945	47,902
21 Other Assets	9,233	20,475
22 Deferred Environmental	<u>14,232</u>	<u>12,650</u>
23 Total Assets	<u>\$ 1,632,091</u>	<u>\$ 1,743,455</u>

PGW
BALANCE SHEETS AUGUST 31, 2009 AND 2008
(Thousands of Dollars)

EQUITY AND LIABILITIES

			2009	2008	Line No.
City equity			\$ 243,619	\$ 226,408	1
Long term debt:					
City of Philadelphia bonds					
<u>Issued</u>	<u>Original amount</u>	<u>Current portion</u>			
1989	132,520	-	5,064	5,064	2
1990	50,421	-	-	-	3
1994	183,880	-	-	-	4
1998	287,185	12,245	81,365	93,610	5
1999	176,280	2,655	22,630	25,285	6
2001	120,225	2,700	5,815	8,515	7
2002	125,000	2,670	89,915	92,585	8
2003	186,705	7,550	132,675	140,225	9
2004	207,820	13,460	187,010	200,470	10
2006	313,390	-	-	280,454	11
2007	245,350	3,170	239,135	242,305	12
2009		1,595	311,690	0	13
TECA - 11th "C"		-	16,818	15,314	14
TECA - 12th "A"		-	-	-	15
Subordinate Lease Obligations 1997	23,000	-	-	-	16
Total Issued		46,045	1,092,117	1,103,827	17
Unamortized debt discount/premium		2,130	22,371	23,336	18
Total Long Term Bond Debt		48,175	1,114,488	1,127,163	19
Notes payable (City of Phila.)			-	-	20
Total Long Term Debt			1,114,488	1,127,163	21
Current Liabilities					
Notes payable			-	90,000	22
Accounts payable			46,205	67,508	23
Current portion of long term debt			48,175	76,030	24
Customers' deposits			4,224	7,325	25
Other current liabilities and deferred credits			16,203	32,581	26
Accrued accounts:					
Interest, taxes and wages			15,948	15,821	27
Distribution to the City			3,000	3,000	28
Total Current Liabilities			133,755	292,265	29
Other Liabilities			140,229	97,619	30
Total Equity and Liabilities			\$ 1,632,091	\$ 1,743,455	31

Philadelphia Gas Works' Base Rate Filing

II. RATE OF RETURN

II.A.3. Provide latest Stockholder's Report (Company and Parent).

RESPONSE:

PGW does not issue a Stockholder's Report. Attached is Philadelphia Gas Works' audited 2008 financial report.



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

Basic Financial Statements and Supplementary Information

August 31, 2008 and 2007

(With Independent Auditors' Report Thereon)

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

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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 balance sheets of Philadelphia Gas Works (the Company), a component unit of the City of Philadelphia, as of August 31, 2008 and 2007, and the related statements of revenues and expenses, cash flows, and changes in fund equity, as of and for the years then ended. These financial statements are the responsibility of the Company's management. 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 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 the Company's internal control over financial reporting. Accordingly, we express no such opinion. 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. We believe that our audits provide a reasonable basis for our 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, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

The required supplementary information of management's discussion and analysis on pages 3 to 12 and the schedules of pension funding progress, other postemployment benefits funding progress, and other postemployment benefit employer contributions on pages 52 to 54 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. This supplementary information is the responsibility of the Company's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit such information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included on pages 55 to 58 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



As discussed in note 1(n), the Company adopted the provisions of Governmental Accounting Standards Board Statement (GASB) No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and GASB Statement No. 50, *Pension Disclosures*, as of September 1, 2006.

KPMG LLP

December 29, 2008

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Required Supplementary Information (Unaudited)
Management's Discussion and Analysis
August 31, 2008 and 2007

The narrative overview and analysis of the financial statements of Philadelphia Gas Works (the Company or PGW) for the years ended August 31, 2008 and 2007 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) 2008 reflected a 16.9% warmer than normal winter. The FY 2008 period was 0.7% warmer than the prior year and firm gas sales decreased by 2.4 Billion cubic feet (Bcf). In addition, the Weather Normalization Adjustment (WNA), which was in effect from October 2007 through May 2008, resulted in heating customers receiving charges totaling \$12.2 million as a result of the temperatures experienced during the period. FY 2007 reflected a 16.6% warmer than normal winter. The FY 2007 period was 1.2% warmer than the prior year; however, firm gas sales increased by 2.0 Bcf. In addition, the WNA, which was in effect from October 2006 through May 2007, resulted in heating customers receiving charges totaling \$6.5 million as a result of the temperatures experienced during the period.
- PGW achieved a collection rate of 95.5% in the current period, 95.8% in FY 2007 and 96.6% in FY 2006. The collection rate of 95.5% is calculated by dividing the total gas receipts collected in FY 2008 by the total gas billings that were applied to PGW customers' accounts from September 1 through August 31. The same methodology was utilized in FY 2007 and FY 2006, respectively.
- The Company adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45 (GASB 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as of September 1, 2006 and had a zero net Other Postemployment Benefits (OPEB) obligation at transition. PGW adopted the provisions of GASB 45 a year earlier than required by GASB because the Company is a component unit of the City of Philadelphia (the City) for financial reporting purposes and the Company's FY 2007 financial statements will be consolidated into the City's financial statements for the fiscal year ended June 30, 2008. The difference between the FY 2008 Annual Required Contribution (ARC) of \$44.1 million and the expenses paid by the Company of \$18.3 million resulted in a liability of \$25.8 million which has been recorded in other liabilities and deferred credits and expensed in FY 2008. The difference between the FY 2007 ARC of \$45.2 million and the expenses paid by the Company of \$18.8 million resulted in a liability of \$26.4 million which was recorded in other liabilities and deferred credits and expensed in FY 2007.
- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (GASB 49), is effective for the Company's fiscal year beginning September 1, 2008; however, the Company has chosen to implement the provisions of GASB 49 a year earlier than required by GASB because the Company is a component unit of the City for financial reporting purposes and the Company's FY 2008 financial statements will be consolidated into the City's financial statements for the fiscal year ended June 30, 2009. This statement establishes a framework for the recognition and measurement of pollution remediation liabilities. A pollution remediation obligation addresses the current or potential detrimental effects of existing pollution by participation in pollution remediation activities.

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
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Management's Discussion and Analysis
August 31, 2008 and 2007

Prior to the implementation of GASB 49, the Company recognized liabilities related to its voluntary participation in remediation activities under Pennsylvania Act 2, *Land Recycling and Environmental Remediation Standards Act of 1995*, which established the land recycling program, and its mandatory participation in activities under Pennsylvania Act 32, *Storage Tank and Spill Prevention Act of 1989*, which established a comprehensive program to prevent leaks and spills from underground and above ground tanks in accordance with existing U.S. generally accepted accounting principles (U.S. GAAP) related to the accrual of liabilities.

The Company revised its methodology for estimating its pollution remediation obligations to conform with GASB 49 in the current year, which resulted in an additional \$8.3 million liability which is reflected in other liabilities and deferred credits at August 31, 2008. GASB 49 requires pollution remediation liabilities to be measured at the beginning of the first period presented in the financial statements. The Company has not restated prior periods and instead recognized the effect of GASB 49 implementation in the current year, because the increase in the liability related to the implementation of GASB 49 is not material.

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.

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 are comprised of:

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 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 four statements presented are:

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

The balance sheet includes all of PGW's assets and liabilities, with the difference between the two reported as equity. Over time, increases or decreases in fund equity are indicators of whether PGW's financial position is improving or deteriorating.

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

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Required Supplementary Information (Unaudited)

Management's Discussion and Analysis

August 31, 2008 and 2007

The statement of changes in fund equity provides a rollforward of the fund equity balance of PGW based upon the results from the statement of revenues and expenses.

Condensed Statements of Revenues and Expenses

(Thousands of dollars)

	Years ended August 31		
	2008	2007	2006
Total gas revenues	\$ 831,428	840,105	929,961
Other revenues	18,199	19,246	24,007
Total operating revenues	849,627	859,351	953,968
Total operating expenses	794,246	819,748	880,040
Operating income	55,381	39,603	73,928
Interest and other income	15,732	13,073	8,518
Total interest expense	(68,006)	(68,780)	(65,687)
Excess (deficiency) of revenues over (under) expenses	\$ 3,107	(16,104)	16,759

Operating Revenues

Operating revenues in FY 2008 were \$849.6 million, a decrease of \$9.8 million or 1.1% from the FY 2007 level. The decrease in FY 2008 was due to a milder winter. Operating revenues in FY 2007 were \$859.4 million, a decrease of \$94.6 million or 9.9% from the FY 2006 level. The decrease in FY 2007 was principally due to lower fuel costs which are a component of operating revenues through the gas cost rate (GCR). Please see the discussion of the cost of fuel in the Operating Expenses section below.

Total sales volumes, including gas transportation deliveries, in FY 2008 increased by 2.5 Bcf to 66.3 Bcf or 3.9% from FY 2007 sales volumes of 63.8 Bcf. In FY 2007 total sales volumes increased by 4.4 Bcf to 63.8 Bcf or 7.4% from FY 2006 sales volumes of 59.4 Bcf. Firm gas sales of 45.5 Bcf were 2.4 Bcf or 5.0% lower than FY 2007 firm gas sales of 47.9 Bcf were 1.7 Bcf or 3.7% higher than FY 2007. Interruptible customer sales decreased by 0.9 Bcf compared to FY 2007 and increased by 0.3 Bcf compared to FY 2006. Gas transportation sales in FY 2008 increased by 5.9 Bcf to 19.0 Bcf from the 13.1 Bcf level experienced in FY 2007. In FY 2007, the volume increased by 2.4 Bcf to 13.1 Bcf from the 10.7 Bcf level experienced in FY 2006.

The number of customers served by PGW at the end of FY 2008 decreased by 0.2% from the previous year to approximately 505,000 customers. The number of customers served by PGW at the end of FY 2007 and FY 2006 were approximately 506,000 and 486,000, respectively. Commercial accounts were approximately 25,000, reflecting no change from the previous two fiscal years. Industrial accounts decreased by 11.1% from the prior year's level to 800. Industrial accounts were 900 and 1,000 customers in FY 2007 and FY 2006, respectively.

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

Required Supplementary Information (Unaudited)

Management's Discussion and Analysis

August 31, 2008 and 2007

Residential customers decreased to 479,000 customers, a decrease of 1,000 from the prior year. The number of residential customers in FY 2007 increased to approximately 480,000 customers, an increase of 20,000 over the FY 2006 level.

Operating Expenses

Total operating and maintenance expenses, including fuel costs, in FY 2008 were \$794.2 million, a decrease of \$25.5 million or 3.1% from FY 2007. Total expenses decreased by \$60.3 million or 6.9% from FY 2007 compared to FY 2006. The decrease for FY 2008 reflects substantially lower natural gas utilization and an increase in refunds received from pipeline suppliers. The decrease for FY 2007 reflects substantially higher natural gas prices from FY 2006.

Cost of Fuel – The cost of natural gas utilized decreased by \$27.3 million or 5.1% to \$512.0 million in FY 2008 compared with \$539.3 million in FY 2007. The average commodity price per Thousand cubic feet (Mcf) increased by \$0.25 or \$13.5 million, while the volume of gas utilized decreased by 4.6 Bcf, 7.9% or \$37.6 million. In addition, pipeline supplier refunds in FY 2008 increased by \$10.0 million while demand charges increased by \$6.8 million, compared to FY 2007.

The cost of natural gas utilized decreased by \$85.8 million or 13.7% to \$539.3 million in FY 2007 compared with \$625.1 million in FY 2006. The average commodity price per Mcf decreased by nearly \$2.02 or \$117.2 million, while the volume of gas utilized increased by 3.0 Bcf, 5.4% or \$30.6 million, in FY 2007 despite a 1.2% decrease in degree days from FY 2006. In addition, pipeline supplier refunds in FY 2007 decreased by \$0.2 million while demand charges increased by \$0.7 million, compared to FY 2006.

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 current assets or 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 gas for FY 2008, FY 2007, and FY 2006 were \$8.48, \$8.23, and \$10.25 per Mcf, respectively.

Other Operating Expenses – Expenditures for street operations, infrastructure improvements, and plant operations in FY 2008 were \$68.9 million, down from the FY 2007 total of \$69.5 million as a result of lower labor costs and up from the FY 2006 total of \$66.1 million as a result of an increase in the value of gas used from the time customers request shutoff to the occupancy of the premise by a subsequent customer. This cost was partially reduced by lower operating expenses due to warmer weather conditions. In addition, the cost for customer services, collection and account management, marketing, and the administrative area increased by \$4.9 million or 5.7% in FY 2008 primarily due to costs related to the business transformation initiative and a decrease in the gas used by the utility. This category decreased by \$4.1 million or 4.5% in FY 2007, which was offset somewhat by higher premiums for active and retired employee health insurance coverage. Pension costs decreased by \$1.0 million and \$2.3 million in FY 2008 and FY 2007, respectively, based on the most recent actuarial valuation of the pension plan.

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Required Supplementary Information (Unaudited)
Management's Discussion and Analysis
August 31, 2008 and 2007

Provision for Uncollectible Accounts – The provision for uncollectible accounts in FY 2008 totaled \$37.0 million, a decrease of \$3.0 million or 7.5% lower than FY 2007, which totaled \$40.0 million, a decrease of \$0.1 million or 0.3% compared to FY 2006 based on the most recent accounts receivable collectibility evaluation. The accumulated provision for uncollectible accounts at August 31, 2008 reflects a balance of \$140.4 million, compared to the \$150.2 million balance in FY 2007 and \$168.9 million in FY 2006. 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.

Depreciation Expense – Depreciation expense increased by \$3.1 million in FY 2008 compared with FY 2007. Depreciation expense increased by \$1.7 million in FY 2007 compared with FY 2006. The effective composite depreciation rates for FY 2008, FY 2007 and FY 2006 were 2.4%, 2.3% and 2.3%, respectively. Cost of removal is charged to expense as incurred.

Interest and Other Income – Interest and other income was \$2.7 million greater than FY 2007 as the result of increased earnings on higher restricted fund balances. Interest and other income in FY 2007 was \$4.6 million greater than FY 2006 as the result of increased earnings rates on higher restricted fund balances.

Interest Expense – Total interest expense decreased by \$0.8 million or 1.1% in FY 2008 compared with FY 2007 and increased by \$3.1 million or 4.7% in FY 2007 compared with FY 2006. Interest on long-term debt was \$3.9 million higher than the FY 2007 level as a result of the full year effect of the FY 2007 issuance of revenue bonds in May 2007. Other interest costs decreased by \$4.8 million or 28.0% in FY 2008 principally due to the reduction in the borrowing cost of the commercial paper program. Other interest costs increased by \$2.2 million or 14.6% in FY 2007 and increased by \$4.0 million or 36.4% in FY 2006 reflecting additional costs associated with PGW's commercial paper program and the amortization of the loss on reacquired debt.

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

Required Supplementary Information (Unaudited)

Management's Discussion and Analysis

August 31, 2008 and 2007

Excess (Deficiency) of Revenues Over (Under) Expenses – In FY 2008, the Company's excess of revenues over expenses was \$28.9 million prior to recording the expense of \$25.8 million related to OPEB. As a result, the Company ended with an excess of revenues over expenses of \$3.1 million. The Company had an excess of revenues over expenses of \$10.3 million in FY 2007 prior to recording the expense of \$26.4 million related to OPEB and \$16.8 million in FY 2006.

Condensed Balance Sheets

(Thousands of dollars)

Assets	August 31		
	2008	2007	2006
Utility plant, net	\$ 1,062,095	1,040,373	1,007,648
Restricted investment funds	219,788	277,139	135,625
Current assets:			
Accounts receivable (net of accumulated provision for uncollectible accounts of \$140,435, \$150,231, and \$168,889 for 2008, 2007, and 2006, respectively)	99,304	88,618	74,360
Other current assets and deferred debits, cash and cash equivalents, gas inventories, materials, and supplies	242,503	205,083	181,394
Total current assets	341,807	293,701	255,754
Other assets and deferred debits	105,975	103,727	106,983
Total assets	\$ 1,729,665	1,714,940	1,506,010
Fund Equity and Liabilities			
Fund equity	\$ 226,408	223,301	239,405
Total long-term debt	1,127,163	1,201,792	1,076,131
Current liabilities:			
Note payable	90,000	51,600	55,000
Current portion of long-term debt	76,030	86,995	39,591
Other current liabilities and deferred credits	126,235	103,276	73,854
Total current liabilities	292,265	241,871	168,445
Other liabilities and deferred credits	83,829	47,976	22,029
Total fund equity and liabilities	\$ 1,729,665	1,714,940	1,506,010

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Required Supplementary Information (Unaudited)
Management's Discussion and Analysis
August 31, 2008 and 2007

Assets

Utility Plant – Utility plant, net of depreciation, totaled \$1,062.1 million in FY 2008, an increase of \$21.7 million or 2.1% compared with the FY 2007 balance of \$1,040.4 million. The FY 2007 balance of \$1,040.4 million, increased by \$32.8 million or 3.3% compared with the FY 2006 balance of \$1,007.6 million. Capital expenditures for construction of distribution facilities, purchase of equipment, information technology enhancements, and other general improvements were \$61.2 million in FY 2008 compared to \$69.1 million in FY 2007 and \$60.7 million in FY 2006. PGW funded capital expenditures through drawdowns from the Capital Improvement Fund in the amounts of \$60.9 million, \$60.7 million and \$63.1 million in FY 2008, FY 2007 and FY 2006, respectively. The major capital expenditures are associated with PGW's gas supply infrastructure, namely, gas mains and customer service lines.

Restricted Investment Funds – Restricted investment funds decreased by \$57.4 million in FY 2008 primarily due to the drawdown from its Capital Improvement Fund offset by interest income. Interest income on these funds, to the extent not drawn, is reflected as an increase and approximated \$2.7 million in FY 2008 and \$6.8 million in FY 2007. A drawdown from the Sinking Fund's capitalized interest account in the amount of \$0.1 million was utilized to offset the debt service payment in FY 2007. In FY 2006, this amount was \$6.0 million.

Accounts Receivable – In FY 2008 accounts receivable (net) of \$99.3 million increased by \$10.7 million, or 12.1% from FY 2007 due to firm transportation suppliers' billings and an increase in participation in the Customer Responsibility Program (CRP). Accounts receivable (net) increased by \$14.3 million, or 19.2% in FY 2007 compared to FY 2006. The accumulated provision for uncollectible accounts, totaling \$140.4 million decreased by \$9.8 million in FY 2008 and totaled \$150.2 million in FY 2007 and \$168.9 million in FY 2006.

Other Current Assets and Deferred Debits, Cash and Cash Equivalents, Gas Inventories, Materials, and Supplies – In FY 2008 cash and cash equivalents were \$49.3 million, a decrease of \$2.4 million from FY 2007, and totaled \$51.7 million in FY 2006. Gas storage increased by \$41.4 million or 29.9%. The increase in gas inventory reflects an increase in the gas cost per Mcf plus an increase in the amount of storage at year-end. Materials and supplies of \$187.5 million, which principally include gas inventory, maintenance spare parts, and material, increased by \$39.7 million and were \$147.8 million in FY 2007 and \$149.4 million in FY 2006. Other current assets and deferred debits totaled \$5.6 million in FY 2008, up \$0.1 million from FY 2007. In FY 2007 other current assets and deferred debits totaled \$5.6 million, down \$19.6 million from FY 2006, primarily due to the recovery of under-recovered GCR amounts from the prior year.

Other Assets and Deferred Debits – In FY 2008 other assets and deferred debits including unamortized bond issuance costs, unamortized loss on reacquired debt, and a deferred regulatory asset for environmental expenses totaled \$106.0 million, an increase of \$2.3 million from FY 2007, mainly due to an increase in the workers' compensation injuries and damages reserve. In FY 2007 the total was \$103.7 million and reflected an increase of \$3.3 million from FY 2006. The major portion of this change was related to the bond issuance costs on the \$313.4 million of debt issued in FY 2006, offset partially by deferred environmental costs.

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Required Supplementary Information (Unaudited)

Management's Discussion and Analysis

August 31, 2008 and 2007

Liabilities

Long-Term Debt – Long-term debt, including the current portion and unamortized discount and premium, totaled \$1,203.2 million in FY 2008, \$85.6 million less than the previous year as a result of the Company paying off the City Loan and normal debt principal payments. This represents 84.2% of total capitalization in FY 2008. Long-term debt, including the current portion and unamortized discount, premium, and note payable – City Loan totaled \$1,288.8 million in FY 2007, \$173.1 million greater than the previous year as a result of principal payments on outstanding debt and the issuance of the Seventh Series and Nineteenth Series revenue bonds during FY 2007. This represents 85.2% of total capitalization in FY 2007. The total long-term debt for FY 2006 totaled \$1,115.7 million, which represented 82.3% of total capitalization.

Debt Service Coverage Ratio and Ratings – PGW has a mandatory debt service coverage ratio of 1.50 times debt service on the 1975 Ordinance Bonds and the 1998 Ordinance Bonds, respectively. In FY 2008, the debt service coverage was at 4.28 times debt service on the outstanding 1975 Ordinance Bonds and 1.88 times debt service on the Senior 1998 Ordinance Bonds compared to debt service coverage ratios of 3.70 and 2.00 times, respectively, in FY 2007 and 3.36 and 1.94 times, respectively, in FY 2006. PGW's current bond ratings are "Baa2" from Moody's Investors Service (Moody's), "BBB-" from Standard and Poor's Ratings Service (S&P), and "BBB-" from Fitch Ratings.

Short-Term Debt – Due to the highly seasonal nature of PGW's business, short-term debt is utilized to meet working capital requirements. PGW, pursuant to the provisions of the City of Philadelphia Note Ordinance, may sell short-term notes in a principal amount, which together with interest, may not exceed \$200.0 million outstanding at any one time as compared to \$150.0 million in FY 2006. The letter of credit supporting PGW's commercial paper program fixed the maximum level of outstanding notes plus interest at \$150.0 million in FY 2008 and FY 2007, respectively. These notes are intended to provide additional working capital and are supported by an irrevocable letter of credit and a security interest in PGW's revenues. The notes outstanding at August 31, 2008 had a weighted average interest rate of 1.63% and a remaining weighted average time to maturity of 61 days. The principal amounts outstanding at August 31, 2008 and 2007 were \$90.0 million and \$51.6 million, respectively. In addition, the City provided PGW with a \$45.0 million, 0.0% interest loan in FY 2001. In FY 2007, PGW paid \$2.0 million of the loan leaving an outstanding balance of \$43.0 million. In FY 2008, PGW paid \$20.5 million and \$22.5 million in December 2007 and August 2008, respectively to completely repay the remaining balance of the loan.

Liquidity/Cash Flow – At December 18, 2008, \$2.0 million was available from the Commercial Paper Program. Additionally, PGW had \$111.7 million available in its Capital Improvement Fund to be utilized for construction expenditures. These funding sources may be utilized during the fall and early winter period to provide liquidity until billings from the winter heating season are collected. The cash balance at December 18, 2008 was \$65.5 million.

Accounts Payable – In FY 2008 accounts payable increased \$6.9 million or 11.4% compared with FY 2007 primarily due to an increase in natural gas payables. In FY 2007 accounts payable increased \$3.1 million or 7.8% compared with FY 2006 reflecting a \$3.3 million increase in accounts payables associated with natural gas partially offset by a \$0.2 million decrease in trade payables.

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Management's Discussion and Analysis
August 31, 2008 and 2007

Other Liabilities and Deferred Credits – In FY 2008 other liabilities and deferred credits totaling \$83.8 million increased \$35.8 million compared to FY 2007. In FY 2007 other liabilities and deferred credits totaling \$48.0 million increased \$26.0 million compared to FY 2006. The increase in FY 2008 is the effect of recording the change in the liability for OPEB in the amount of \$25.8 million, an increase in the injuries and damages reserve and an increase in the environmental remediation liability. The increase in FY 2007 is the effect of recording the liability for OPEB in the amount of \$26.4 million.

Other Financial Factors

The City has made a major commitment to PGW by granting back its annual \$18.0 million payment, in each of the last three fiscal years, thereby improving PGW's overall liquidity position. PGW must continue to focus its efforts on becoming a competitive utility in the deregulated marketplace. PGW remains committed to achieving its tradition of providing high-quality service to customers, while continuing as a valuable enterprise of the City.

The Company's total OPEB actuarial accrued liability as of August 31, 2008 was \$591.6 million if the Company continued to provide for its OPEB obligations on a pay-as-you-go basis. The Company's actuarial accrued liability would be reduced to \$382.7 million if the Company adopted a policy of funding its ARC. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of 30 years. The actuarial valuation utilized a discount rate of 8.25% for purposes of developing the liabilities and ARC to demonstrate the effect of funding the Plan. This rate is based on the investment return expected on investments segregated in a funded trust.

The annual OPEB cost was \$52.3 million for the fiscal year ended August 31, 2008 and is projected to increase to \$70.2 million per year over the ensuing 20-year period on a pay-as-you-go basis. The annual OPEB cost was \$45.2 million for the fiscal year ended August 31, 2007.

On December 22, 2006, PGW filed for a \$100.0 million base rate increase with the Public Utility Commission (PUC). On September 28, 2007, the PUC approved a rate increase of \$25.0 million. PGW appealed this decision to Commonwealth Court on or about October 18, 2007 and this matter is still pending in the courts. The \$25.0 million rate increase was implemented in November 2007.

In November 2008, the Company filed for an extraordinary or emergency base rate increase of approximately \$60.0 million or 5.2% and simultaneously requested an \$85.0 million or 7.4% decrease in the GCR for a net 2.2% overall rate decrease of approximately \$25.0 million. The proposed base rate increase will serve several purposes. First, the increase will cover the additional financing costs that the Company anticipates it will incur in the next few months. Second, the increase will improve the Company's financial position so as to enhance its ability to access the financial markets and maintain its bond rating. Third, the increase will provide additional liquidity and financial flexibility in this tight credit market. On December 18, 2008, the PUC issued its decision approving a base rate increase of \$60.0 million or 5.2% and a decrease in the GCR of \$107.0 million for a net decrease in rates of \$47.0 million or 4.2%. These rates are effective as of January 1, 2009.

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The Company had \$90.0 million of commercial paper that was outstanding at August 31, 2008. Subsequent to year-end, all outstanding commercial paper matured, and additional commercial paper was issued. As of December 18, 2008, \$148.0 million of commercial paper was outstanding which matures on February 12, February 13 and March 12, 2009.

As of December 18, 2008, \$271.4 million of the Sixth Series Bonds are held by the providers of the Standby Bond Purchase Agreement as bank bonds. The providers of the Standby Bond Purchase Agreement continue, on a weekly basis, to remarket the bonds in accordance with the bond authorization. The Standby Bond Purchase Agreement expires on January 26, 2009. If the Standby Bond Purchase Agreement is not renewed, and no substitute liquidity facility is provided, any bank bonds held at that time will be amortized in ten payments payable the first business day of July and the first business day of December for the next five years. The Company has therefore recorded as current debt at August 31, 2008 one tenth of the outstanding Sixth Series Bonds as of August 31, including \$1.9 million due to mature in 2009 under the original amortization schedule and an additional \$29.3 million for a total of \$31.2 million.

The fair value of the interest rate swap as of December 18, 2008 was negative \$72.6 million. This means that the Company would have to pay this amount to terminate the swap. Per the swap agreement, the refunding or defeasance of the Sixth Series Bonds, in whole or in part, without the prior written consent of both the counterparty and the insurer, may constitute an event of termination unless certain conditions are met. There is a termination risk related to the interest rate swap agreement if PGW's bond rating falls below Baa2 or BBB (Moody's/S&P). Because the City's swap payments are insured by Financial Security Assurance Inc. (FSA) as long as FSA is rated at or above A2 or A (Moody's/S&P) the termination event based on the City's rating is stayed. Neither the Company's credit rating nor FSA's credit rating has declined below the levels required in the agreement as of December 18, 2008.

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, 2008 and 2007

(Thousands of dollars)

Assets	<u>2008</u>	<u>2007</u>
Utility plant, at original cost:		
In service	\$ 1,685,593	1,633,300
Under construction	46,969	48,013
Total	<u>1,732,562</u>	<u>1,681,313</u>
Less accumulated depreciation	670,467	640,940
Utility plant, net	<u>1,062,095</u>	<u>1,040,373</u>
Restricted investment funds:		
Sinking fund, revenue bonds	106,198	102,438
Capital improvement fund	111,207	172,134
City of Philadelphia	—	643
Workers' compensation escrow fund	2,383	1,924
Total restricted investment funds	<u>219,788</u>	<u>277,139</u>
Current assets:		
Cash and cash equivalents	49,338	51,698
Accounts receivable (net of provision for uncollectible accounts of \$140,435 and \$150,231 for 2008 and 2007, respectively)	99,304	88,618
Gas inventories, materials, and supplies	187,539	147,770
Other current assets and deferred debits	5,626	5,615
Total current assets	<u>341,807</u>	<u>293,701</u>
Unamortized bond issuance costs	38,738	42,086
Unamortized losses on reacquired debt	47,902	53,359
Other assets and deferred debits	19,335	8,282
Total assets	<u>\$ 1,729,665</u>	<u>1,714,940</u>

See accompanying notes to financial statements.

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

Balance Sheets

August 31, 2008 and 2007

(Thousands of dollars)

Fund Equity and Liabilities	2008	2007
Fund equity:		
Deficiency of capital assets, net of related debt	\$ (4,466)	(5,690)
Restricted	108,581	105,005
Unrestricted	122,293	123,986
Total fund equity	226,408	223,301
Long-term debt:		
Revenue bonds	1,127,163	1,201,792
Total long-term debt	1,127,163	1,201,792
Current liabilities:		
Note payable	90,000	51,600
Current portion of revenue bonds	76,030	43,995
Note payable – City Loan	—	43,000
Accounts payable	67,508	60,615
Customer deposits	7,325	9,049
Other current liabilities and deferred credits	32,581	15,524
Accrued accounts:		
Interest, taxes, and wages	15,821	15,088
Distribution to the City	3,000	3,000
Total current liabilities	292,265	241,871
Other liabilities and deferred credits	83,829	47,976
Total fund equity and liabilities	\$ 1,729,665	1,714,940

See accompanying notes to financial statements.

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

Statements of Revenues and Expenses

Years ended August 31, 2008 and 2007

(Thousands of dollars)

	2008	2007
Operating revenues:		
Gas revenues:		
Nonheating	\$ 78,687	90,798
Gas transport service	19,215	12,949
Heating	733,526	736,358
Total gas revenues	831,428	840,105
Appliance and other revenues	8,607	9,398
Other operating revenues	9,592	9,848
Total operating revenues	849,627	859,351
Operating expenses:		
Natural gas	511,976	539,300
Gas processing	14,436	16,240
Field services	37,126	36,100
Distribution	17,319	17,119
Collection and account management	15,447	15,221
Provision for uncollectible accounts	37,000	40,000
Customer services	12,305	11,783
Marketing	2,628	2,418
Administrative and general	60,716	56,819
Pensions	14,258	15,217
Other postemployment benefits	25,834	26,421
Taxes	5,677	6,730
Total operating expenses before depreciation	754,722	783,368
Depreciation	42,868	39,708
Less depreciation expense included in operating expenses above	3,344	3,328
Total depreciation	39,524	36,380
Total operating expenses	794,246	819,748
Operating income	55,381	39,603
Interest and other income	15,732	13,073
Income before interest expense	71,113	52,676
Interest expense:		
Long-term debt	56,075	52,146
Other	12,269	17,042
Allowance for funds used during construction	(338)	(408)
Total interest expense	68,006	68,780
Excess (deficiency) of revenues over (under) expenses	\$ 3,107	(16,104)

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended August 31, 2008 and 2007

(Thousands of dollars)

	2008	2007
Cash flows from operating activities:		
Receipts from customers	\$ 834,000	863,658
Payments to suppliers	(659,969)	(631,475)
Payments to employees	(105,596)	(106,018)
Claims paid	(2,691)	(2,958)
Other receipts	24,500	28,800
Net cash provided by operating activities	90,244	152,007
Cash flows from noncapital financing activities:		
Interest	3,548	4,766
Interest payments on notes payable	(4,099)	(8,098)
Net repayments of notes payable	38,400	(3,400)
Loan from City of Philadelphia	(43,000)	(2,000)
Restricted, City Loan deposit	643	(643)
Distribution to the City of Philadelphia	(18,000)	(18,000)
Grant back of distribution from the City of Philadelphia	18,000	18,000
Net cash used in noncapital financing activities	(4,508)	(9,375)
Cash flows from capital and related financing activities:		
Proceeds from long-term debt issued	—	245,350
Redemption of long-term debt	—	(45,450)
Long-term debt issuance costs	—	(5,652)
Long-term debt premium, discount, and issuance losses	—	(4,133)
Purchases of capital assets	(61,244)	(69,105)
Principal paid on long-term debt	(41,830)	(38,045)
Interest paid on long-term debt	(54,076)	(46,913)
Capital improvement fund deposits	—	(193,170)
Drawdowns on capital improvement fund	60,926	60,672
Interest income on capital improvement fund	8,089	4,497
Interest income on sinking fund	3,460	1,996
Sinking fund (deposits)	(3,759)	(8,086)
Other investment income	338	408
Net cash used in capital and related financing activities	(88,096)	(97,631)
Net increase (decrease) in cash and cash equivalents	(2,360)	45,001
Cash and cash equivalents at the beginning of the year	51,698	6,697
Cash and cash equivalents at the end of the year	\$ 49,338	51,698
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 55,381	39,603
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	39,812	36,732
Change in assets and liabilities:		
Receivables, net	(11,215)	3,387
Inventories	(39,769)	1,668
Accounts payable	6,892	3,133
Other liabilities and deferred credits	50,879	31,366
Other assets and deferred debits	(11,736)	36,118
Net cash provided by operating activities	\$ 90,244	152,007

See accompanying notes to financial statements.

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

Statements of Changes in Fund Equity

Years ended August 31, 2008 and 2007

(Thousands of dollars)

	<u>2008</u>	<u>2007</u>
Fund equity balance, beginning of the year	\$ 223,301	239,405
Excess (deficiency) of revenues over (under) expenses	3,107	(16,104)
Distribution to the City of Philadelphia	(18,000)	(18,000)
Grant back of distribution from the City of Philadelphia	<u>18,000</u>	<u>18,000</u>
Fund equity balance, end of the year	\$ <u>226,408</u>	<u>223,301</u>

See accompanying notes to financial statements.

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

Notes to Financial Statements

August 31, 2008 and 2007

(1) Summary of Significant Accounting Policies

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

As described in note 2, the Company, is a component unit of the City, and consequently follows accounting principles promulgated by the Governmental Accounting Standards Board (GASB) as they apply to proprietary fund-type activities. In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Company does not apply accounting standards promulgated by the Financial Accounting Standards Board (FASB) issued after November 30, 1989. FASB Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*, is applicable to the Company. Under FASB Statement No. 71, certain assets or liabilities may be created by 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.

(b) Operating Budget

On May 29, 2008, the Company filed its fiscal year (FY) 2009 Operating Budget. The PGC conducted informal discovery concerning this budget in July and August 2008 and public hearings in September 2008. The PGC authorized interim spending authority of \$88,140,000 for the period September 1, 2008 through December 31, 2008, pursuant to a Motion, dated September 23, 2008. A final Order approving interim spending was approved by the Commission at its September 23, 2008 meeting. Briefs were filed on October 15, 2008, a Recommended Decision was received on October 27, 2008 and a final budget approval was granted by the Commission on December 2, 2008.

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

Notes to Financial Statements

August 31, 2008 and 2007

On July 13, 2007, the Company filed its FY 2008 Operating Budget. The PGC conducted hearings concerning this budget in August 2007 and approved the Company's proposed operating revenues and expenses with net adjustments of \$4,197,000.

(c) Capital Budget

On April 21, 2008, the Philadelphia Facilities Management Corporation (PFMC) Board approved the Company's Request to file an amendment to the FY 2008 budget in the amount of \$2,300,000 for funding to support the Risk-Based Collections and Field operations projects. These projects are critical efforts in support of the Company's Business Transformation effort. The Commission, after review and evaluation, approved a recommendation to City Council supporting the Company's amendment on July 2, 2008. City Council approved the Commission's recommendation on October 23, 2008 and the Mayor signed the ordinance on November 5, 2008.

On January 2, 2008 the Company filed a proposed FY 2009 Capital Budget in the amount of \$73,436,000. After review and evaluation, the PGC on April 30, 2008 approved a recommendation to City Council for a budget of \$71,956,000. The Gas Commission's recommendation was approved by City Council on June 19, 2008 and the ordinance signed by the Mayor on July 2, 2008.

On September 27, 2007 the Company filed with the PGC a proposal to amend the approved FY 2008 Capital Budget for two new line items totaling \$1,433,000. These line items were Supplemental Funding – Consolidate Fire Protection System – Richmond Plant for \$1,171,000 and Disaster Recovery for Richmond and Passyunk Plants for \$262,000. On October 23, 2007 the Company filed a proposal to further amend the budget by adding another new line item. Partial Reauthorization – Customer Service Data Warehouse for \$169,000. Concurrently, the Company proposed a reduction of \$1,523,000 in FY 2008 budget authorization to compensate for the additional funding requested. The Commission, after review and evaluation, recommended that City Council approve an amended budget for FY 2008 in the amount of \$70,727,000. Subsequently, City Council approved the PGC's recommendation on March 6, 2008, with the Mayor signing the budget ordinance on March 12, 2008.

On January 2, 2007, the Company filed with the PGC its FY 2008 Capital Budget requesting spending authority in the amount of \$118,243,000. This budget request was amended by the Company to reflect the deferral of two projects, Construction of Phase II Liquefied Natural Gas (LNG) Replacement and Implementation of Billing Collection Customer Service (BCCS) for a reduction of \$47,300,000. The PGC conducted hearings concerning this budget in February 2007. Briefs were filed on March 13, 2007. The Hearing Examiner issued a Recommended Decision on March 27, 2007 for consideration by the Commissioners further reducing the budget by \$295,000. The PGC's Resolution and Order recommending approval of the FY 2008 Capital Budget to City Council was passed on April 25, 2007. This recommendation of \$70,648,000 was approved by City Council on June 15, 2007. The Mayor of the City signed the Ordinance approving the FY 2008 Capital Budget on September 20, 2007.

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Notes to Financial Statements

August 31, 2008 and 2007

(d) Base Rates

In November 2008, the Company filed for an extraordinary or emergency base rate increase of approximately \$60,000,000 or 5.2% and simultaneously requested an \$85,000,000 or 7.4% decrease in the GCR for a net 2.2% overall rate decrease of approximately \$25,000,000. The base rate increase will serve several purposes. First, the increase will cover the additional financing costs that the Company anticipates it will incur in the next few months. Second, the increase will improve the Company's financial position so as to enhance its ability to access the financial markets and maintain its bond rating. Third, the increase will provide additional liquidity and financial flexibility in this tight credit market. On December 18, 2008, the PUC issued its decision approving a base rate increase of \$60,000,000 or 5.2% and a decrease in the GCR of \$107,000,000 for a net decrease in rates of \$47,000,000, or 4.2%. These rates are effective as of January 1, 2009.

On December 22, 2006, the Company filed for a \$100,000,000 base rate increase with the PUC. The funds provided by this increase in base rates were to be used to pay increased operating and maintenance costs, establish an adequate level of working capital, repay the \$45,000,000 City loan, reduce the outstanding level of short-term commercial paper, provide a source of internal funds for capital expenditures, meet bond covenant requirements in each fiscal year, and provide funds for long-term debt reduction. On September 28, 2007, the PUC approved a rate increase of \$25,000,000 which was effective in November 2007. The Company appealed this decision to Commonwealth Court on or about October 18, 2007 and this matter is pending in the courts.

The previous increase in base rates of \$36,000,000 was approved by the PUC on April 12, 2002.

(e) Weather Normalization Adjustment Clause

The Weather Normalization Adjustment Clause (WNA) was approved by PUC Order dated August 8, 2002. The purpose of the WNA 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 results in neither a rate increase nor a rate decrease, but acts as a billing adjustment. The main benefits of the WNA are the stabilization of cash flow and the reduction of the need for short-term borrowing from year to year. The WNA is applied to customer invoices rendered during the period of October 1 through May 31 of each year for each billing cycle. The WNA will continue in place unless the PUC issues an order directing that it be discontinued. The Company cannot predict when the PUC will complete its review of the WNA, and the review was not completed as of August 31, 2008. The adjustments for the years ended August 31, 2008 and 2007 were an increase in billings of \$12,238,000 and \$6,498,000, respectively.

(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 gas cost rate (GCR) factor. The GCR reflects the increases or decreases in natural gas costs and the cost of other raw materials. 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.

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Notes to Financial Statements

August 31, 2008 and 2007

At the end of the fiscal year, costs recovered through the GCR are compared to the actual cost of fuel and other specific costs. Customers are then credited or charged for over-recovery or under-recovery of costs. The GCR may be adjusted 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 and operating expenses, but do not affect operating income or net income. The Company at August 31, 2008 deferred approximately \$15,494,000 for GCR under-recovery.

GCR effective dates and rates

Effective date	GCR rate per Mcf*	Change
September 1, 2008	\$ 12.6527	(0.3709)
June 1, 2008	13.0236	2.3010
March 1, 2008	10.7226	0.1447
December 1, 2007	10.5779	0.4671
September 1, 2007	10.1108	(0.6143)
June 1, 2007	10.7251	0.2913
March 1, 2007	10.4338	(0.4781)
December 1, 2006	10.9119	(0.3439)
September 1, 2006	11.2558	(1.3074)
Prior	12.5632	—

* 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 are 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 \$2,847,000 and \$2,542,000 was charged to expense as incurred in FY 2008 and FY 2007, respectively, and is included in depreciation expense in the statements of revenues and expenses. 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 2008 and FY 2007 was 2.4% and 2.3%, respectively. The composite rates are supported by a depreciation study of utility plant as of August 31, 2004. The effective composite depreciation rates, as a percentage of cost, for FY 2008 were as follows:

Production plant	0.14% – 4.39%
Transmission, distribution, and storage	0.18% – 4.07%
General plant	1.62% – 9.97%

The next depreciation study is scheduled to be completed in FY 2010.

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Notes to Financial Statements

August 31, 2008 and 2007

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 4.96% in FY 2008 and FY 2007, respectively.

The following is a summary of utility plant activity for the fiscal years ended August 31, 2008 and 2007, respectively (thousands of dollars):

	August 31, 2008			
	Beginning balance	Additions and transfers	Retirements and transfers	Ending balance
Land	\$ 5,267	328	—	5,595
Distribution and collection systems	1,221,067	52,803	(2,474)	1,271,396
Buildings and equipment	406,966	9,792	(8,156)	408,602
Total utility plant, at historical cost	1,633,300	62,923	(10,630)	1,685,593
Under construction	48,013	61,879	(62,923)	46,969
Less accumulated depreciation for:				
Distribution and collection systems	(556,620)	(28,609)*	2,768	(582,461)
Buildings and equipment	(84,320)	(11,412)*	7,726	(88,006)
Utility plant, net	\$ <u>1,040,373</u>	<u>84,781</u>	<u>(63,059)</u>	<u>1,062,095</u>

* Cost of removal in the amounts of \$2,847 and \$2,542 was charged to expense as incurred in FY 2008 and FY 2007, respectively, and is not included in accumulated depreciation.

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

Notes to Financial Statements

August 31, 2008 and 2007

	August 31, 2007			
	Beginning balance	Additions and transfers	Retirements and transfers	Ending balance
Land	\$ 5,267	—	—	5,267
Distribution and collection systems	1,161,705	61,537	(2,175)	1,221,067
Buildings and equipment	388,697	25,500	(7,231)	406,966
Total utility plant, at historical cost	1,555,669	87,037	(9,406)	1,633,300
Under construction	65,122	70,055	(87,164)	48,013
Less accumulated depreciation for:				
Distribution and collection systems	(532,763)	(26,261)*	2,404	(556,620)
Buildings and equipment	(80,380)	(10,905)*	6,965	(84,320)
Utility plant, net	\$ 1,007,648	119,926	(87,201)	1,040,373

* Cost of removal in the amounts of \$2,847 and \$2,542 was charged to expense as incurred in FY 2008 and FY 2007, respectively, 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 and reconnection charges. Other operating revenues primarily consist of finance charges assessed on delinquent accounts.

Operating expenses include 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.

Revenue includes 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.

(i) Customers (Unaudited)

The Company's service territory encompasses the City. Of the Company's approximately 505,000 customers at August 31, 2008, nearly 95.0% were residential. Of the Company's approximately 506,000 customers at August 31, 2007, nearly 94.3% were residential.

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The Company offers a discounted payment plan for current receivables with a possible forgiveness of arrearages in three years. The total number of customers with discounted payment plans as of August 31, 2008 and 2007 was approximately 77,000 and 78,000, respectively.

The Senior Citizen Discount also provides customers with a discounted payment plan. The total number of customers receiving the discount as of August 31, 2008 and 2007 was approximately 40,000 and 44,000, respectively.

(j) Provision for Uncollectible Accounts

The Company estimates its accumulated provision for uncollectible accounts based on a financial analysis and a collectibility study performed at the fiscal year-end. The methodology used in performing the collectibility study has been reviewed with the PGC. For FY 2008 and FY 2007, 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 \$19,014,000 and \$17,166,000 for FY 2008 and FY 2007, respectively, have been reclassified to accounts payable at year end.

(k) Gas Inventories, Materials, and Supplies

Gas inventories, materials, and supplies, consisting primarily of fuel stock, gases stored to meet peak demand requirements, and spare parts, are stated at average cost at August 31, 2008 and 2007, as follows (thousands of dollars):

	2008	2007
Gas inventory	\$ 179,751	138,388
Material and supplies	7,788	9,382
Total	\$ 187,539	147,770

(l) Bond Issuance Costs, Debt Discount, and Premium

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

(m) Losses on Reacquired Debt

Losses on reacquired debt are deferred 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.

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(n) Pensions and Postemployment Benefits

The Company sponsors a public employee retirement system (PERS), a single-employer defined-benefit plan, to provide pension benefits for all of its employees. The pension plan (the Pension Plan) is noncontributory, covering all employees and providing 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 the Company to the Sinking Fund Commission of the City. Management believes that the Pension Plan is in compliance with all applicable laws.

The Company sponsors a single employer defined benefit healthcare plan and provides postemployment healthcare and life insurance benefits to approximately 1,920 and 1,935 participating retirees and their beneficiaries and dependents for FY 2008 and FY 2007, respectively, in accordance with their retiree medical program. The Company also provides such benefits to approximately 1,699 and 1,720 active employees and their dependents for FY 2008 and FY 2007, respectively, by charging the annual insurance premiums to expense.

GASB Statement No. 45 (GASB 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, becomes effective for the Company's fiscal year beginning September 1, 2007. This Statement requires the Company to account for and report the value of its future other postemployment benefit (OPEB) obligations currently rather than on a pay-as-you-go basis. The Company adopted the provisions of GASB 45 as of September 1, 2006. The Company had a zero net OPEB obligation at transition. As discussed in note 11, the difference between the FY 2008 annual OPEB expense of \$44,114,000 and the expenses paid by the Company of \$18,280,000 resulted in an increase in the liability of \$25,834,000 which has been recorded in other liabilities and deferred credits and expensed in FY 2008.

Additionally, the Company adopted the provisions of GASB Statement No. 50, *Pension Disclosures*, which more closely aligns the financial reporting requirements for pensions with those of OPEB, as of September 1, 2006.

(o) Cash Equivalents

For the purpose of reporting cash equivalents, all nonrestricted highly liquid investments with original maturities of three months or less are considered cash equivalents.

(p) 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.

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

(q) 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.

(r) Estimates

In preparing the financial statements in conformity with U.S. GAAP, management uses estimates. The Company has disclosed in the financial statements all estimates where it is reasonably possible that the estimate will change in the near term and the effect of the change could be material to the financial statements.

(s) Pollution Remediation

GASB Statement No. 49 (GASB 49), *Accounting and Financial Reporting for Pollution Remediation Obligations*, is effective for the Company's fiscal year beginning September 1, 2008, however, the Company has chosen to implement the provisions of GASB 49 a year earlier than required by GASB because the Company is a component unit of the City for financial reporting requirements and the FY 2008 financial statements will be consolidated into the City's financial statements for the fiscal year ended June 30, 2009. This statement establishes a framework for the recognition and measurement of pollution remediation liabilities. A pollution remediation obligation addresses the current or potential detrimental effects of existing pollution by participation in pollution remediation activities.

Prior to the implementation of GASB 49, the Company recognized liabilities related to its voluntary participation in remediation activities under Pennsylvania Act 2, *Land Recycling and Environmental Remediation Standards Act of 1995 (Act 2)*, which established the "land recycling program, and related to its mandatory participation in activities under Pennsylvania Act 32, *Storage Tank and Spill Prevention Act of 1989 (Act 32)*, which established a comprehensive program to prevent leaks and spills from underground and above ground tanks in accordance with existing U.S. GAAP related to the accrual of liabilities.

Under Act 2, the Notice of Intent to Remediate (NIR) process was conducted by the Company in October of 2004 and a total of four Public Involvement Plan meetings were conducted at multiple City Recreation Centers throughout Philadelphia during February and March of 2005. In March of 2005 (after the public meetings were conducted), the Company submitted a series of five Remedial Investigation Reports (RIRs) to the Act 2, for review. In July 2005, the Act 2 program approved all five RIRs submitted in March 2005.

In accordance with GASB 49, the Company revised its methodology for estimating its pollution remediation obligations to 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

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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 Act 2 and Act 32 remediation efforts, adjusted as additional information becomes available.

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, price changes, changes in technology, or changes in applicable regulations.

The implementation of GASB 49 resulted in an additional \$8,300,000 liability which is reflected in other liabilities and deferred credits at August 31, 2008. Although GASB 49 requires pollution remediation liabilities to be measured at the beginning of the first period presented in the financial statements, because the increase in the liability related to the implementation of GASB 49 is not material, the Company has not restated prior periods and instead recognized the effect of GASB 49 implementation in the current year.

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.

(i) Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation.

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

The Company is 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 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 2008, the applicable maximum amount was calculated to be \$1,011,000. In FY 2007, the applicable maximum amount was calculated to be \$976,000. The agreement requires the Company to make annual payments of \$18,000,000 to the City. In FY 2008 and FY 2007, the Company made the annual payment of \$18,000,000 to the City. The City then granted the \$18,000,000 back to the Company in both years.

The Company engages in various other transactions with the City. The Company provides gas service to the City. Operating revenues include \$13,914,000 and \$17,245,000 in FY 2008 and FY 2007, respectively, relating to sales to the City. Water and sewer services and licenses are purchased from the City. Such purchases totaled \$616,000 and \$615,000 in FY 2008 and FY 2007, respectively. Net amounts receivable from the City were \$375,000 and \$240,000 at August 31, 2008 and 2007, respectively.

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Certain activities of the PGC are paid for by the Company. Such payments totaled \$788,000 and \$684,000 in FY 2008 and FY 2007, respectively.

(3) Cash, Cash Equivalents, and Investments

(a) Cash and Cash Equivalents

Cash and cash equivalents consist primarily of bank deposits, money market accounts, and repurchase agreements. Bank balances of such deposits and accounts at August 31, 2008 and 2007 were \$52,504,000 and \$54,892,000, respectively. Book balances of such deposits and accounts at August 31, 2008 and 2007 were \$49,338,000 and \$51,698,000, respectively. Federal depository insurance on these balances at August 31, 2008 and 2007 was \$158,000 and \$222,000, respectively. The remaining balances are not insured.

For the Company's cash equivalents, the Company's cash balances fluctuate significantly during the year. Excess cash balances are usually invested in money market accounts and repurchase agreements.

The highest balance of money market accounts during the fiscal years ended August 31, 2008 and 2007 were \$135,200,000 and \$157,200,000, respectively. Money market accounts with a carrying amount (at fair value) of \$51,200,000 and \$53,702,000 at August 31, 2008 and 2007, respectively, are included in the balances presented above.

The highest balance of repurchase agreements during the fiscal year ended August 31, 2008 was \$62,600,000. There were no repurchase agreements outstanding at August 31, 2008 and 2007.

(b) Restricted Investment Funds

The investments in the Company's Sinking Fund, Capital Improvement Fund, Workers' Compensation Escrow Fund, and City Loan Escrow Account consist primarily of a Guaranteed Investment Contract (GIC), 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. The balance of the Capital Improvement Fund at August 31, 2008 and 2007 was \$111,207,000 and \$172,134,000, respectively. The unexpended Capital Improvement Fund proceeds are restricted to the purchase of utility plant. In FY 2008 and FY 2007, the Company utilized the Capital Improvement Fund to provide liquidity for the additions to utility plant.

Investments are recorded at fair value except for certain money market funds recorded at amortized cost. The adjustment to market value for the Capital Improvement Fund resulted in a loss of \$71,500 at August 31, 2008. The adjustment to market value for the Capital Improvement Fund resulted in a gain of \$8,000 at August 31, 2007. The adjustment to market value for the Sinking Fund resulted in gains of \$242,000 and \$214,000 at August 31, 2008 and 2007, respectively.

Pursuant to the Pennsylvania Department of Labor and Industry Bureau of Workers' Compensation Self-Insurance policy, the Company has to establish and maintain a restricted trust account. As of August 31, 2008 and 2007, the trust account balances were \$2,383,000 and \$1,924,000, respectively.

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

Investment type	August 31, 2008			
	Fair value	Weighted average maturity (years)	Credit rating	Rating agency
U.S. government agencies and instrumentalities:				
Federal Home Loan Mortgage Corporation medium term notes	\$ 32,244	0.4608	Aaa/AAA	Moody's/S&P
Federal Home Loan Mortgage gold partner certificate	491	1.6694	N/A	
Federal National Mortgage Association global benchmark notes	7,129	0.2794	Aaa/AAA	Moody's/S&P
Federal National Mortgage Association medium term notes	1,248	1.8506	Aaa/AAA	Moody's/S&P
Federal Home Loan Banks	<u>9,405</u>	0.8250	Aaa/AAA	Moody's/S&P
Total U.S. government agencies and instrumentalities	<u>50,517</u>			
Corporate obligations:				
Goldman Sachs Group senior un subordinate	968	0.7083	Aa-/AA3	Moody's/S&P
Prioca Global	997	0.2917	Aa/AA3	Moody's/S&P
Societe Generale National Association commercial paper	4,950	1.6694	N/A/A-1+	S&P
HSBC Finance Corporation commercial paper	985	0.2403	P1/A-1+	Moody's/S&P
American Express commercial paper	985	0.2403	P1/A-1+	Moody's/S&P
Banco Santander PR San Juan certificate of deposit	98	0.0280	FDIC Insured	
Bank of Florida certificate of deposit	99	0.1043	FDIC Insured	

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Investment type	August 31, 2008			
	Fair value	Weighted average maturity (years)	Credit rating	Rating agency
Bridgewater Savings Bank certificate of deposit	\$ 98	0.0208	FDIC Insured	
Countrywide Bank certificate of deposit	99	0.0180	FDIC Insured	
Eurobank Hato Rey certificate of deposit	99	0.0205	FDIC Insured	
First Suburban National Bank certificate of deposit	98	0.1876	FDIC Insured	
Ironstone Bank certificate of deposit	98	0.1298	FDIC Insured	
Mutual Bank certificate of deposit	99	0.0745	FDIC Insured	
Ravenswood Bank certificate of deposit	97	0.1835	FDIC Insured	
Total corporate obligations	9,770			
Total fair value of investments	60,287			
Cash and cash equivalents:				
Citigroup Funding Inc. commercial paper	4,966	0.1474	N/A/A-1+	S&P
UBS Finance Delaware LLC commercial paper	2,988	0.0595	N/A/A-1+	S&P
Total cash and cash equivalents	7,954			
Money market:				
Morgan Stanley Prime Portfolio Institutional Class Funds	21,772	N/A	N/A	
First American Government Obligations Fund Class Z	13,884	N/A	N/A	
First American Prime Obligations Class Z	6,847	N/A	N/A	
Total money market	42,503			
Accrued interest	463			
Total fair value of investments, including cash deposits	\$ 111,207			
Portfolio weighted modified duration		0.5898		

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Investment type	August 31, 2007			
	Fair value	Weighted average maturity (years)	Credit rating	Rating agency
U.S. government agencies and instrumentalities:				
Federal Home Loan Banks discount note	\$ 2,369	0.1917	Aaa/AAA	Moody's/S&P
Federal National Mortgage Association note	3,293	0.4194	Aaa/AAA	Moody's/S&P
Total U.S. government agencies and instrumentalities	<u>5,662</u>			
Corporate obligations:				
American Express commercial paper	492	0.2861	P1/A1	Moody's/S&P
General Electric commercial paper	1,004	0.2889	P1/A1	Moody's/S&P
HSBC Finance commercial paper	1,003	0.2972	P1/A1	Moody's/S&P
JP Morgan Chase & Co Global Sr Holding Co note	992	0.4194	Aa2/AA-	Moody's/S&P
Goldman Sachs Group global note	994	0.3750	Aa3/AA-	Moody's/S&P
Total corporate obligations	<u>4,485</u>			
Total fair value of investments	<u>10,147</u>			
Money market:				
First American Prime Obligations Fund Class Z	161,965	N/A	N/A	
Total money market	<u>161,965</u>			
Accrued interest	<u>22</u>			
Total fair value of investments, including cash deposits	<u>\$ 172,134</u>			
Portfolio weighted modified duration		0.3304		

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The following is a schedule that details the Company's investments in the Sinking Fund (thousands of dollars):

Investment type	August 31, 2008			
	Fair value	Weighted average maturity (years)	Credit rating	Rating agency
Guaranteed investment contracts	\$ 48,129	12.5000	*	*
U.S. government obligations:				
U.S. Treasury notes	16,806	2.5158	Aaa/AAA	Moody's/S&P
Total U.S. government obligations	16,806			
U.S. government agencies and instrumentalities:				
Federal Home Loan Mortgage Corporation medium term notes	10,176	2.0177	Aaa/AAA	Moody's/S&P
Federal National Mortgage Association medium term notes	5,152	2.1446	Aaa/AAA	Moody's/S&P
Federal Home Loan Banks	16,514	1.9511	Aaa/AAA	Moody's/S&P
Total U.S. government agencies and instrumentalities	31,842			
Corporate obligations:				
Wells Fargo note	2,688	0.5861	Aa1/AA+	Moody's/S&P
Associates Corp National Association	2,610	0.1694	Aa3/AA-	Moody's/S&P
Procter & Gamble Company	1,293	0.2917	Aa3/AA-	Moody's/S&P
Total corporate obligations	6,591			
Total fair value of investments	103,368			
Cash and cash equivalents:				
U.S. Treasury bills	1,860	0.0111	Aaa/AAA	Moody's/S&P
Total cash and cash equivalents	1,860			
Money market:			N/A	N/A
Fidelity Institutional Government Portfolio Class II	970			
Total money market	970			
Total fair value of investments, including cash deposits	\$ 106,198			
Portfolio weighted modified duration		1.9002		

* The credit rating of this investment is unrated.

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<u>Investment type</u>	August 31, 2007			
	<u>Fair value</u>	<u>Weighted average maturity (years)</u>	<u>Credit rating</u>	<u>Rating agency</u>
Guaranteed investment contracts	\$ 49,504	13.5000	*	*
U.S. government obligations:				
U.S. Treasury notes	7,294	1.6153	Aaa/AAA	Moody's/S&P
Total U.S. government obligations	7,294			
U.S. government agencies and instrumentalities:				
Federal National Mortgage Corporation debentures	6,973	2.0417	Aaa/AAA	Moody's/S&P
Federal Farm Credit Bank bonds	4,680	1.3717	Aaa/AAA	Moody's/S&P
Federal Home Loan Mortgage Corporation bonds	10,396	1.9650	Aaa/AAA	Moody's/S&P
Federal Home Loan Mortgage Corporation debentures	8,810	1.8329	Aaa/AAA	Moody's/S&P
Federal National Mortgage Association notes	5,861	2.3328	Aaa/AAA	Moody's/S&P
Federal Home Loan Mortgage Corporation notes	6,358	1.3568	Aaa/AAA	Moody's/S&P
Total U.S. government agencies and instrumentalities	43,078			
Corporate obligations:				
Procter & Gamble note	1,265	1.2917	Aa3/AA-	Moody's/S&P
U.S. Bank National Association	1,105	0.8750	Aa2/AA	Moody's/S&P
Total corporate obligations	2,370			
Total fair value of investments	102,246			
Money market:				
Fidelity Institutional Government Portfolio Class II	192	N/A	N/A	
Total money market	192			
Total fair value of investments, including cash deposits	\$ 102,438			
Portfolio weighted modified duration		1.7806		

* The credit rating of this investment is unrated.

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

<u>August 31, 2008</u>				
<u>Investment type</u>	<u>Fair value</u>	<u>Weighted average maturity (years)</u>	<u>Credit rating</u>	<u>Rating agency</u>
Money market:				
First American Treasury Obligations Fund	\$ 2,383	N/A	N/A	N/A
Total money market	<u>2,383</u>			
Total fair value of investments, including cash deposits	<u>\$ 2,383</u>			
<u>August 31, 2007</u>				
<u>Investment type</u>	<u>Fair value</u>	<u>Weighted average maturity (years)</u>	<u>Credit rating</u>	<u>Rating agency</u>
Money market:				
First American Treasury Obligations Fund	\$ 1,924	N/A	N/A	N/A
Total money market	<u>1,924</u>			
Total fair value of investments, including cash deposits	<u>\$ 1,924</u>			

(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 interest rate risk. Investments shall be diversified as to maturities, and as to kind of investment to eliminate 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.

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(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: (1) bonds or notes of the U.S. government; (2) U.S. Treasury obligations, including STRIPs; 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) U.S. agency obligations rated Aaa/AAA by Moody's Investor Services or Standard & Poor's; (4) collateralized certificates of deposit; (5) bankers acceptances, Eurodollars deposits, and Euro certificates of deposit that are collateralized; (6) commercial paper rated M1G1 or A1+ by Moody's Investor Services and Standard & Poor's, respectively; (7) general obligation bonds of corporations rated AA or better by Moody's Investor Services or Standard & Poor's, with a maturity of two years or less (except the Sinking Fund); (8) collateralized mortgage obligations and pass-through securities rated AA or better by Moody's Investor Services or Standard & Poor's or collateralized with securities that meet the Company's own investment criteria, with a maturity of two years or less (except the Sinking Fund); (9) money market mutual funds, as defined by the Securities and Exchange Commission; (10) repurchase agreements collateralized either through actual delivery of eligible collateral or through segregation of collateral by a depository that is holding the counterparty's securities, provided such collateral meets the Company's own investment criteria; and (11) obligations of the Commonwealth of Pennsylvania (the Commonwealth) or any municipality or other political subdivision of the Commonwealth, registered or otherwise as to principal and interest, with a maturity of two years or less (except the Sinking Fund).

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

(e) Custodial Credit Risk

The Company has selected custodian banks that are members of the Federal Reserve System to hold its investments. Delivery of the applicable investment documents (e.g., contracts, securities, and safekeeping receipts) 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.

(f) Concentration of Credit Risk

More than 5.0% of the Company's investments are in the First American Government Obligations Fund Class Z, U.S. Treasury notes, Morgan Stanley Prime Portfolio Institutional Class Fund, Federal Home Loan Banks, Federal Home Loan Mortgage Corporation medium term notes and the GIC with Financial Security Assurance Inc. (FSA) Capital Markets Services, LLC. These investments represent 6.32% and 7.65%, 9.91%, 11.79%, 19.30% and 21.90%, respectively, of the Company's total investments.

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(4) Deferred Costs

In compliance with orders issued by the PGC, the cost of projects that produce benefits over an extended period is deferred. Such costs are being amortized to expense over a period matching their useful lives, which range from two to ten years. There is no return on the asset being charged to the customers. During FY 2008, there were costs of \$157,000 incurred for rate case expenses and \$437,000 incurred for the PUC's management audit that will be amortized over a four-year period and a seven-year period, respectively. The unamortized costs included in other assets and deferred debits were \$607,000 and \$324,000 as of August 31, 2008 and 2007, respectively. The unamortized costs included in other current assets and deferred debits were \$210,000 and \$397,000 as of August 31, 2008 and 2007, 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. As a result of settlements during FY 2008 by the Company's insurance carriers associated with environmental remediation costs, the Company received \$1,100,000. Environmental remediation costs of approximately \$652,000 in FY 2008 were offset by these insurance settlements, and the remainder was deferred. The Company estimates additional expenditures to be approximately \$21,600,000 as discussed in note 12.

(5) Deferred Compensation Plan

The Company offers its employees a deferred compensation plan (the Plan) created in accordance with Internal Revenue Code Section 457. The Plan, available to all Company employees with six months of service, permits them to defer a portion of their salary until future years. The Company provides an annual 10.0% matching contribution up to \$500 that immediately vests to the employee. The Company contributed \$361,000 and \$365,000 for the years ended August 31, 2008 and 2007, respectively.

(6) Notes Payable

Pursuant to the provisions of certain ordinances and resolutions of the City, the Company may sell short-term notes in a principal amount that, together with interest, may not exceed \$200,000,000 outstanding at any one time. These notes are intended to provide additional working capital. They are supported by an irrevocable letter of credit and a subordinated security interest in the Company's revenues.

A new Series E of the tax-exempt commercial paper program was instituted on January 18, 2006, concurrently with the expiration of Series D. Under the new credit agreement, the commitment amount was increased from \$100,000,000 to \$150,000,000. The credit agreement was further amended and restated as of May 22, 2007 to reflect a new term and rate structure. The expiration of the credit agreement was extended to May 29, 2010.

The notes outstanding at August 31, 2008 had a weighted average interest rate of 1.63% and remaining weighted average time to maturity of 61 days. The principal amount outstanding at August 31, 2008 and 2007 was \$90,000,000 and \$51,600,000, respectively.

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Commercial paper activity for the years ended August 31, 2008 and 2007 was as follows (thousands of dollars):

		Year ended August 31, 2008			
		Beginning balance	Additions	Deletions	Ending balance
Commercial paper	\$	51,600	87,900	49,500	90,000
		Year ended August 31, 2007			
		Beginning balance	Additions	Deletions	Ending balance
Commercial paper	\$	55,000	94,900	98,300	51,600

See note 8(e) for detail of the Note Payable – City Loan.

(7) GCR Tariff Reconciliation

During the fiscal years ended August 31, 2008, 2007, and 2006, the Company's actual gas costs were below its billed gas costs by approximately \$30,503,000, \$24,904,000, and \$8,466,000, respectively.

Natural Gas Pipeline Supplier Refund

The Company received refunds including interest in FY 2008 in the amount of \$10,660,000 related to Federal Energy Regulatory Commission (FERC)/Pipeline Rate Cases. This amount was utilized as a reduction in the cost of gas for reconciliation purposes in the calculation of the GCR for FY 2008.

The Company received refunds including interest in FY 2007 in the amount of \$648,000 related to FERC/Pipeline Rate Cases. This amount was utilized as a reduction in the cost of gas for reconciliation purposes in the calculation of the GCR for FY 2007.

(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, 2008 and 2007 (thousands of dollars):

		August 31, 2008			August 31, 2007		
		Current portion	Long-term	Total	Current portion	Long-term	Total
Revenue bonds	\$	73,941	1,103,828	1,177,769	41,830	1,176,368	1,218,198
Unamortized discount		(482)	(4,469)	(4,951)	(511)	(4,951)	(5,462)
Unamortized premium		2,571	27,804	30,375	2,676	30,375	33,051
Total revenue bonds		76,030	1,127,163	1,203,193	43,995	1,201,792	1,245,787
Note Payable – City Loan		—	—	—	43,000	—	43,000
Total	\$	76,030	1,127,163	1,203,193	86,995	1,201,792	1,288,787

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The following is a summary of activity related to revenue bonds and other liabilities and deferred credits and the respective balances for the fiscal years ended August 31, 2008 and 2007 (thousands of dollars):

	Year ended August 31, 2008			
	Beginning balance	Additions	Reductions	Ending balance
Revenue bonds	\$ 1,218,198	—	(40,429)	1,177,769
Other liabilities and deferred credits:				
Forward rate agreement	\$ 8,431	—	(624)	7,807
Claims and judgments	3,111	2,966	—	6,077
Environmental clean-up	10,013	7,677	—	17,690
Other postemployment benefits	26,421	25,834	—	52,255
Total other liabilities and deferred credits	\$ 47,976	36,477	(624)	83,829
	Year ended August 31, 2007			
	Beginning balance	Additions	Reductions	Ending balance
Revenue bonds	\$ 1,055,038	246,655	(83,495)	1,218,198
Other liabilities and deferred credits:				
Forward rate agreement	\$ 9,056	—	(625)	8,431
Claims and judgments	3,899	—	(788)	3,111
Environmental clean-up	9,074	939	—	10,013
Other postemployment benefits	—	26,421	—	26,421
Total other liabilities and deferred credits	\$ 22,029	27,360	(1,413)	47,976

Liability amounts due within one year are reflected in the other current liabilities and deferred credits line of the balance sheet.

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Principal maturities and scheduled interest payments for revenue bonds are as follows (thousands of dollars):

	Revenue bonds			
	Principal	Interest	Net swap amount	Total
Fiscal year ending August 31:				
2009*	\$ 44,625	53,233	(5,717)	92,141
2010	46,365	50,965	(5,682)	91,648
2011	46,977	48,677	(5,648)	90,006
2012**	41,787	46,915	(5,611)	83,091
2013	45,055	45,269	(5,573)	84,751
2014 – 2018	229,865	192,562	(25,374)	397,053
2019 – 2023	242,520	137,093	(19,042)	360,571
2024 – 2028	244,915	81,657	(9,787)	316,785
2029 – 2033	140,565	35,093	(976)	174,682
2034 – 2038	95,095	8,175	—	103,270
Total	<u>\$ 1,177,769</u>	<u>699,639</u>	<u>(83,410)</u>	<u>1,793,998</u>

* This does not include \$29,317,000 of Sixth Series Bonds that is included in current liabilities due to the scheduled expiration of the Standby Bond Purchase Agreement as described in note 15. This amount is included in the years in which principal matures according to the original maturity schedule.

Future debt service is calculated using rates in effect at August 31, 2008 for variable rate bonds. The net swap payment amounts were calculated by subtracting the future variable rate interest payments subject to swap agreements from the synthetic fixed-rate amount intended to be achieved by the swap amount.

** Tax Exempt Capital Accumulator (TECA) accretions for the 11 "C" Series in the amount of \$4,643,000 are not included in the principal amount in FY 2012.

(a) Bond Issuances

2007 Ordinances

On March 21, 2007, the Mayor signed two bills into law authorizing the City to issue revenue bonds. The first bill signed by the Mayor constituted the Nineteenth Supplemental Ordinance to the General Gas Works Revenue Bond Ordinance of 1975 (the 1975 General Ordinance). This ordinance authorizes the City to issue revenue bonds for the following purposes: (a) the current refunding of a portion of the outstanding City of Philadelphia, Pennsylvania Gas Works Revenue Bonds, Fifteenth Series (1975 Refunded Bonds); (b) paying the costs of issuing the Nineteenth Series Bonds; and (c) paying any other Project Costs (as defined in the Act).

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The second bill signed by the Mayor constituted the Eight Supplemental Ordinance to the General Gas Works Revenue Bond Ordinance of 1998 (the 1998 General Ordinance). This ordinance authorizes the City to issue revenue bonds for the following purposes: (a) providing funding for the capital projects included in the capital program of the Company as from time to time included in the capital budgets of the Company, as approved by City Council; (b) advance refunding of the 1998 Refunded Bonds, which were issued under the 1998 General Ordinance; (c) paying the costs of issuing the Seventh Series Bonds and the required deposits to the 1998 Ordinance Sinking Fund Reserve; and (d) paying any other Project Costs (as defined in the Act).

1998 Ordinance Seventh Series Bonds

On May 15, 2007, the Company issued \$230,900,000 of Seventh Series Bonds for the purpose of providing funds for the financing of the capital projects included in the capital program of the Company, and for the purpose of redeeming and refunding, on a current basis, a portion of the outstanding Second Series B, Third Series and Fourth Series Bonds. The refunded par amounts of the Second Series B, Third Series and Fourth Series Bonds were: \$7,500,000, \$3,145,000, and \$20,005,000, respectively. The Seventh Series Bonds contained new money debt issued in the amount of \$200,000,000. This new debt was issued under the 1998 Ordinance. The interest rate on the \$137,720,000 of Serial Bonds ranged from 4.0% to 5.0%. The interest rate on the \$93,180,000 of Term Bonds was 5.0%. The bonds, consisting of Serial Bonds and Term Bonds, have maturity dates through 2037.

1975 Ordinance Nineteenth Series Bonds

On May 15, 2007, the Company issued \$14,450,000 of Nineteenth Series Bonds for the purpose of redeeming and refunding, on a current basis, the outstanding Fifteenth Series Bonds previously issued under the 1975 Ordinance. This new debt was issued under the 1975 Ordinance. The interest rate on the Serial Bonds was 5.0%. The bonds, consisting of Serial Bonds, have maturity dates through 2023.

2006 Ordinances

On December 22, 2005, the Mayor signed an ordinance into law authorizing the City to issue revenue bonds for the purpose of (a) refunding all or a portion of the following Series of Gas Works Revenue Bonds (the 1998 General Ordinance): First Series B, Second Series A, Third Series, Fourth Series, and Fifth Series; (b) paying the costs of issuing the bonds and making any required deposits to the Sinking Fund Reserve; and (c) paying any other Project Costs, which may include, without limitation, the repayment to any fund of the City or to accounts of the Company of amounts advanced for Project Costs.

1998 Ordinance Sixth Series Bonds

On January 26, 2006, the Company issued \$313,390,000 of Sixth Series Bonds, maturing at various dates through 2031, for the purpose of redeeming and refunding, on a current basis, all of the First Series B and a portion of the outstanding Second Series A, Third Series, and Fourth Series City of Philadelphia, Pennsylvania, Gas Works Revenue Bonds previously issued under the 1998 Ordinance. The refunded par amounts of the First Series B, Second Series A, Third Series, and Fourth

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Series Bonds were: \$103,550,000, \$79,355,000, \$99,915,000, and \$2,295,000, respectively. As of August 31, 2007, there were no Fifth Series Bonds refunded. The \$313,390,000 of Serial Bonds have a variable rate set through a weekly reset mode and are paid monthly and are secured with a Standby Bond Purchase Agreement, which expires January 26, 2009. As discussed in note 15, substantially all of the Sixth Series Bonds are held by banks under the Standby Bond Purchase Agreement at December 18, 2008.

The Bonds were issued on a parity with other Senior 1998 Ordinance Bonds issued under the 1998 General Ordinance, but are subordinated in right of payment and security to all bonds issued and outstanding under the General Gas Works Revenue Bond Ordinance of 1975, approved on May 30, 1975, Bill No. 1871, as amended and supplemented from time to time (the 1975 General Ordinance and together with the 1998 General Ordinance). The Bonds were also issued on parity with the Obligations of the City to make periodic payments due under a Qualified Swap being entered into between the City and the counterparty in connection with the issuance of the bonds.

(b) 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. The Company has satisfied the debt coverage requirements in FY 2008 and FY 2007.

Also provided by both general ordinances is the establishment of a sinking fund into which deposits are made sufficient to meet all principal and interest requirements of the bonds as they become due. Both general ordinances also provide that sinking fund reserves be maintained as part of the Sinking Fund, which have previously been funded from the proceeds of each series of bonds in an amount equal to the maximum annual debt service requirement on the bonds of each respective General Ordinance in any fiscal year.

Monies in the Sinking Fund reserves are to be applied to the payment of debt service if, for any reason, other monies in the Sinking Fund 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 monies in the Sinking Fund.

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 is reported as long-term debt.

(c) Interest Rate Swap Agreement

Objective - In January 2006, the City entered into a swap to synthetically refund all or a portion of several series of outstanding bonds. The swap structure was used as a means to increase the City's savings, when compared with fixed-rate bonds at the time of issuance. The intention of the swap was to create a synthetic fixed rate structure.

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Terms – The swap, executed with the counterparty, commenced on January 26, 2006 and will mature on August 1, 2031. Under the swap, the City pays a fixed rate of 3.6745% and receives a variable rate computed as the lesser of (i) the actual bond rate and (ii) the SIFMA Municipal Swap Index until September 1, 2011 on which date the variable interest rate received will switch to 70% of one month LIBOR until maturity. The rates are based on an amortizing notional schedule (with an initial notional amount of \$313,390,000). As of August 31, 2008, rates were as follows:

	<u>Terms</u>	<u>Rates</u>
Interest Rate Swap		
Fixed payment to counterparty under Swap	Fixed	3.6745%
Variable payment from counterparty under Swap	SIFMA	(1.8400)
Net interest rate swap payments		1.8345
Variable rate bond coupon payments	Weekly resets	2.0400
Synthetic interest rate on bonds		3.8745

As of August 31, 2008, the swap had a notional amount of \$311,615,000 and the associated variable rate bond had a \$311,615,000 principal amount. The bonds and the related swap agreement mature on August 1, 2031.

Fair value – As of August 31, 2008, the swap had a negative fair value of \$14,285,000. This means that the Company would have to pay this amount to terminate the swap. Subsequently, the negative fair value has increased as discussed in note 15.

Risks - As of August 31, 2008, the City is not exposed to credit risk because the swap had a negative fair value. Should interest rates change and the fair value of the swap become positive, the City would be exposed to credit risk in the amount of the swap's fair value. The swap includes an additional termination event based on credit ratings. The swap may be terminated if the ratings 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 swap.

A termination event may also occur if the rating on the Company's Bonds falls below Baa2 or BBB (Moody's/S&P). However, because the City's swap payments are insured by FSA, as long as FSA is rated at or above A2 or A (Moody's/S&P), the termination event based on the City's ratings is stayed. As of December 18, 2008, neither the Company's nor FSA's credit ratings have fallen below these levels.

The City is subject to traditional basis risk should the relationship between SIFMA and the bonds change; if SIFMA resets at a rate below the variable rate bond coupon payments, the synthetic interest rate on the bonds will increase. In addition, after September 1, 2011, the City would be exposed to (i) basis risk, as reflected by the relationship between the rate payable on the bonds and 70% of one month LIBOR received on the swap, and (ii) tax risk, a form of basis risk, where the City

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is exposed to a potential additional interest cost in the event that changes in the federal tax system or in marginal tax rates cause the rate paid on the outstanding bonds to be greater than the 70% of one month LIBOR received on the swap.

(d) Forward Rate Agreement and Guaranteed Investment Contracts

On August 23, 2002, the City entered into GICs in connection with a portion of its 1975 and 1998 Ordinance Sinking Fund Reserves for the Company. At settlement, approximately 65.0% of the Sinking Fund Reserves, from the two ordinances, totaling \$61,396,000 were invested in the GICs. In exchange for this investment, the Company received an up-front payment of \$21,800,000 in lieu of receiving interest payments over the life of the GICs. The life of the Forward Rate Agreement is 18½ years, with 12½ years remaining at August 31, 2008.

The GICs are recorded at fair value in the Sinking Fund and had fair values of \$48,129,000 and \$49,504,000 at August 31, 2008 and 2007, respectively.

The Company also paid \$1,650,000 to terminate an existing Forward Rate Agreement as part of this transaction. Of the remaining net proceeds of \$20,150,000, \$8,596,000 was allocated to the 1975 Sinking Fund Reserve and \$11,554,000 was allocated to the 1998 Sinking Fund Reserve. For debt service coverage purposes, the \$20,150,000 was considered "project revenues" in FY 2002. For financial statement purposes, the \$8,596,000 was recorded as revenue in FY 2002 in the category of interest and other income. This amount is nonrefundable and was granted to the Company by the City.

Under the 1998 Ordinance, the Company is entitled to the earnings on the portion of the Sinking Fund allocated to bonds issued under the 1998 Ordinance. Therefore, the \$11,554,000 received under the 1998 ordinance was deferred and is being amortized on a straight-line basis over the life of the agreement. The unamortized balance of the proceeds was \$7,807,000 and \$8,431,000 at August 31, 2008 and 2007, respectively.

(e) Note Payable – City Loan

On November 15, 2000, the Mayor signed an ordinance authorizing the City to advance in whole or in part, up to \$45,000,000 to the Company, to provide liquidity in the winter of 2000-2001. The loan from the City carried no interest. The loan repayment period was extended to August 2008.

The loan from the City was subordinate to the Company's other repayment obligations on its revenue bonds and commercial paper program. The outstanding balance of the City loan was \$43,000,000 at August 31, 2007. The remaining balance of the City loan was remitted to the City in payments of \$20,500,000 and \$22,500,000 in December 2007 and August 2008, respectively.

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(9) Defeased Debt

Defeased debt of the Company (bonds issued by the Company payable from the proceeds of irrevocably pledged assets) at August 31, 2008 was as follows:

	<u>Latest date maturing to</u>	<u>Interest rate</u>	<u>Bonds outstanding</u>
7th Series	3/15/13	6.00%	\$ 10,675,000
12th Series B	5/15/20	7.00	47,910,000
2nd Series	7/1/29	5.00	84,640,000
3rd Series	8/1/31	5.50	99,445,000
4th Series	8/1/32	5.25	20,005,000

The Company issued \$230,900,000 of Seventh Series Bonds during FY 2007. The proceeds of \$30,900,000 from the sale were utilized to refund a portion of the Second Series B, Third Series, and Fourth Series Bonds, in the amounts of \$7,500,000, \$3,145,000, and \$20,005,000, respectively. The refunding of this existing debt resulted in an accounting loss of \$2,218,000. This loss is being deferred and amortized as interest expense over the life of the new bonds. The refunding generated a present value savings of \$2,146,000.

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.

The assets pledged, primarily noncallable U.S. government securities, had a market value of \$278,271,000 at August 31, 2008, bearing interest on face value from 4.30% to 5.89%.

(10) Pension Costs

(a) Plan Description

The Company sponsors a public employee retirement system (PERS), a single-employer defined-benefit plan, to provide pension benefits for all of its employees, whose annual covered payroll (which was substantially equal to total payroll) was \$105,596,000 and \$106,018,000 at August 31, 2008 and 2007, respectively.

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At September 1, 2007, the beginning of the plan year of the last actuarial valuation, the Pension Plan membership consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving them	\$ 2,151
Current employees:	
Vested	1,395
Nonvested	<u>270</u>
Total current employees	<u>1,665</u>
Total membership	<u><u>\$ 3,816</u></u>

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% of the highest annual earnings during the last 10 years of credited service, or
- 2% 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.

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

Covered employees are not required to contribute to the Pension Plan. The Company is required by statute to contribute the amounts necessary to fund the Pension Plan. Benefit and contribution provisions are established by City ordinance and may be amended only as allowed by City ordinance.

The City issues a publicly available financial report that includes financial statements and required supplementary information for the Pension Plan. The report may be obtained by writing to the Director of Finance of the City.

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(b) Annual Pension Cost, Contributions Required, and Contributions Made

	<u>Normal cost</u>	<u>Amortization of the underfunded balance</u>	<u>Contributions</u>
Fiscal year:			
2008	\$ 8,085,000	6,173,000	14,258,000
2007	7,693,000	7,524,000	15,217,000
2006	7,617,000	9,946,000	17,563,000

Withdrawals from pension assets of \$18,564,000 and \$16,776,000 in FY 2008 and FY 2007, respectively, were utilized to meet beneficiary payment obligations.

The Company's annual pension cost is equal to its annual required contribution (ARC). The ARCs were determined based on an actuarial study, or updates thereto, using the projected unit credit method. Significant actuarial assumptions used for the above valuation include a rate of return on the investment of present and future assets of 8.25% per year compounded annually; projected salary increases of 3.0% of the salary at the beginning of the next three years, then 4.25% of the salary at the beginning of the fourth and subsequent year; and retirements that are assumed to occur prior to age 62, at a rate of 10.0% at ages 55 to 61 and 100% at age 62. The assumptions did not include postretirement benefit increases. These actuarial assumptions are consistent with the prior fiscal year.

The actuarial asset value is equal to the value of the fund assets as reported by the City with no adjustments. The unfunded actuarial accrued liability is being amortized over 10 years.

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. Level percentages of payroll employer contribution rates are determined using the Projected Unit Credit actuarial funding method. The Pension Plan had an actuarial value of assets of \$416,183,000 and an actuarial accrued liability of \$482,380,000 resulting in a funded ratio of 86.28% based on a biennial actuarial valuation of the pension fund as of September 1, 2007. The resulting unfunded actuarial accrued liability of \$66,197,000 was 62.69% of covered payroll of \$105,596,000.

(c) Historical Trend Information (Unaudited)

Historical trend information reflecting funding progress and contributions made by the Company is presented in the supplemental schedule of pension funding progress (unaudited).

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(11) Other Postemployment Benefits

(a) Plan Description

The Company sponsors a single employer defined benefit healthcare plan and provides postemployment healthcare and life insurance benefits to approximately 1,920 and 1,935 participating retirees and their beneficiaries and dependents for FY 2008 and FY 2007, respectively, in accordance with their retiree medical program. The Company also provides such benefits to approximately 1,699 and 1,720 active employees and their dependents for FY 2008 and FY 2007, respectively, by charging the annual insurance premiums to expense. The annual covered payroll (which was substantially equal to total payroll) was \$105,596,000 and \$106,018,000 at August 31, 2008 and 2007, respectively.

The Company pays 100.0% of premiums for basic medical, hospitalization, and prescription drugs incurred by retirees and their dependents. The Company also pays a portion of the premium for life insurance for each eligible retiree. 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 amounted to \$34,226,000 and \$36,111,000 in FY 2008 and FY 2007, respectively, of which approximately 48.1% and 52.0%, respectively, represents payments on behalf of retired employees and their dependents. Employees and retirees contributed \$1,477,000 and \$1,470,000 in FY 2008 and FY 2007, respectively, towards their healthcare. These contributions represent the additional cost of healthcare plans chosen by employees and retirees above the basic plan offered by the Company. Total premiums for group life insurance were \$2,103,000 and \$2,080,000 in FY 2008 and FY 2007, respectively. The amount attributed to retirees was approximately 71.0% and 76.3% in FY 2008 and FY 2007, respectively. The contribution requirements of nonunion plan members are established by management and may be amended. The contribution requirements for union plan members are subject to collective bargaining.

The Plan does not issue a stand-alone report and therefore the Company has included the schedule of employer contributions as a supplemental schedule (unaudited).

(b) Actuarial Valuation and Assumptions

The Company engaged an actuarial consulting firm to provide an actuarial valuation of the Company's OPEB obligations as of August 31, 2007. The actuarial valuations involve estimates of the value of reported amounts and the assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision, as actual results are compared to past expectations, and new estimates are made about the future. The calculations were based on the types of benefits provided under the terms of the substantive plan at the time of the valuation.

The projected unit cost method was utilized in the valuation to develop the actuarial accrued liability and normal cost. Under the projected unit cost method, the present value of benefits is allocated uniformly over the employee's expected working lifetime. The actuarial accrued liability is that portion of the present value of projected benefits, which has been accrued during the employee's working lifetime from hire to valuation date. The normal cost represents the amount charged for

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services earned during the current reporting period. The normal cost is calculated by dividing the present value of projected benefits for an employee by the total service.

The valuation was prepared utilizing certain assumptions, including the following:

- Economic assumptions – the discount rate and healthcare cost trend rates

The report utilized a 5.0% discount rate for purposes of developing the liabilities and ARC on the basis that the Plan would not be funded. This rate is based on the investment return expected on the Company's general investments, because the Company has not funded the Plan for FY 2008.

Year:	Healthcare Cost Trend Rates		
	Medical	Prescription	Dental
1	10.0%	10.0%	4.5%
2	9.0	9.0	4.5
3	8.0	8.0	4.5
4	7.0	7.0	4.5
5	6.0	6.0	4.5
6	5.0	5.0	4.5
7	4.5	4.5	4.5
8 and beyond	4.5	4.5	4.5

- Benefit assumptions – the initial per capita cost rates for medical coverage, and the face amount of Company-paid life insurance
- Demographic assumptions – including the probabilities of retiring, dying, terminating (without a benefit), becoming disabled, recovery from disability, election (participation rates), and coverage levels

(c) Annual Postemployment Benefit Cost, Contributions Required, and Contributions Made

The ARC for FY 2008 is estimated to be \$44,114,000 which is also the annual OPEB cost. The amount paid by the Company for retiree benefits in FY 2008 was \$18,280,000, consisting of \$16,788,000 of healthcare expenses and \$1,492,000 of life insurance expenses. The difference between the ARC and the expenses paid resulted in an increase in the OPEB liability of \$25,834,000. This amount has been recorded in other liabilities and deferred credits and has been expensed in FY 2008.

As of August 31, 2008, the actuarial accrued liability for benefits was \$591,599,000, all of which was unfunded and the ratio of the unfunded actuarial accrued liability to the covered payroll was 560.3%. Historical trend information reflecting funding progress and contributions made by the Company is presented in the Schedule of Other Postemployment Benefits Funding Progress (unaudited).

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(d) Other Coverage Information

Also, the Company has entered into several one-year contracts to provide healthcare for both active and retired employees that are experience rated, and premiums are adjusted annually; in addition, the Company has in place approximately \$161,320,000 of group life insurance coverage for both active and retired employees, which is retrospectively rated on a monthly basis. The Company also has in place approximately \$120,807,000 of accidental death and dismemberment insurance coverage for active employees.

(12) Pollution Remediation

Total pollution remediation obligations at August 31, 2008 are \$21,600,000, which reflect the implementation of GASB 49 as described in note 1(t). The Company's prior year liability was \$13,349,000 as measured prior to the implementation of the effective cash flow method under GASB 49.

(13) 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 \$250,000,000, subject to a \$500,000 per accident deductible at the Richmond and Passyunk Plants and a \$100,000 deductible per accident 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 boiler and machinery, blanket crime, and other forms of property insurance.

The Company maintained \$210,000,000 in liability (including terrorism) coverage, insuring against the risk of damage or injury to the public with a per occurrence self insured retention of \$500,000; however, effective September 1, 2007, the self insured retention was increased to \$1,000,000.

The Company maintains statutory limits for Workers' Compensation (including terrorism) with a \$500,000 per occurrence self insured retention.

The Company maintains a \$10,000,000 Public Officials Liability (Directors and Officers Liability) policy with a \$500,000 retention.

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

	<u>Beginning of year reserve</u>	<u>Current year claims and adjustments</u>	<u>Claims settled</u>	<u>End of year reserve</u>	<u>Current liability amount</u>
Fiscal year ended August 31:					
2008	\$ 8,468	7,757	(2,691)	13,534	7,456
2007	8,059	3,367	(2,958)	8,468	5,357
2006	8,510	2,808	(3,259)	8,059	4,159

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

Notes to Financial Statements

August 31, 2008 and 2007

(14) Commitments and Contingencies

Commitments for major construction and maintenance contracts were approximately \$8,727,000 as of August 31, 2008.

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

Fiscal year ending August 31:		
2009	\$	440
2010		79
2011		42
2012		6

Rent expense for the fiscal years ended August 31, 2008 and 2007 amounted to \$910,000 and \$932,000, respectively.

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 \$5,100,000 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, 2008 through March 31, 2009.

The Company's FY 2009 Capital Budget was approved by City Council in the amount of \$71,956,000. Within this approval, funding is provided to continue the implementation of an 18-mile Cast Iron Main Replacement Program. Main replacement cost for this program in FY 2009 is expected to be \$15,606,000. The total six-year cost of the Cast Iron Main Replacement Program is forecasted to be approximately \$99,256,000.

The FY 2009 Capital Budget also includes \$2,486,000 for the purchase of replacement Automatic Meter Reading (AMR) units. The total six-year cost of this program to replace AMR units is approximately \$7,889,000.

(15) Subsequent Events

(a) Commercial Paper

As discussed in note 6, \$90,000,000 of commercial paper was outstanding at August 31, 2008. Subsequent to year-end, all outstanding commercial paper matured, and additional commercial paper was issued. As of December 18, 2008, \$148,000,000 of commercial paper was outstanding which matures on February 12, February 13 and March 12, 2009.

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

Notes to Financial Statements

August 31, 2008 and 2007

(b) Emergency Rate Relief

As discussed in note 1(d), in November 2008 the Company filed for an extraordinary or emergency base rate increase of approximately \$60,000,000 or 5.2% and simultaneously requested an \$85,000,000 or 7.4% decrease in the GCR for a net 2.2% overall rate decrease of \$25,000,000. On December 18, 2008, the PUC issued its decision approving a base rate increase of \$60,000,000 or 5.2% and a decrease in the GCR of \$107,000,000 for a net decrease in rates of \$47,000,000 or 4.2%. These rates are effective as of January 1, 2009.

(c) Sixth Series Bonds

As discussed in note 8(b), as of December 18, 2008, \$271,370,000 of the Sixth Series Bonds are held by the providers of the Standby Bond Purchase Agreement as bank bonds. The providers of the Standby Bond Purchase Agreement continue, on a weekly basis, to remarket the bonds in accordance with the bond authorization. The Standby Bond Purchase Agreement expires on January 26, 2009. If the Standby Bond Purchase Agreement is not renewed, and no substitute liquidity facility is provided, any bank bonds held at that time will be amortized in ten payments payable the first business day of July and the first business day of December for the next five years. The Company has therefore recorded as current debt at August 31, 2008 one tenth of the outstanding Sixth Series Bonds as of August 31, including \$1,900,000 due to mature in 2009 under the original amortization schedule and an additional \$29,300,000 for a total of \$31,200,000.

(d) Swap – Sixth Series Bonds

As discussed in note 8(c), the City entered into a swap related to the Sixth Series Bonds. The fair value of the interest rate swap as of December 18, 2008 was negative \$72,600,000. This means that the Company would have to pay this amount to terminate the swap. Per the swap agreement, the refunding or defeasance of the Sixth Series Bonds, in whole or in part, without the prior written consent of both the counterparty and the insurer, may constitute an event of termination unless certain conditions are met.

Additionally, note 8 identifies a termination risk related to the interest rate swap agreement if the Company's bond rating falls below Baa2 or BBB (Moody's/S&P). Because the City's swap payments are insured by FSA as long as FSA is rated at or above A2 or A (Moody's/S&P) the termination event based on the City's rating is stayed. Neither the Company's credit rating nor FSA's credit rating has declined below the levels required in the agreement as of December 18, 2008.

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Required Supplementary Information (Unaudited)
Schedule of Pension Funding Progress
(Thousands of dollars)

Actuarial valuation date	(a) Actuarial value of assets	(b) Actuarial accrued liability (AAL)	(b)-(a) Unfunded (overfunded) AAL (UAAL [OAAL])	(a/b) Funded ratio	Covered payroll	UAAL (OAAL) as a percent of covered payroll
September 1, 2003*	\$356,000	\$427,006	\$71,006	83.37%	\$101,200	70.16%
September 1, 2004**	366,783	436,255	69,472	84.08	102,500	67.78
September 1, 2005+	383,517	450,866	67,349	85.06	102,544	65.68
September 1, 2006++	411,886	474,250	62,364	86.85	106,018	58.82
September 1, 2007+++	416,183	482,380	66,197	86.28	105,596	62.69

* The required supplementary information is based on a biennial actuarial valuation of the pension fund for the plan year September 1, 2003 through August 31, 2004.

** The required supplementary information is based on a biennial actuarial valuation of the pension fund as updated for the plan year September 1, 2004 through August 31, 2005.

+ The required supplementary information is based on a biennial actuarial valuation of the pension fund for the plan year September 1, 2005 through August 31, 2006.

++ The required supplementary information is based on a biennial actuarial valuation of the pension fund as updated for the plan year September 1, 2006 through August 31, 2007.

+++ The required supplementary information is based on a biennial actuarial valuation of the pension fund for the plan year September 1, 2007 through August 31, 2008.

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 dollars)

Actuarial valuation date	(a) Actuarial value of assets	(b) Actuarial accrued liability (AAL)	(b)-(a) Unfunded (overfunded) AAL (UAAL [OAAL])	(a/b) Funded ratio	Covered payroll	UAAL (OAAL) as a percent of covered payroll
August 31, 2007	—	\$573,734	\$573,734	—	\$106,018	541.17%
August 31, 2008	—	591,599	591,599	—	105,596	560.25

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 Employer Contributions
 (Thousands of dollars)

<u>Year-end</u>	<u>Annual required contribution</u>	<u>Percentage contributed</u>
August 31, 2007	\$ 45,237	41.60%
August 31, 2008	44,114	41.44

See accompanying independent auditors' report.

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Supplemental Statements of Net Assets (City Format)
August 31, 2008 and 2007
(Thousands of dollars)

	<u>2008</u>	<u>2007</u>
Assets:		
Cash on deposit and on hold	\$ 49,332	51,692
Equity in pooled cash and investments	—	—
Equity in treasurer's account	—	—
Investments	—	—
Internal balances	—	—
Amounts held by fiscal agent	6	6
Notes receivable	—	48
Taxes receivable	—	—
Accounts receivable – net	99,304	88,570
Interest and dividends receivable	—	—
Due from other governments	—	—
Restricted assets	219,788	277,139
Inventories	187,539	147,770
Unamortized loss and discount	52,852	58,818
Other assets	63,699	55,982
Property, plant, and equipment	1,732,562	1,681,313
Accumulated depreciation	(670,467)	(640,940)
Total assets	<u>\$ 1,734,615</u>	<u>1,720,398</u>
Liabilities:		
Notes payable	\$ 90,000	94,600
Vouchers and accounts payable	67,508	60,615
Salaries and wages payable	3,430	2,797
Accrued expenses	107,484	67,425
Funds held in escrow	—	—
Due to other governments	—	—
Deferred revenue	31,641	20,411
Current portion of long-term obligations	73,942	41,830
Noncurrent portion of long-term obligations	1,103,827	1,176,368
Unamortized gain and premium	30,375	33,051
Total liabilities	<u>\$ 1,508,207</u>	<u>1,497,097</u>
Net assets:		
Invested in capital assets, net of related debt	\$ (4,466)	(5,690)
Restricted for:		
Capital projects	—	—
Debt service	108,581	105,005
Community development projects	—	—
Behavioral health programs	—	—
Intergovernmental financing	—	—
Emergency phone system	—	—
Rate stabilization	—	—
Unrestricted	122,293	123,986
Total net assets	<u>\$ 226,408</u>	<u>223,301</u>

See accompanying independent auditors' report.

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Supplemental Statements of Activities (City Format)
Years ended August 31, 2008 and 2007
(Thousands of dollars)

		August 31, 2008				
		Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Total
Gas services	\$	(740,819)	840,035	25,324*	—	124,540
Interest on debt		(56,075)	—	—	—	(56,075)
Unallocated depreciation		(39,524)	—	—	—	(39,524)
Other postemployment benefits		(25,834)	—	—	—	(25,834)
Total	\$	<u>(862,252)</u>	<u>840,035</u>	<u>25,324*</u>	<u>—</u>	<u>3,107</u>

* Includes \$15,732 of interest and other income and \$9,592 of other operating revenues.

		August 31, 2007				
		Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Total
Gas services	\$	(773,581)	849,503	22,921*	—	98,843
Interest on debt		(52,146)	—	—	—	(52,146)
Unallocated depreciation		(36,380)	—	—	—	(36,380)
Other postemployment benefits		(26,421)	—	—	—	(26,421)
Total	\$	<u>(888,528)</u>	<u>849,503</u>	<u>22,921*</u>	<u>—</u>	<u>(16,104)</u>

* Includes \$13,073 of interest and other income and \$9,848 of other operating revenues.

See accompanying independent auditors' report.

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

Supplemental Statements of Revenues, Expenses, and Changes in Fund Net Assets (City Format)

Years ended August 31, 2008 and 2007

(Thousands of dollars)

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Charges for goods and services	\$ 831,428	840,105
Sales of land and improvements	—	—
Rentals and concessions	—	—
Miscellaneous operating revenues	18,199	19,246
Total operating revenues	<u>849,627</u>	<u>859,351</u>
Operating expenses:		
Personal services	73,351	74,054
Purchase of services	75,640	76,299
Material and supplies	6,216	4,290
Employee benefits	41,488	41,863
Indemnities and taxes	—	—
Depreciation and amortization	42,868	39,708
Cost of goods sold	511,976	539,300
Other	—	—
Total operating expenses	<u>751,539</u>	<u>775,514</u>
Operating income	<u>98,088</u>	<u>83,837</u>
Nonoperating revenues (expenses):		
Operating grants	—	—
Passenger facility charges	—	—
Other income	1,834	1,262
Interest income	13,897	11,811
Debt service – interest	(56,075)	(52,146)
Other expenses	(54,637)	(60,868)
Total nonoperating expenses	<u>(94,981)</u>	<u>(99,941)</u>
Income (loss) before transfers	3,107	(16,104)
Transfer in	18,000	18,000
Transfer out	(18,000)	(18,000)
Capital contributions	—	—
Change in net assets	<u>3,107</u>	<u>(16,104)</u>
Net assets – beginning of year	<u>223,301</u>	<u>239,405</u>
Net assets – end of year	<u>\$ 226,408</u>	<u>223,301</u>

See accompanying independent auditors' report.

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Supplemental Schedule of Interfund Transfers
Year ended August 31, 2008
(Thousands of dollars)

Due to the City, September 1, 2007	\$ 3,000
Accrued distributions	18,000
Payments to the City	<u>(18,000)</u>
Due to the City, August 31, 2008	<u>\$ 3,000</u>

See accompanying independent auditors' report.

Philadelphia Gas Works' Base Rate Filing

II. RATE OF RETURN

II.A.4. Provide latest Prospectus (Company and Parent).

RESPONSE:

The latest bond prospectus dated August 13, 2009 is attached.

Book 1:

\$58,285,000
CITY OF PHILADELPHIA, PENNSYLVANIA
GAS WORKS REVENUE REFUNDING BONDS
EIGHTH SERIES A
(1998 GENERAL ORDINANCE)

Book 2:

\$255,000,000
CITY OF PHILADELPHIA, PENNSYLVANIA
GAS WORKS REVENUE REFUNDING BONDS
EIGHTH SERIES
(1998 GENERAL ORDINANCE)
CONSISTING OF:

\$105,000,000
GAS WORKS REVENUE
REFUNDING BONDS
EIGHTH SERIES B
(1998 GENERAL ORDINANCE);

\$50,000,000
GAS WORKS REVENUE
REFUNDING BONDS
EIGHTH SERIES C
(1998 GENERAL ORDINANCE);

\$50,000,000
GAS WORKS REVENUE
REFUNDING BONDS
EIGHTH SERIES D
(1998 GENERAL ORDINANCE);

\$50,000,000
GAS WORKS REVENUE
REFUNDING BONDS
EIGHTH SERIES E
(1998 GENERAL ORDINANCE)

In the opinion of Co-Bond Counsel, under existing statutes, regulations, rulings, and court decisions, assuming that the City complies with covenants relating to certain requirements of the Internal Revenue Code of 1986, as amended, interest on the Bonds will not be includible in the gross income of the holders thereof for federal income tax purposes, is exempt from individual and corporate federal alternative minimum tax ("AMT"), and is not includible in adjusted current earnings for purposes of corporate AMT. Under the laws of the Commonwealth of Pennsylvania, as enacted and construed on the date hereof, interest on the Bonds is exempt from Pennsylvania personal income tax and the Bonds are exempt from Pennsylvania personal property taxes. See "TAX MATTERS" herein.



\$58,285,000
CITY OF PHILADELPHIA, PENNSYLVANIA
GAS WORKS REVENUE REFUNDING BONDS
EIGHTH SERIES A
(1998 GENERAL ORDINANCE)

Dated: Date of Delivery

Due: August 1, as shown on the inside cover page

The City of Philadelphia, Pennsylvania Gas Works Revenue Refunding Bonds, Eighth Series A (1998 General Ordinance) in the original aggregate principal amount of \$58,285,000 (the "Eighth Series A Bonds" or the "Bonds") are issued pursuant to the Act, the 1998 General Ordinance, the Ninth Supplemental Ordinance and the Bond Authorization (as such terms are defined herein). The Bonds are issuable as fully registered bonds in denominations of \$5,000 or any integral multiple thereof, and will mature in the aggregate principal amounts and bear interest at the rates set forth on the inside cover hereof. The Bonds, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company ("DTC"), which will act as securities depository for the Bonds. Purchases of the beneficial ownership interests in the Bonds will be made in book-entry only form. Purchasers will not receive certificates representing their ownership interests in the Bonds during the period in which Cede & Co. is the owner of the Bonds, as nominee of DTC. References herein to the bondholders, Holders and registered owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Bonds. See "DESCRIPTION OF THE BONDS — Book-Entry Only System."

The principal of the Bonds is payable at the corporate trust office of U.S. Bank National Association, as Fiscal Agent and Sinking Fund Depository for the Bonds (the "Fiscal Agent"), in Philadelphia, Pennsylvania, at the times and in the amounts set forth herein. Interest on the Bonds is payable semiannually on: (i) each August 1 and February 1, commencing February 1, 2010 by check mailed by the Fiscal Agent to the persons in whose names the Bonds are registered on the fifteenth day of the month preceding such interest payment date. So long as DTC or its nominee, Cede & Co., is the registered owner of the Bonds, principal of and interest on the Bonds are payable directly to Cede & Co. for redistribution to Participants and in turn to Beneficial Owners as described herein. For so long as any purchaser is the Beneficial Owner of Bonds, such purchaser must maintain an account with a broker or dealer who is, or acts through, a Participant to receive payment of the principal of and interest on such Bonds.

The Bonds are not subject to optional redemption prior to maturity.

THE BONDS DO NOT PLEDGE THE CREDIT OR TAXING POWER OF THE CITY OF PHILADELPHIA ("CITY") OR CREATE ANY DEBT OR CHARGE AGAINST THE TAX OR GENERAL REVENUES OF THE CITY OR CREATE A LIEN AGAINST ANY CITY PROPERTY OTHER THAN CERTAIN REVENUES AND FUNDS OF THE PHILADELPHIA GAS WORKS ("PGW" OR "GAS WORKS") REFERRED TO HEREIN.

THE BONDS SHALL BE ISSUED ON A PARITY WITH OTHER SENIOR 1998 ORDINANCE BONDS ISSUED UNDER THE 1998 GENERAL ORDINANCE BUT SHALL BE SUBORDINATED IN RIGHT OF PAYMENT AND SECURITY TO ALL BONDS ISSUED AND OUTSTANDING UNDER THE 1975 GENERAL ORDINANCE (AS DEFINED HEREIN), AS DESCRIBED IN THIS OFFICIAL STATEMENT.

The proceeds of the Bonds, together with other available monies and proceeds of the Variable Rate Bonds (as hereinafter defined), are being used for the purpose of providing funds for any or all of the following purposes: (i) the current refunding of all of the outstanding City of Philadelphia, Pennsylvania, Gas Works Revenue Bonds (1998 General Ordinance) Sixth Series (the "Refunded Bonds"); (ii) paying the costs of terminating a portion of the Swap Agreement (as such term is defined herein) for the Refunded Bonds; and (iii) paying the costs of issuing the Bonds and the Variable Rate Bonds and any required deposits to the Sinking Fund Reserve established under the 1998 General Ordinance (collectively, the "2009 Project").

On the date of issuance of the Bonds (the "Issue Date"), the City expects to issue four additional series of parity Gas Works Revenue Bonds (1998 General Ordinance): its Gas Works Revenue Refunding Bonds Eighth Series B (1998 General Ordinance) (the "Eighth Series B Bonds"), its Gas Works Revenue Refunding Bonds Eighth Series C (1998 General Ordinance) (the "Eighth Series C Bonds"), its Gas Works Revenue Refunding Bonds Eighth Series D (1998 General Ordinance) (the "Eighth Series D Bonds") and its Gas Works Revenue Refunding Bonds Eighth Series E (1998 General Ordinance) (the "Eighth Series E Bonds" together with the Eighth Series B Bonds, the Eighth Series C Bonds and the Eighth Series D Bonds, the "Variable Rate Bonds"), the proceeds of which, together with other available monies and the proceeds of the Eighth Series A Bonds, will be applied to fund the 2009 Project. Upon the issuance of the Bonds and the Variable Rate Bonds, the Refunded Bonds will no longer be Outstanding. The issuance and delivery of the Bonds is conditioned on the issuance and delivery of the Variable Rate Bonds on the Issue Date.

The Variable Rate Bonds will be offered pursuant to a separate Official Statement and will be sold, on the same date as the Bonds, by the City pursuant to separate bond purchase agreements. This Official Statement only provides information with respect to the Eighth Series A Bonds.

THE COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. PROSPECTIVE INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

The Bonds are offered when, as and if issued and accepted by the Underwriters, subject to the prior sale, withdrawal, or modification of the offer without notice, and subject to the approval as to the legality of the issuance of the Bonds by Blank Rome LLP and Andre C. Dasent, P.C., Co-Bond Counsel, both of Philadelphia, Pennsylvania. Certain legal matters will be passed upon for the Underwriters by Saul Ewing LLP and Kelly, Monaco and Naples, LLP both of Philadelphia, Pennsylvania, Co-Counsel to the Underwriters. Certain legal matters will be passed upon for the City of Philadelphia by the City of Philadelphia Law Department. Certain legal matters will be passed upon for Philadelphia Gas Works by the Office of General Counsel of the Philadelphia Gas Works and by Eckert Seamans Cherin and Mellott, LLC of Harrisburg, Pennsylvania. It is anticipated that the Bonds will be available for delivery through the facilities of DTC in New York, New York on or about August 20, 2009.

GOLDMAN, SACHS & CO.

BARCLAYS CAPITAL

LOOP CAPITAL

MERRILL LYNCH & CO.

Ramirez & Co., Inc.

Siebert Brandford Shank & Co., LLC

Wells Fargo Securities

MATURITY SCHEDULE

\$58,285,000

**City of Philadelphia, Pennsylvania
Gas Works Revenue Refunding Bonds
Eighth Series A
(1998 General Ordinance)
Consisting of:**

<u>Due</u> <u>(August 1)</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP No.*</u>
2010	\$ 1,595,000	4.00%	2.85%	717823 2V9
2011	1,635,000	4.00	3.27	717823 2W7
2012	1,705,000	5.00	3.65	717823 2X5
2013	5,315,000	5.00	4.13	717823 2Y3
2014	10,130,000	5.00	4.63	717823 2Z0
2015	13,770,000	5.00	4.88	717823 3A4
2016	12,295,000	5.00	5.10	717823 3B2
2017	11,840,000	5.25	5.28	717823 3C0

* Registered trademark of American Bankers Association. CUSIP numbers are provided by Standard & Poor's, CUSIP Service Bureau, a division of the McGraw-Hill Companies, Inc. The CUSIP numbers listed above are being provided solely for the convenience of Bondholders only at the time of issuance of the Bonds and the City does not make any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

MAYOR
HONORABLE MICHAEL A. NUTTER

MAYOR'S CHIEF OF STAFF
CLARENCE D. ARMBRISTER

MAYOR'S CABINET

Camille Cates Barnett, Ph.D. Managing Director
Rob Dubow Director of Finance
Shelley R. Smith City Solicitor
Rina Cutler Deputy Mayor of Transportation and Utilities
Everett A. Gillison Deputy Mayor for Public Safety
Alan Greenberger Acting Deputy Mayor for Planning and Economic Development and Commerce Director
Donald F. Schwarz, M.D. Deputy Mayor for Health and Opportunity and Health Commissioner
Pauline Abernathy Senior Advisor to Mayor
Julia Chapman Director, Legislative and Government Affairs
Michael DiBerardinis Parks and Recreation Commissioner
Patricia Enright Director of Communications/Deputy Chief of Staff
Allan Frank Chief Information Officer
Teresa A. Gillen Senior Advisor to the Mayor for Economic Development
Melanie Johnson City Representative
Amy L. Kurland Inspector General
Joan L. Markman Chief Integrity Officer
Lori A. Shorr, Ph.D. Chief Education Officer
Gary Steuer Chief Cultural Officer
David G. Wilson First Deputy Managing Director

City Treasurer
Rebecca Rhyhart

City Controller
Alan L. Butkovitz

PHILADELPHIA GAS WORKS

800 W. Montgomery Avenue
Philadelphia, Pennsylvania 19122

Thomas E. Knudsen President and Chief Executive Officer
Craig E. White Executive Vice President and Acting Chief Operating Officer
Joseph R. Bogdonavage Senior Vice President — Finance
Randall J. Gyory Senior Vice President — Operations and Customer Affairs
Thomas L. Kuczynski Senior Vice President — Office of Business Transformation and Information Services
Abby L. Pozefsky, Esq. Senior Vice President — Administration and General Counsel
Cristina Coltro Vice President - Customer Affairs
Raquel N. Guzman, Esq. Vice President — Legal and Associate General Counsel
Michael W. Handwerk Vice President — Technical Compliance
Steven P. Hershey Vice President — Regulatory & External Affairs
Paul A. Mondimore Vice President — Field Operations
Douglas A. Moser Vice President — Gas Management
Jo Ann Muniz Vice President — Supply Chain
William C. Muntzer Vice President — Human Resources
Joseph A. Smith Vice President — Marketing and Sales
John P. Straub Vice President — Corporate Preparedness
Lorraine S. Webb Vice President — Organizational Development
Eloise N. Young Vice President — Information Services and Chief Information Officer
Joseph F. Golden, Jr. Controller

FINANCIAL ADVISOR
Public Financial Management, Inc.

FISCAL AGENT
U.S. Bank National Association

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE ORDER AND PLACEMENT OF MATERIALS IN THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES, ARE NOT TO BE DEEMED TO BE A DETERMINATION OF RELEVANCE, MATERIALITY OR IMPORTANCE, AND THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES, MUST BE CONSIDERED IN ITS ENTIRETY. THE OFFERING OF THE BONDS IS MADE ONLY BY MEANS OF THIS ENTIRE OFFICIAL STATEMENT.

No dealer, broker, salesperson or other person has been authorized by the City, PGW or the Underwriters to give any information or to make any representations, other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. The information set forth herein has been obtained from PGW and other sources which are believed to be reliable, but, as to information from other sources, is not guaranteed as to accuracy or completeness by PGW. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of PGW or with respect to other matters set forth herein since the date hereof or the date as of which particular information is given, if earlier.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with and as part of their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. The information and the opinions expressed herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the operations of the Philadelphia Gas Works or the City of Philadelphia since the date hereof, or as to the information under "PGW BUDGET, RATES AND FINANCES – Fiscal Years 2007 and 2008 Operating Budgets," since August 31, 2008.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. All summaries of statutes and documents are made subject to the complete text of such statutes and documents, respectively, and do not purport to be complete statements of any or all of such provisions.

This Official Statement is submitted in connection with the sale of the Eighth Series A Bonds referred to herein and may not be reproduced or be used, as a whole or in part, for any other purpose.

The Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption contained therein, and have not been registered or qualified under the securities laws of any state.

THE BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY.

If and when included in this Official Statement, the words "expects," "forecasts," "projects," "outlook," "intends," "anticipates," "estimates," "assumes," and analogous expressions are intended to identify forward-looking statements and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those that have been projected. Such risks and uncertainties that could affect the revenues and obligations of PGW include, among others, changes in economic conditions, mandates from regulatory authorities, lack of approval, in whole or in part, of requests by PGW from regulatory authorities and conditions and circumstances, many of which are beyond the control of PGW. Such forward-looking statements speak only as of the date of this Official Statement. The City disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein or to reflect any changes in

PGW's expressions with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

This Official Statement speaks only as of the date printed on the cover page hereof. The information contained herein is subject to change. The Official Statement will be made available through the Electronic Municipal Market Access System ("EMMA"), which, effective July 1, 2009, is the sole Nationally Recognized Municipal Securities Information Repository.

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OFFICIAL STATEMENT

\$58,285,000

**CITY OF PHILADELPHIA, PENNSYLVANIA
GAS WORKS REVENUE REFUNDING BONDS
EIGHTH SERIES A
(1998 GENERAL ORDINANCE)**

INTRODUCTION

General

This Official Statement, including the cover page, inside front cover page, table of contents, tables and appendices, sets forth information with respect to the issuance by the City of Philadelphia, Pennsylvania (the "City") of \$58,285,000 aggregate principal amount of its Gas Works Revenue Refunding Bonds, Eighth Series A (1998 General Ordinance) (the "Eighth Series A Bonds" or the "Bonds"). The Bonds are being issued as Senior 1998 Ordinance Bonds, as defined in this Official Statement, pursuant to (i) the First Class City Revenue Bond Act of the Commonwealth of Pennsylvania, Act No. 234, approved October 18, 1972, P.L. 955 (the "Act"), (ii) the General Gas Works Revenue Bond Ordinance of 1998, approved on May 30, 1998, Bill No. 980232, as amended and supplemented from time to time and, in particular, as supplemented by the Ninth Supplemental Ordinance, approved June 3, 2009, Bill No. 090322 (the "Ninth Supplemental Ordinance") (collectively, the "1998 General Ordinance") and (iii) the Bond Authorization adopted by the Bond Committee of the City (consisting of the Mayor, City Solicitor and City Controller and acting by a majority thereof) on August 13, 2009 (the "Bond Authorization").

The Bonds shall be issued on a parity with other Senior 1998 Ordinance Bonds issued under the 1998 General Ordinance but shall be subordinated in right of payment and security to all bonds issued and outstanding under the General Gas Works Revenue Bond Ordinance of 1975, approved on May 30, 1975, Bill No. 1871, as amended and supplemented from time to time (the "1975 General Ordinance" and, together with the 1998 General Ordinance, the "General Ordinances"), as described herein. The Bonds shall also be issued on a parity with the obligation of the City to make periodic payments (but not termination payments) due under any Qualified Swaps (as defined in the 1998 General Ordinance) including the Qualified Swap in the notional amount of \$311,615,000 (the "Swap Agreement") between the City and JPMorgan Chase Bank, National Association entered into in connection with \$313,390,000 City of Philadelphia Gas Works Revenue Bonds, Sixth Series (1998 General Ordinance), provided, however, the Qualified Swap Provider shall have no lien on and security interest in the Sinking Fund or the Sinking Fund Reserve. In connection and concurrently with the issuance of the Bonds, a portion of the Swap Agreement related to the Sixth Series Bonds will be terminated. Upon the issuance of the Eighth Series B Bonds, Eighth Series C Bonds, Eighth Series D Bonds and Eighth Series E Bonds (herein defined), portions of the Swap Agreement in notional amounts equal to the principal amounts of the Eighth Series B Bonds, the Eighth Series C Bonds, the Eighth Series D Bonds and Eighth Series E Bonds, respectively, will be related to the Eighth Series B Bonds, Eighth Series C Bonds, Eighth Series D Bonds and Eighth Series E Bonds, as more fully described below under "INTRODUCTION - Interest Rate Swap Agreement." Upon the issuance of the Eighth Series A Bonds, Eighth Series B Bonds, Eighth Series C Bonds, Eighth Series D Bonds and Eighth Series E Bonds, the Swap Agreement will remain outstanding with \$105,000,000 notional amount related to the Eighth Series B Bonds, \$50,000,000 notional amount related to the Eighth Series C Bonds, \$50,000,000 notional amount related to the Eighth Series D Bonds and \$50,000,000 notional amount related to the Eighth Series E Bonds.

The pledge of Gas Works Revenues (as defined in the 1998 General Ordinance) to secure the Senior 1998 Ordinance Bonds issued under the 1998 General Ordinance (including the Bonds) is at all times subject and subordinate to the pledge of Project Revenues (as defined in the 1975 General Ordinance) under the 1975 General Ordinance securing the 1975 Ordinance Bonds.

The City's fiscal year begins on July 1 and ends on June 30 of the following calendar year. The term "Fiscal Year" when followed by a year and used in connection with the City refers to the fiscal year of the City ending June 30 of that year. For example, "Fiscal Year 2009" when used in connection with the City refers to the

fiscal year ending June 30, 2009. The fiscal year of the Philadelphia Gas Works ("PGW" or the "Gas Works") begins on September 1 and ends on August 31 of the following calendar year. The term "Fiscal Year" when followed by a year and used in connection with the Gas Works refers to the fiscal year of the Gas Works ending August 31 of that year. For example, "Fiscal Year 2009" when used in connection with PGW refers to the fiscal year ending August 31, 2009. Certain capitalized terms used in this Official Statement and not otherwise defined are defined in APPENDIX D - "Summaries of the Act and Legislation Authorizing the Issuance of the Bonds."

This introduction is a brief description of certain matters described in this Official Statement and is qualified by reference to the entire Official Statement. Prospective purchasers of any of the Bonds should read this Official Statement, including the cover page, inside front cover page, table of contents, tables and appendices, in its entirety. The information contained herein is subject to change. All estimates and assumptions of financial and other information are based on information currently available, are believed to be reasonable and are not to be construed as assurances of actual outcomes.

If and when included in this Official Statement, the words "expects," "forecasts," "projects," "outlook," "intends," "anticipates," "estimates," "assumes," and analogous expressions are intended to identify forward-looking statements and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those that have been projected. Such risks and uncertainties that could affect the revenues and obligations of PGW include, among others, changes in economic conditions, mandates from regulatory authorities, lack of approval, in whole or in part, of requests by PGW from regulatory authorities and conditions and circumstances, many of which are beyond the control of PGW. Such forward-looking statements speak only as of the date of this Official Statement. The City disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein or to reflect any changes in PGW's expressions with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

The Philadelphia Gas Works

The Gas Works presently consists of real and personal property owned by the City and used for the acquisition, manufacture, storage, processing and distribution of natural gas within the City, and all property, books and records employed and maintained in connection with the operation, maintenance and administration thereof. See "PHILADELPHIA GAS WORKS" herein.

PGW serves the entire 129 square mile area contained within the boundaries of the City and is the distributor and principal supplier of natural gas in the City. PGW has no distribution mains and provides no service to customers outside the City limits. As of March 31, 2009, PGW served approximately 518,000 customers.

The Philadelphia Home Rule Charter provides for a Gas Commission (the "Gas Commission") to be constituted and appointed in accordance with the provisions of contracts between the City and the operator of PGW as may from time to time be in effect, or, in the absence of a contract, as may be provided by ordinance. For details of the Gas Commission's various responsibilities and oversight of the operations of PGW, see "CITY GOVERNMENTAL OVERSIGHT — Gas Commission" herein.

Since January 1, 1973, PGW has been managed by the Philadelphia Facilities Management Corporation ("PFMC"), a not-for-profit corporation, pursuant to an agreement between the City and PFMC dated December 29, 1972, as amended, authorized by ordinances of City Council (the "Management Agreement"). See "PHILADELPHIA GAS WORKS – Management Agreement."

Rates and charges of PGW are fixed by the Public Utility Commission of the Commonwealth (the "PUC"). The PUC has acknowledged that it is obligated to establish rates that permit PGW to meet all of its bond ordinance covenants in the General Ordinances. See "PHILADELPHIA GAS WORKS – Effects of the Natural Gas Choice and Competition Act" and "PGW BUDGET, RATES AND FINANCES" herein for a further discussion of PGW's budget process and recent rate proceedings.

PGW's Basic Financial Statements and Supplementary Information as of and for the years ended August 31, 2008 and 2007 (with Independent Auditor's Report thereon) are presented in APPENDIX A. For certain information regarding the government of and fiscal affairs of the City, see APPENDIX C – "Certain Information Concerning the City of Philadelphia."

Prior Issues of Gas Works Revenue Bonds

Since 1975, the City has issued nineteen (19) separate series of Gas Works Revenue Bonds and one Revenue Bond Anticipation Note (collectively, together with any bonds issued under the 1975 General Ordinance to refund any such bonds, the "1975 Ordinance Bonds"), all pursuant to the Act and the 1975 General Ordinance. As of March 31, 2009, \$263,053,000 aggregate principal amount of 1975 Ordinance Bonds remained outstanding. The 1975 Ordinance Bonds were all issued on a parity basis and share equally and ratably in the pledge of revenues provided for in the 1975 General Ordinance. In the 1975 General Ordinance, the City has, for the security and payment of all 1975 Ordinance Bonds issued under the 1975 General Ordinance, granted a security interest in all rents, rates and charges imposed or charged by the City upon the owners or occupants of properties connected to, and upon all users of, gas distributed by the Gas Works and all other revenues derived therefrom (the "Project Revenues," as such term is defined in the 1975 General Ordinance), and all accounts, contract rights and general intangibles related thereto and all proceeds of the foregoing. The 1975 Ordinance Bonds are secured solely by monies derived, directly or indirectly, from PGW's Project Revenues as provided in the Act and the 1975 General Ordinance, as amended and supplemented. 1975 Ordinance Bonds of all series issued or to be issued are issued on a parity basis and share equally and ratably in the pledge or Project Revenues provided for in the 1975 General Ordinance.

Pursuant to the 1998 General Ordinance, all 1998 Ordinance Bonds (as defined below) are subordinated in right of payment and security to the 1975 Ordinance Bonds. 1998 Ordinance Bonds may be issued as Senior 1998 Ordinance Bonds ("Senior 1998 Ordinance Bonds") or Subordinate 1998 Ordinance Bonds ("Subordinate 1998 Ordinance Bonds"). Senior 1998 Ordinance Bonds are all issued on a parity basis and share equally and ratably in the pledge of revenues provided for in the 1998 General Ordinance. Senior 1998 Ordinance Bonds subordinated in right of payment and security to the 1975 Ordinance Bonds, but are prior in right of payment and security to Subordinate 1998 Ordinance Bonds. Subordinate 1998 Ordinance Bonds are all issued on a parity basis and share equally and ratably in the pledge of revenues provided for in the 1998 General Ordinance, subject to the prior right of payment and security of the 1975 Ordinance Bonds and the Senior 1998 Ordinance Bonds and to payments due to issuers of Credit Facilities related to Senior 1998 Ordinance Bonds. In the 1998 General Ordinance, the City has pledged for the security and payment of all bonds issued under the 1998 General Ordinance a lien on and security interest in all Gas Works Revenues (as defined in the 1998 General Ordinance) all accounts, contract rights and general intangibles representing the Gas Works Revenues and all funds and accounts established under the 1998 General Ordinance. Such lien is subject to the prior pledge and lien on the Project Revenues created by the 1975 General Ordinance for the benefit of the 1975 Ordinance Bonds. Gas Works Revenues and Project Revenues are treated by PGW as the same revenues and include grants from the City, properly authorized, including, if applicable and if so authorized, any grant back to PGW of any portion of PGW's Base Payment to the City. See "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS — Priority in Application of Revenues."

Since 1998, the City has issued seven (7) separate series of Gas Works Revenue Bonds (collectively, together with any bonds heretofore or hereafter issued under the 1998 General Ordinance including the Bonds, the "1998 Ordinance Bonds") pursuant to the Act and the 1998 General Ordinance. As of March 31, 2009, \$902,420,000 aggregate principal amount of Senior 1998 Ordinance Bonds and \$10,115,000 aggregate principal amount of Subordinate 1998 Ordinance Bonds were outstanding under the 1998 General Ordinance. In the 1998 General Ordinance, the City covenanted that it would not issue any additional bonds under the 1975 General Ordinance except to refund outstanding 1975 Ordinance Bonds.

Authorization to Issue the Bonds

The Bonds are being issued as Senior 1998 Ordinance Bonds pursuant to the Act, the 1998 General Ordinance, the Ninth Supplemental Ordinance and the Bond Authorization.

The Bonds

The Bonds will be dated the date of delivery, and will bear interest from such date. Interest on the Bonds will be payable on each August 1 and February 1, commencing February 1, 2010. The Bonds will be issued as fully registered bonds in the aggregate principal amount set forth on the inside cover page hereof in denominations of \$5,000 or any integral multiple thereof. The principal of the Bonds will be payable at the corporate trust office of U.S. Bank National Association (the "Fiscal Agent") in Philadelphia, Pennsylvania. Interest on the Bonds will be paid by check mailed by the Fiscal Agent to the person in whose names the Bonds are registered on the fifteenth day of the month preceding such interest payment date; except in the case of any default by the City in payment of interest due, interest shall be payable to the persons in whose names the Bonds are registered on a special record date as determined by the Fiscal Agent. See "DESCRIPTION OF THE BONDS" herein. Registered Owners of at least \$1,000,000 aggregate principal amount of the Bonds may elect to receive interest payments by wire transfer if so requested in a written notice provided to the Fiscal Agent not less than ten (10) days prior to the relevant interest payment date.

Initially the Bonds will be available in book-entry form only. See "DESCRIPTION OF THE BONDS — Book-Entry Only System" herein.

The Bonds are not subject to optional redemption prior to maturity.

Purpose of the Bonds

The proceeds of the Bonds, together with other available monies and the proceeds of the Variable Bonds (as hereinafter defined), are being used for the purpose of providing funds for any or all of the following purposes: (i) the current refunding of all of the outstanding City of Philadelphia, Pennsylvania, Gas Works Revenue Bonds (1998 General Ordinance) Sixth Series (the "Refunded Bonds"); (ii) paying the costs of terminating a portion of the Swap Agreement for the Refunded Bonds; and (iii) paying the costs of issuing the Bonds and the Variable Rate Bonds and any required deposits to the Sinking Fund Reserve established under the 1998 General Ordinance (collectively, the "2009 Project").

The proceeds of the Bonds which remain available for the payments of the costs of redemption of the Refunded Bonds after payment of financing costs and the required deposit into the 1998 Ordinance Sinking Fund Reserve will be used on the date of the issuance of the Bonds to redeem a portion of the Outstanding Refunded Bonds.

Upon the issuance of the Eighth Series A Bonds, Eighth Series B Bonds, Eighth Series C Bonds, Eighth Series D Bonds and the Eighth Series E Bonds, the Refunded Bonds will no longer be Outstanding.

Additional Expected PGW Financing

On the date of issuance of the Bonds (the "Issue Date"), the City expects to issue four additional series of parity Gas Works Revenue Bonds (1998 General Ordinance): its Gas Works Revenue Refunding Bonds Eighth Series B (1998 General Ordinance) (the "Eighth Series B Bonds"), its Gas Works Revenue Refunding Bonds Eighth Series C (1998 General Ordinance) (the "Eighth Series C Bonds"), its Gas Works Revenue Refunding Bonds Eighth Series D (1998 General Ordinance) (the "Eighth Series D Bonds") and its Gas Works Revenue Refunding Bonds Eighth Series E (1998 General Ordinance) (the "Eighth Series E Bonds" together with the Eighth Series B Bonds, the Eighth Series C Bonds and the Eighth Series D Bonds, are collectively referred to herein as the "Variable Rate Bonds"). Proceeds of the Variable Rate Bonds, together with other available monies and the proceeds of the Eighth Series A Bonds, will applied on the Issue Date to the current refunding of the Refunded Bonds, paying the costs of terminating a portion of the Swap Agreement for the Refunded Bonds and paying the costs of issuing the Variable Rate Bonds and the Eighth Series A Bonds and any required deposits to the Sinking Fund Reserve established under the 1998 General Ordinance. The issuance and delivery of the Bonds is conditioned on the issuance and delivery of the Variable Rate Bonds on the Issue Date.

The Eighth Series B Bonds, issued in the original aggregate principal amount of \$105,000,000 will be secured by an irrevocable, direct pay letter of credit, issued for the benefit of the Eighth Series B Bonds, subject to certain terms and conditions, by Wachovia Bank, National Association.

The Eighth Series C Bonds, issued in the original aggregate principal amount of \$50,000,000 will be secured by an irrevocable, direct pay letter of credit, issued for the benefit of the Eighth Series C Bonds, subject to certain terms and conditions, by The Bank of Nova Scotia, acting through its New York Agency.

The Eighth Series D Bonds, issued in the original aggregate principal amount of \$50,000,000 will be secured by an irrevocable, direct pay letter of credit, issued for the benefit of the Eighth Series D Bonds, subject to certain terms and conditions, by The Bank of America, N.A.

The Eighth Series E Bonds, issued in the original aggregate principal amount of \$50,000,000 will be secured by an irrevocable, direct pay letter of credit, issued for the benefit of the Eighth Series E Bonds, subject to certain terms and conditions, by JPMorgan Chase Bank, National Association.

The Variable Rate Bonds will be offered pursuant to a separate Official Statement and will be sold by the City, on the same date as the Bonds, pursuant to separate bond purchase agreements. This Official Statement provides information only with respect to the Eighth Series A Bonds.

Security for the Bonds

The Bonds are secured solely and payable solely from the Gas Works Revenues as provided in the Act, the 1998 General Ordinance and the Ninth Supplemental Ordinance. Such pledge of Gas Works Revenues is subject and subordinate to the prior pledge of Project Revenues granted by the 1975 General Ordinance. Neither the general credit nor the taxing power of the City is pledged to any such payment.

The City has pledged and granted a security interest on a parity basis in all Gas Works Revenues and the proceeds thereof for security and payment of all 1998 Ordinance Bonds, including the Bonds, and for security and payment of all periodic payments (but not termination payments) due from the City under any Qualified Agreement (except that the Swap Provider shall have no right or claim at any time to amounts on deposit in the Sinking Fund or the Sinking Fund Reserve). The City has covenanted in the Ninth Supplemental Ordinance that, so long as any of the Bonds shall remain Outstanding, all pledged Gas Works Revenues shall be deposited and held in and disbursed from one or more unsegregated accounts of PGW. Pursuant to the 1998 General Ordinance, all monies deposited in the 1998 Ordinance Sinking Fund (including the 1998 Ordinance Sinking Fund Reserve), are subject to a security interest in favor of all Holders of 1998 Ordinance Bonds until such monies are properly disbursed. See "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS— Pledge of Revenues and Funds" and "REMEDIES OF BONDHOLDERS" herein. The pledge of the Gas Works Revenues to secure the Senior 1998 Ordinance Bonds issued under the 1998 General Ordinance (including the Bonds) is at all times subject and subordinate to the pledge of Project Revenues under the 1975 General Ordinance securing the 1975 Ordinance Bonds.

In the 1998 General Ordinance, the City covenants to impose, charge and collect in each Fiscal Year, rates and charges which, together with all other Gas Works Revenues to be received in such Fiscal Year, shall be sufficient to meet, among other things, debt service coverage requirements as specified in the 1998 General Ordinance (the "1998 Ordinance Rate Covenant"). See "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS - Rate Covenant and Rate Requirements" and APPENDIX D — "Summaries of the Act and Legislation Authorizing the Issuance of the Bonds" herein.

The 1998 General Ordinance permits the issuance of additional bonds which may be Senior 1998 Ordinance Bonds or Subordinate 1998 Ordinance Bonds. See "ADDITIONAL BONDS — Additional 1998 Ordinance Bonds" herein.

The 1998 General Ordinance establishes the 1998 Ordinance Sinking Fund Reserve which is established in the 1998 Ordinance Sinking Fund as a separate account which is held for the benefit of owners of all bonds issued

under the 1998 General Ordinance. See " SOURCES OF PAYMENT AND SECURITY FOR THE BONDS — Sinking Fund Reserve" herein.

The 1998 General Ordinance permits the City to enter into a Qualified Swap or Exchange Agreement with respect to a series of bonds or a portion thereof. The Ninth Supplemental Ordinance authorizes Qualified Swap and Exchange Agreements with respect to the Eighth Series B Bonds, the Eighth Series C Bonds, the Eighth Series D Bonds and the Eighth Series E Bonds. Payments, other than termination payments, due to the issuer of a Qualified Swap related to Senior 1998 Ordinance Bonds are payable on a parity with debt service on Senior 1998 Ordinance Bonds, except that the Qualified Swap shall have no right or claim at any time to amounts on deposit in the 1998 Ordinance Sinking Fund or the 1998 Ordinance Sinking Fund Reserve. On January 20, 2006, the City entered into the Swap Agreement in connection with the Sixth Series Bonds. Upon issuance of the Bonds a portion of the Swap Agreement related to the Sixth Series Bonds will be terminated. See "INTRODUCTION – Interest Rate Swap Agreement" herein. There are currently no other Qualified Swaps or Exchange Agreements to which the City is a party under the 1998 General Ordinance.

Interest Rate Swap Agreement

The City entered into the Swap Agreement with JPMorgan Chase Bank, National Association (the "Swap Provider") in connection and concurrently with the issuance of the Sixth Series Bonds. Upon issuance of the Bonds, a portion of the Swap Agreement related to the Sixth Series Bonds will be terminated. Upon the issuance of the Variable Rate Bonds, a portion of the Swap Agreement in notional amounts equal to the principal amounts of the Eighth Series B Bonds, the Eighth Series C Bonds, the Eighth Series D Bonds and the Eighth Series E Bonds, respectively, will be related to portions of the Variable Rate Bonds as follows: \$105,000,000 notional amount related to the Eighth Series B Bonds, \$50,000,000 notional amount related to the Eighth Series C Bonds, \$50,000,000 notional amount related to the Eighth Series D Bonds and \$50,000,000 notional amount related to the Eighth Series E Bonds. The Swap Agreement will provide, in general, that the City will pay to the Swap Provider semiannually on each February 1 and August 1 a fixed rate payment of 3.6745% on an amended notional amount equal to \$255,000,000, amortizing in accordance with the principal amortization schedules of the Eighth Series B Bonds, the Eighth Series C Bonds, the Eighth Series D Bonds and the Eighth Series E Bonds, as set forth in the Swap Agreement, and that the Swap Provider will pay to the City on the first day of each calendar month a floating rate payment equal to the lesser of the interest rate on the Eighth Series B Bonds, the Eighth Series C Bonds, the Eighth Series D Bonds and the Eighth Series E Bonds, and the Securities Industry and Financial Markets Association (the "Swap Index"), on the notional amount from time to time outstanding, to and including August 1, 2011, and thereafter a floating rate payment equal to 70% of one-month LIBOR, on the notional amount from time to time outstanding. The amendment of the Swap Agreement will not alter the City's obligation to pay the principal of, premium, if any, and interest on the Bonds.

The Swap Agreement constitutes a Qualified Swap under the 1998 General Ordinance. The City's payment obligations under the Swap Agreement are payable solely from Gas Works Revenues. The City's scheduled periodic payments due under the Swap Agreement are payable on a parity with the Senior 1998 Ordinance Bonds (except that the Swap Provider shall have no right or claim at any time to amounts on deposit in the 1998 Ordinance Sinking Fund or the 1998 Ordinance Sinking Fund Reserve). PGW calculates required sinking fund deposits for purposes of compliance with the 1998 General Ordinance Rate Covenant without regard to the effect of the Swap Agreement. See " SOURCES OF PAYMENT AND SECURITY FOR THE BONDS - Pledge of Revenues and Funds" herein.

Under certain circumstances (including certain events of default with respect to the City or the Swap Provider), the Swap Agreement could terminate in whole or in part prior to its stated termination date. Following any such early termination of the Swap Agreement, either the City or the Swap Provider, as applicable, may owe a termination payment to the other, depending upon market conditions. If at the time of an early termination of the Swap Agreement long-term interest rates are significantly lower than they were when the Swap Agreement was executed and delivered, the City could owe a substantial termination payment to the Swap Provider. Any termination payments owed by the City will be subordinate to the City's obligation to make all payments due and owing on Senior 1998 Ordinance Bonds (including the Bonds) and periodic payments due under the Swap Agreement.

The City's payments under the Swap Agreement, including any termination payment due in connection with a termination at the direction of Financial Security Assurance, Inc., the insurer of the Swap Agreement, but excluding all other termination payments, under the Swap Agreement is guaranteed by Financial Security Assurance Inc. under a Swap Insurance Policy. Financial Security Assurance Inc. has certain rights under the Swap Agreement, including rights to consent to the designation of an Early Termination Date upon the occurrence of certain events and the right to designate an Early Termination Date with respect to the City if an event of default under the Swap Agreement occurs with respect to the City as a defaulting party.

Independent Consultant's Engineering Report

To establish that Project Revenues and Gas Works Revenues will be sufficient to amortize all bonds outstanding under the 1975 General Ordinance and the 1998 General Ordinance, the Act and the General Ordinances require a finding to be made in the supplemental ordinance authorizing the issuance of a series of bonds that the pledged Project Revenues or Gas Works Revenues (as the case may be) will be sufficient to comply with the corresponding rate covenant and to pay all costs, expenses and payments required to be paid from Project Revenues or Gas Works Revenues (as the case may be) in the order of priority set forth in the respective General Ordinance and to pay any prior or parity charges on such pledged Project Revenues or Gas Works Revenues (as the case may be) and the principal and interest on such series of bonds. The finding is to be based on a report of the chief fiscal officer of the City filed with City Council and supported by appropriate schedules and summaries. As provided by the Act, the report of the chief fiscal officer of the City may be based on a report of an independent engineer employed by the City to evaluate PGW. Black & Veatch Corporation ("Black & Veatch"), a consulting company independent of the City and PGW, was retained to evaluate PGW. Black & Veatch submitted a report dated May 4, 2009, which is appended hereto as APPENDIX B (the "Independent Consultant's Engineering Report" or the "2009 Report"). In its report, Black & Veatch has opined and concluded, based upon its investigation, that:

- PGW is a competently managed and operated gas distribution utility. PGW and its facilities are organized, operated and maintained at a level equal to, or in excess of, regulatory requirements and generally accepted industry practices. The System is in good operating condition.
- Based upon Black & Veatch's evaluation of financial projections, and certain assumptions with respect to the System that Black & Veatch believes to be reasonable, and on the basis of actual and estimated future annual financial operations of the System (including the projects to be established with the proceeds of the Bonds), the System will yield Project Revenues (which are pledged under the 1975 General Ordinance and the 1998 General Ordinance) over the amortization periods of the bonds issued under the 1975 General Ordinance and the 1998 General Ordinance which will be sufficient to (a) meet all expenses of operation, maintenance, repair and replacement of the System, (b) meet all reserve or special funds required to be established under the 1975 General Ordinance and the 1998 General Ordinance, (c) meet the principal of and interest on all bonds (including the Future Bonds (as such term is defined in APPENDIX B hereof)) issued under such Ordinances, as the same shall become due and payable, and (d) provide such surplus requirements as are contained in the respective rate covenants of the 1975 General Ordinance and the 1998 General Ordinance. The Project Revenues forming the basis of Black & Veatch's opinion comply with the requirements of the definition of Project Revenues contained in Section 2 of the Act.
- The Project Revenues and Gas Works Revenues which are pledged as security for the bonds issued under the 1975 General Ordinance and the 1998 General Ordinance, respectively, are currently, and are projected to be, sufficient to comply with the Rate Covenants set forth in Section 4.03(b) of the 1975 General Ordinance and Section 4.03(b) of the 1998 General Ordinance.
- The capital improvements proposed during the projection period, September 1, 2009 through August 31, 2014, should, along with continued good operation and maintenance practices, enable PGW to maintain its system in good operating condition. Review of present management practices indicates that good operation and maintenance is likely to continue.

- Contracted PGW gas supplies plus: (a) spot market purchases, (b) anticipated additional contracted supplies plus supplemental gas capacities, as well as (c) the pipeline transport capacity to move these supplies to PGW, are adequate to meet PGW's projected demand on a day of maximum demand, in an hour of maximum demand, and during a year of maximum demand.

Independent Consultant's Assumptions with Respect to City Payments

PGW makes an annual base payment of \$18 million to the City. The City agreed to forego the \$18 million annual payment in Fiscal Year 2004. For Fiscal Years 2005, 2006, 2007, 2008 and 2009, the City made a grant to PGW equal to the annual payment received from PGW in such fiscal years, and the City's Eighteenth Five-Year Plan contemplates that in each of the Fiscal Years 2010 through 2014, the City will make a grant to PGW equal to the annual payment received from PGW in such Fiscal Years.

Continuing Disclosure

The City will enter into a Continuing Disclosure Agreement (the "Continuing Disclosure Agreement") with Digital Assurance Certification, L.L.C. with respect to the Bonds. See "CONTINUING DISCLOSURE" herein and the form of Continuing Disclosure Agreement attached hereto as APPENDIX E.

Miscellaneous

Any quotation from, and summaries and explanations of, the Constitution and laws of the Commonwealth and ordinances of the City contained herein do not purport to be complete and are qualified in their entirety by reference to the official compilations thereof, and all references to the Bonds are qualified in their entirety by reference to the definitive forms of the Bonds. All capitalized terms used herein, unless otherwise defined herein, shall have the meanings ascribed to them in the Act and the General Ordinances. See "APPENDIX D" herein. Copies of the Act, the General Ordinances and the Supplemental Ordinances are available from the Office of the Director of Finance, 13th Floor, Municipal Services Building, 1401 John F. Kennedy Boulevard, Philadelphia, Pennsylvania 19102.

PLAN OF FINANCE AND ESTIMATED SOURCES AND USES OF FUNDS

Plan of Finance

The proceeds of the Bonds, together with other available monies and proceeds of the Variable Rate Bonds, are being used for the purpose of providing funds for any or all of the following purposes: (i) the current refunding of all of the Refunded Bonds; (ii) paying the costs of terminating a portion of the Swap Agreement for the Refunded Bonds; and (iii) paying the costs of issuing the Bonds and the Variable Rate Bonds and any required deposits to the Sinking Fund Reserve established under the 1998 General Ordinance.

A portion of the proceeds of the Bonds will be used on the Issue Date to redeem a portion of the Refunded Bonds.

Estimated Sources and Uses of Funds

The sources and uses of funds are estimated to be as follows:

Estimated Sources:

Principal Amount of the Bonds	\$58,285,000.00
Net original issue premium of the Bonds	422,616.90
Equity contribution from PGW	5,616,826.95
Proceeds of the Variable Rate Bonds	<u>255,000,000.00</u>

<u>Total Sources</u>	<u>\$319,324,443.85</u>
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Estimated Uses:

Redemption of the Refunded Bonds	\$312,231,826.95
Termination of a portion of the Swap Agreement	3,791,000.00
Costs of Issuance ¹	<u>3,301,616.90</u>

<u>Total Uses</u>	<u>\$319,324,443.85</u>
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¹Includes the fees and expenses of various counsel and the Fiscal Agent, consultant's fees, fees of accountants, fees of financial advisor, swap advisor fees, bank fees and letter of credit fees related to the Variable Rate Bonds, rating agency fees, printing and publication costs, contingency, Underwriters' discount, and other expenses related to the issuance of the Bonds.

DESCRIPTION OF THE BONDS

General

The Bonds will be dated the date of delivery and will bear interest from such date payable on each August 1 and February 1, commencing February 1, 2010. The Bonds will be issued as fully registered bonds in the aggregate principal amounts set forth on the inside front cover page hereof. The Bonds will be issued in denominations of \$5,000 or any integral multiple thereof. The Bonds, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), one bond for each maturity of the Bonds. Purchases of beneficial interests in the Bonds will be made in book entry only form (without certificates) in the denomination of \$5,000 or any integral multiple thereof.

The principal of, and premium, if any, on the Bonds will be payable at the principal corporate trust office of the Fiscal Agent in Philadelphia, Pennsylvania. Interest on the Bonds, when due, will be paid by checks, mailed by the Fiscal Agent to the persons in whose names the Bonds are registered on the fifteenth day of the month preceding each interest payment date. So long as the Bonds are in book entry form, the principal of and interest on such Bonds are payable by check mailed to or by wire transfer of funds to Cede & Co., as nominee for DTC as registered owner thereof for redistribution by DTC to the Direct Participants (as defined herein) and in turn to Indirect Participants (as defined herein) or Beneficial Owners (as defined herein) as described under "Book Entry Only System" below. Registered Owners of at least \$1,000,000 aggregate principal amount of a series of Bonds may elect to receive interest payments by wire transfer, provided that notice is provided to the Fiscal Agent not less than ten (10) days prior to the relevant interest payment date. In the event of any default by the City in the payment of interest due on any interest payment date, such defaulted interest shall be payable to the persons in whose names such Bonds are registered at the close of business on a special record date which shall be established, with notification to Bondholders as provided in the 1998 General Ordinance.

Book-Entry Only System

The information in this section has been provided by DTC and is not to be deemed to be a representation of the City, PGW or the Underwriters.

DTC, New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered Bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial

Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to an issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal, premium, if any, and interest on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Fiscal Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the City or the Fiscal Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments of principal, premium, if any, and interest on the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of City or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the City or the Fiscal Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from DTC, and the City takes no responsibility for the accuracy thereof.

THE CITY, PGW AND THE FISCAL AGENT CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, THE DIRECT PARTICIPANTS OR THE INDIRECT PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE BONDS (1) PAYMENTS OF PRINCIPAL OR INTEREST ON THE BONDS, (2) CONFIRMATION OF BENEFICIAL OWNERSHIP INTEREST IN THE BONDS, OR (3) NOTICES SENT TO DTC OR CEDE & CO., ITS NOMINEE, AS THE REGISTERED OWNER OF THE BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT. THE CURRENT "RULES" APPLICABLE TO DTC ARE ON FILE WITH THE SECURITIES AND EXCHANGE COMMISSION, AND THE CURRENT "PROCEDURES" OF DTC TO BE FOLLOWED IN DEALING WITH DIRECT PARTICIPANTS ARE ON FILE WITH DTC.

NEITHER THE CITY, PGW NOR THE FISCAL AGENT SHALL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON NOT SHOWN ON THE REGISTRATION BOOKS OF THE FISCAL AGENT AS BEING A BONDHOLDER WITH RESPECT TO (1) THE BONDS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OR INTEREST ON THE BONDS; (4) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE 1998 GENERAL ORDINANCE TO BE GIVEN TO BONDHOLDERS; OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS REGISTERED OWNER OF THE BONDS.

The City may determine to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be prepared and delivered as described in the Ninth Supplemental Ordinance.

So long as Cede & Co. is the registered owner of the Bonds as nominee of DTC, references herein to the Holders, holders, owners or registered owners of such Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of the Bonds.

In the event that the Book-Entry-Only System is discontinued and the Beneficial Owners become registered owners of the Bonds, the following provisions applicable to registered owners would apply: (i) Bonds may be exchanged for an equal aggregate principal amount of Bonds of the same maturity and series in other authorized denominations, upon surrender thereof at the designated corporate trust office of the Fiscal Agent; (ii) the transfer of any Bonds may be registered on the books maintained by the Fiscal Agent for such purpose only upon the surrender thereof to the Fiscal Agent together with a duly executed assignment in form satisfactory to the City and the Fiscal Agent; and (iii) for every exchange or registration of transfer of Bonds, the Fiscal Agent may impose a charge sufficient to reimburse it for any tax, fee or governmental charge required to be paid with respect to such exchange or registration of transfer of the Bonds.

Optional Redemption

The Bonds are not subject to optional redemption prior to maturity.

Transfer of Bonds

Bonds are transferable and exchangeable by the Registered Owners thereof at the designated corporate trust office of the Fiscal Agent in Philadelphia, Pennsylvania in the manner and subject to the limitations contained in the and 1998 General Ordinance and the Ninth Supplemental Ordinance. The Fiscal Agent shall not be required to issue or to register the transfer of or exchange any Bonds during the period five (5) days prior to any interest payment date for such Bonds.

SOURCES OF PAYMENT AND SECURITY FOR THE BONDS

Pledge of Revenues and Funds

The Bonds are being issued as Senior 1998 Ordinance Bonds and are secured solely by and payable solely from Gas Works Revenues and the 1998 Ordinance Sinking Fund, including the 1998 Ordinance Sinking Fund Reserve therein, as provided in the Act, the 1998 General Ordinance and the Ninth Supplemental Ordinance. Gas Works Revenues include all operating and non-operating revenues of the Gas Works derived from its activities and assets involved in the supply, manufacture, storage and distribution of gas, including all rents, rates and charges imposed or charged by the City upon the owners or occupants of properties connected to, and upon all users of, gas distributed by the Gas Works and all other revenues derived therefrom and all other income derived by the City from the Gas Works. Revenues derived from activities unrelated to the supply, manufacture, storage and distribution of gas or assets related thereto shall not be included in Gas Works Revenues, provided that the Gas Works receives fair payment for the use of gas related assets and personnel of the Gas Works used in such activities, which payments shall be included in Gas Works Revenues. At such time as there are no 1975 Ordinance Bonds outstanding, Gas Works Revenues shall not include any portions of the Gas Works' rents, rates and charges, if any, which are securitized and sold pursuant to the 1998 General Ordinance.

The Act subjects all monies deposited in the 1998 Ordinance Sinking Fund, including the 1998 Ordinance Sinking Fund Reserve, to a security interest for the 1998 Ordinance Bonds until such monies are properly disbursed and provides that no bonds issued under the Act shall pledge the credit or taxing power of the City or create any debt or charge against the tax or general revenues of the City or create any lien against any property of the City other than Gas Works Revenues and monies deposited in the 1998 Ordinance Sinking Fund.

The pledge of the Gas Works Revenues to secure the Senior 1998 Ordinance Bonds issued under the 1998 General Ordinance (including the Bonds) is at all times subject and subordinate to the pledge of Project Revenues under the 1975 General Ordinance securing the 1975 Ordinance Bonds. Gas Works Revenues and Project Revenues are treated by PGW as the same revenues and include grants from the City, properly authorized, including, if applicable and if so authorized, any grant back to PGW of any portion of PGW's Base Payment to the

City. See "SECURITY - Priority in Application of Revenues." As of March 31, 2009, \$263,053,000 aggregate principal amount of 1975 Ordinance Bonds remained outstanding under the 1975 General Ordinance, \$902,420,000 aggregate principal amount of Senior 1998 Ordinance Bonds and \$10,115,000 of Subordinate 1998 Ordinance Bonds were outstanding under the 1998 General Ordinance.

PGW has sold the right to receive the earnings through the year 2019 on approximately \$53.6 million of deposits (of total deposits of slightly more than \$98.0 million) in the 1975 Ordinance Sinking Fund Reserve and the 1998 Ordinance Sinking Fund Reserve pursuant to two separate investment agreements among FSA Capital Markets Services LLC, the Fiscal Agent and the City (the "Guaranteed Investment Contracts") dated August 23, 2002. PGW's proceeds from the Guaranteed Investment Contracts of approximately \$20.1 million were treated as Project Revenues under the 1975 General Ordinance and Gas Works Revenues under the 1998 General Ordinance in the year received. The portion of such earnings on the 1975 Ordinance Sinking Fund Reserve and the 1998 Ordinance Sinking Fund Reserve which has been sold pursuant to the Guaranteed Investment Contracts no longer belongs to PGW and therefore does not constitute Project Revenues or Gas Works Revenues and are not subject to the lien and security interest of the 1975 General Ordinance or the 1998 General Ordinance.

Covenant Against Commingling with Other City Funds

The City has covenanted in the Ordinance and the Ninth Supplemental Ordinance that so long as any of the respective Eighth Series Bonds remain outstanding, all pledged Gas Works Revenues shall be deposited and held in and disbursed from, one or more unsegregated accounts of PGW which shall be separate from and not commingled with the consolidated cash account of the City or any other account of the City not held exclusively for PGW purposes. See "REMEDIES OF BONDHOLDERS."

The proceeds of the Bonds which remain available for payment of the costs of refunding of the Refunded Bonds, after payment of the Termination Payment, financing costs and the required payment into the 1998 Ordinance Sinking Fund Reserve, will be used on the Issue Date to redeem a portion of the Refunded Bonds.

The effectiveness of the separation of proceeds of the Bonds and revenues from other City accounts may be limited under certain circumstances, including a bankruptcy filing by the City. See "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS" and "REMEDIES OF BONDHOLDERS" herein. Pursuant to the 1998 General Ordinance, all monies deposited in the Sinking Fund established under the 1998 General Ordinance (including the 1998 Ordinance Sinking Fund Reserve), are subject to a security interest in favor of all Holders of the Bonds until such monies are properly disbursed. See "SECURITY — Pledge of Revenues and Funds" herein.

Priority in Application of Revenues

Project Revenues - 1975 Ordinance Bonds

The 1975 General Ordinance creates a lien on and pledge of all Project Revenues of PGW for the benefit of the Holders of 1975 Ordinance Bonds and creates a priority in application of Project Revenues in each Fiscal Year as follows:

First, to Net Operating Expenses (*i.e.* Operating Expenses exclusive of City Charges);

Second, to required payments into the 1975 Ordinance Sinking Fund to pay the principal of, and interest on, all 1975 Ordinance Bonds and, if required, to accumulate funds in, or to restore any deficiency in, the 1975 Ordinance Sinking Fund Reserve;

Third, to the payment of any general obligation bonds which have been adjudged to be self-liquidating on the basis of expected revenues from PGW;¹

Fourth, to the payment of interest and sinking fund charges of other general obligation debt incurred for PGW¹ and

Fifth, to the payment of City Charges,² including any Base Payment due to the City.³

City Charges are the proportionate charges for services performed for the Gas Works by all officers, departments, boards or commissions of the City which are contained in the computation of Operating Expenses of the Gas Works including without limitation, the expenses of the Gas Commission and also means the base payments to the City contained in the agreement between the City and the manager of the Gas Works and all other payments made to the City from Project Revenues. During PGW's Fiscal Years 2004-2008, City Charges exclusive of the \$18,000,000 Base Payment and of rate hearing charges have averaged approximately \$1,451,000 per year.

The 1975 General Ordinance provides that all interest and income earned on monies held in the 1975 Ordinance Sinking Fund Reserve may, to the extent not required to comply with the requirements of the 1975 General Ordinance relating to the 1975 Ordinance Sinking Fund Reserve, and to the extent not sold pursuant to the Guaranteed Investment Contracts referred to under "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS – Pledge of Revenues and Funds" above, be transferred to the operating funds of PGW to be applied as Project Revenues in accordance with the terms of the 1975 General Ordinance. To the extent that in any Fiscal Year a balance remains in the Project Revenues (after application under the 1975 General Ordinance as modified by the 1998 General Ordinance and the 2005 Note Ordinance), such balance, upon approval of the Gas Commission, may be paid to the City, provided that in a given Fiscal Year such balance does not exceed the amount of the 1975 Ordinance Sinking Fund Reserve earnings transferred to the operating funds of PGW during the same Fiscal Year.

Gas Works Revenues — 1998 Ordinance Bonds

The 1998 General Ordinance creates a lien on and security interest in all Gas Works Revenues for the benefit of the Holders of the Bonds and creates a priority in application of Gas Works Revenues in each Fiscal Year as follows:

First, to Net Operating Expenses (i.e. Operating Expenses exclusive of City Charges) then payable;

Second, to debt service on the 1975 Ordinance Bonds issued under the 1975 General Ordinance and amounts required to be paid into the Sinking Fund Reserve under the 1975 General Ordinance;

Third, to debt service on Senior 1998 Ordinance Bonds, payments (other than termination payments) due to the issuers of Qualified Swaps and Exchange Agreements related to Senior 1998 Ordinance Bonds and payments due in respect of obligations of the Gas Works to The Philadelphia Municipal Authority existing on the date of adoption of the 1998 General Ordinance (such obligations to The Philadelphia Municipal Authority being referred to herein as the "Prior Obligations");

Fourth, to payments due to issuers of Credit Facilities related to Senior 1998 Ordinance Bonds;

¹ No general obligation debt of the City described in items Third and Fourth above is currently outstanding.

² City Charges include charges for services performed for PGW by various City departments, including the expenses of the Gas Commission. During PGW's Fiscal Years 2004 through 2008, City Charges (exclusive of the \$18,000,000 Base Payment and of rate hearing charges) have averaged approximately \$1,451,000 per year.

³ The City's Eighteenth Five-Year Plan contemplates that in each of the Fiscal Years 2010 through 2014, the City will make a grant to PGW equal to the annual payment received from PGW in such Fiscal Years.

Fifth, to debt service on Subordinate 1998 Ordinance Bonds and payments due in respect of obligations of PGW on a parity with Subordinate 1998 Ordinance Bonds (including notes issued under the City's General Inventory and Receivables Financing Act and the Note Ordinance, as supplemented, or any similar ordinance, and amounts payable to the provider of a Credit Facility in respect of such notes) and payments (other than termination payments) due to the issuers of Qualified Swaps and Exchange Agreements related to Subordinate 1998 Ordinance Bonds;

Sixth, to payments due to issuers of Credit Facilities related to Subordinate 1998 Ordinance Bonds;

Seventh, to required payments of the Rebate Amount to the United States;

Eighth, to replenishment of any deficiency in the Sinking Fund Reserve;

Ninth, to payment of general obligation bonds of the City adjudged to be self-liquidating from Gas Works Revenues¹;

Tenth, to debt service on other general obligation bonds issued for the Gas Works¹ and

Eleventh, to City Charges² and any other proper purpose of the Gas Works (including any termination payments to issuers of Qualified Swaps and Exchange Agreements), except Unrelated Expenses.

Operating Expenses

Operating Expenses are defined in the 1975 General Ordinance and the 1998 General Ordinance as all costs and expenses of the Gas Works necessary and appropriate to operate and maintain the Gas Works in good operable condition during each Fiscal Year, and include, without limitation, the manager's fee, salaries and wages, purchases of service by contract, costs of materials, supplies and expendable equipment, maintenance costs, costs of any property or the replacement thereof or for any work or project, related to the Gas Works, which does not have a probable useful life of at least five years, pension and welfare plan and workmen's compensation requirements, provision for claims, refunds and uncollectible receivables and for City Charges, all in accordance with generally accepted municipal accounting principles consistently applied, but shall exclude depreciation and interest and sinking fund charges. The 1998 General Ordinance, however, excludes Unrelated Expenses (consisting of those expenses which are unrelated to the supply, manufacture, storage and distribution of gas or assets related thereto) from the definition of Operating Expenses.

Rate Covenant and Rate Requirements

1975 Ordinance Bonds

The 1975 General Ordinance contains the 1975 Ordinance Rate Covenant requiring that, so long as 1975 Ordinance Bonds are outstanding, at a minimum, the City impose, charge and collect in each Fiscal Year, such gas rates and charges as shall, together with all other Project Revenues to be received in such Fiscal Year, equal not less than the greater of (a) the sum of all Net Operating Expenses payable during such Fiscal Year plus (i) 150% of the debt service requirements for such year on all outstanding 1975 Ordinance Bonds and (ii) the amount, if any, required to be paid into the 1975 Sinking Fund Reserve during such year, or (b) the sum of all Net Operating Expenses payable during such Fiscal Year plus (i) the debt service requirements for such year on all outstanding 1975 Ordinance Bonds and all outstanding City general obligation bonds issued for improvements to PGW and (ii) all amounts, if any, required during such year to be paid into the 1975 Sinking Fund Reserve. For a further

¹ No general obligation debt of the City described in items Ninth and Tenth above is currently outstanding.

² City Charges include charges for services performed for PGW by various City departments, including the expenses of the Gas Commission. During PGW's Fiscal Years 2004 through 2008, City Charges (exclusive of the \$18,000,000 Base Payment and of rate hearing charges) have averaged approximately \$1,451,000 per year.

discussion of the 1975 Rate Covenant and other rate requirements applicable to PGW, see "PGW BUDGET, RATES AND FINANCES — Debt Service Coverage Ratio."

1998 Ordinance Bonds

The 1998 General Ordinance contains a covenant that requires the City, for so long as the 1998 Ordinance Bonds are outstanding, at a minimum, to impose, charge and collect in each Fiscal Year of the Gas Works such gas rates and charges as shall, together with all other Gas Works Revenues to be received in such Fiscal Year, equal not less than the greater of (a) or (b) below:

(a) The sum of:

(i) all Net Operating Expenses payable during such Fiscal Year;

(ii) all principal of and interest on 1975 Ordinance Bonds issued and outstanding under the 1975 General Ordinance payable during such Fiscal Year and amounts required to be paid into the Sinking Fund Reserve under the 1975 General Ordinance during such Fiscal Year;

(iii) 150% of the amount required to pay Sinking Fund deposits required during such Fiscal Year in respect of all Outstanding Senior 1998 Ordinance Bonds and 100% of the amounts payable in respect of the Prior Obligations during such Fiscal Year;

(iv) the amount required to pay Sinking Fund deposits required during such Fiscal Year in respect of all Outstanding Subordinate 1998 Ordinance Bonds and other obligations of the Gas Works on a parity with Subordinate 1998 Ordinance Bonds payable during such Fiscal Year;

(v) the amount, if any, required to be paid into the Sinking Fund Reserve during such Fiscal Year;

(vi) the Rebate Amount required to be paid to the United States during such Fiscal Year; and

(vii) the amounts required to be paid to the issuers of Credit Facilities and the providers of Qualified Swaps and Exchange Agreements during such Fiscal Year; or

(b) The sum of:

(i) all Net Operating Expenses payable during such Fiscal Year;

(ii) all principal of and interest on 1975 Ordinance Bonds issued and outstanding under the 1975 General Ordinance payable during such Fiscal Year and amounts required to be paid into the Sinking Fund Reserve under the 1975 General Ordinance during such Fiscal Year;

(iii) all Sinking Fund deposits required during such Fiscal Year in respect of all Outstanding 1998 Ordinance Bonds and all amounts payable in respect of obligations of the Gas Works which are on a parity with any of the 1998 Ordinance Bonds and in respect of general obligation bonds issued for improvements to the Gas Works and all amounts, if any, required during such Fiscal Year to be paid into the Sinking Fund Reserve;

(iv) the Rebate Amount required to be paid to the United States during such Fiscal Year; and

(v) the amounts required to be paid to the issuers of Credit Facilities and the providers of Qualified Swaps and Exchange Agreements during such Fiscal Year.

In calculating PGW's compliance with the rate covenant with respect to 1998 Ordinance Bonds set forth above, required sinking fund deposits are calculated without regard to the effect of any Qualified Swap. For a further discussion of the Rate Covenant and other rate requirements applicable to PGW, see "PGW BUDGET, RATES AND FINANCES — Debt Service Coverage Ratio."

Sinking Fund

1975 Ordinance Sinking Fund

Pursuant to the Act, the 1975 General Ordinance establishes the 1975 Ordinance Sinking Fund for the benefit and security of the Holders of all 1975 Ordinance Bonds to be held separate and apart from all other accounts of the City and directs the Director of Finance to deposit therein from the pledged revenues in each Fiscal Year such amounts as will, together with interest and profits earned and to be earned on investments held therein, be sufficient to accumulate, on or before each interest and principal payment date of the 1975 Ordinance Bonds, the amounts required to pay the principal of and interest on the 1975 Ordinance Bonds then becoming due and payable. It is the current practice of the City to make deposits into the 1975 Ordinance Sinking Fund on or immediately prior to the date on which debt service payments are due. To the extent monies are on deposit in the 1975 Ordinance Sinking Fund which are not currently required for the payment of debt service, such monies shall be invested at the direction and under the management of the Director of Finance. The 1975 Ordinance Sinking Fund is a consolidated fund for the equal and proportionate benefit of the Holders of all 1975 Ordinance Bonds from time to time outstanding under the 1975 General Ordinance and may be invested and reinvested on a consolidated basis. Interest and profit from any such investment shall be added to the 1975 Ordinance Sinking Fund and credited in reduction of or to satisfy required deposits into the 1975 Ordinance Sinking Fund. *The 1975 Ordinance Sinking Fund, including the 1975 Ordinance Sinking Fund Reserve established therein, is established solely for the benefit and security of the Holders of 1975 Ordinance Bonds. Neither Holders of 1998 Ordinance Bonds, including the Bonds, nor a Qualified Swap Provider of Qualified Swaps, shall have any claim to amounts in the 1975 Ordinance Sinking Fund.*

1998 Ordinance Sinking Fund

Pursuant to the Act, the 1998 General Ordinance establishes the 1998 Ordinance Sinking Fund for the benefit and security of the Holders of all 1998 Ordinance Bonds to be held in the name of the City separate and apart from all other accounts of the City and directs the Director of Finance to deposit therein from the Gas Works Revenues in each Fiscal Year such amounts as will, together with interest and profits earned and to be earned on investments held therein, be sufficient to accumulate (exclusive of the amount in the Sinking Fund Reserve), on or before each interest and principal payment date of the 1998 Ordinance Bonds, the amounts required to pay the principal of and interest on the 1998 Ordinance Bonds then becoming due and payable. It is the current practice of the City to make deposits into the Sinking Fund on or immediately prior to the date on which debt service payments are due. To the extent monies are on deposit in the Sinking Fund which are not currently required for the payment of debt service, such monies shall be invested at the direction and under the management of the Director of Finance of the City. The 1998 Ordinance Sinking Fund is a consolidated fund for equal and proportionate benefit of the Holders of all 1998 Ordinance Bonds from time to time Outstanding under the 1998 General Ordinance and may be invested and reinvested on a consolidated basis. The principal of and interest and profits (and losses, if any) realized on investments in the 1998 Ordinance Sinking Fund shall be allocated pro rata among the series of 1998 Ordinance Bonds or the specific 1998 Ordinance Bonds in respect of which such investments were made without distinction or priority. Payments shall be made from the 1998 Ordinance Sinking Fund in the order of priority set forth in the 1998 General Ordinance, except that monies (and the investments thereof) specifically deposited for the payment of any particular installment of principal, interest (including capitalized interest) or premium in respect of particular 1998 Ordinance Bonds shall be held and applied exclusively to the payment of such particular principal, interest or premium. *The 1998 Ordinance Sinking Fund, including the 1998 Ordinance Sinking Fund Reserve established therein, is established solely for the benefit of the Holders of 1998 Ordinance Bonds, including the Bonds. Neither Holders of 1975 Ordinance Bonds nor a Qualified Swap Provider of a Qualified Swap shall have any claim to amounts in the 1998 Ordinance Sinking Fund.*

Sinking Fund Reserve

1975 Ordinance Sinking Fund Reserve

The 1975 General Ordinance establishes the 1975 Ordinance Sinking Fund Reserve as part of the 1975 Ordinance Sinking Fund. The City is required to deposit in the 1975 Ordinance Sinking Fund Reserve from the proceeds of sale of each series of 1975 Ordinance Bonds an amount equal to the maximum amount required in any Fiscal Year to pay the principal of and interest on the 1975 Ordinance Bonds of such series coming due and payable in that Fiscal Year unless the supplemental ordinance authorizing the series of 1975 Ordinance Bonds authorizes the accumulation from Project Revenues of a reserve of such amount over a period of not more than six Fiscal Years after the issuance and delivery of the 1975 Ordinance Bonds. The money and investments (valued at market) in the 1975 Ordinance Sinking Fund Reserve must be held and maintained, at all times, in an amount equal to the maximum principal and interest requirements of all outstanding 1975 Ordinance Bonds in any subsequent Fiscal Year. The City verifies the value of amounts in the 1975 Ordinance Sinking Fund Reserve on a periodic basis. As of March 31, 2009, the value of the funds and investments on deposit in the 1975 Sinking Fund Reserve was required to be at least \$32.3 million, and the amount in the 1975 Ordinance Sinking Fund Reserve met this requirement.

If, at any time and for any reason, the monies in the 1975 Ordinance Sinking Fund (other than the 1975 Ordinance Sinking Fund Reserve) are insufficient to pay, as and when due, debt service on any 1975 Ordinance Bonds, the 1975 Ordinance Sinking Fund Depository is required to pay over to the Fiscal Agent, from the 1975 Ordinance Sinking Fund Reserve, the amount of the deficiency. The 1975 Ordinance Sinking Fund and 1975 Ordinance Sinking Fund Reserve are managed by, and invested and reinvested under the direction of, the Director of Finance of the City. The 1975 General Ordinance provides that interest and income earned on monies held in the 1975 Ordinance Sinking Fund Reserve may be transferred and paid by the Director of Finance to the operating funds of PGW and applied as Project Revenues in the manner described under "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS— Priority in Application of Revenues." *The 1975 Ordinance Sinking Fund Reserve is established solely for the benefit and security of the Holders of 1975 Ordinance Bonds. Neither holders of 1998 Ordinance Bonds, including the Holders of the Bonds, nor a Qualified Swap Provider, shall have any claim to amounts in the 1975 Ordinance Sinking Fund Reserve.*

1998 Ordinance Sinking Fund Reserve

The 1998 General Ordinance establishes the 1998 Ordinance Sinking Fund Reserve as part of the 1998 Ordinance Sinking Fund. The City is required to deposit to the credit of the 1998 Ordinance Sinking Fund Reserve from the proceeds of sale of each series of bonds issued under the 1998 General Ordinance and/or Gas Works Revenues an amount which, together with other amounts in the Sinking Fund Reserve, equal the maximum amount required in any Fiscal Year to pay principal of and interest on the 1998 Ordinance Bonds of such series coming due and payable in that Fiscal Year. In lieu of a deposit to the credit of the 1998 Ordinance Sinking Fund Reserve or in substitution for amounts in the 1998 Ordinance Sinking Fund Reserve, the City may provide one or more letters of credit or other Credit Facilities in the same aggregate amount, issued by a provider or providers whose credit facilities are such that bonds secured by such credit facilities are rated in one of the three (3) highest rating categories by Moody's Investors Service, Inc., Fitch Ratings or Standard & Poor's Ratings Service, a Division of The McGraw-Hill Companies, Inc., all in the manner described under "The 1998 General Ordinance — Sinking Fund and Sinking Fund Reserve" in APPENDIX D. Upon the issuance of the Bonds, the City shall deposit an amount of cash into the 1998 Ordinance Sinking Fund Reserve and/or purchase one or more surety bonds, or letters of credit such that the aggregate of such cash and/or surety bonds or letters of credit shall be equal to the Sinking Fund Reserve Requirement for the Outstanding Bonds under the 1998 Ordinance.

If, at any time and for any reason, the monies in the 1998 Ordinance Sinking Fund (other than the 1998 Ordinance Sinking Fund Reserve) are insufficient to pay, as and when due, debt service on any bond or bonds secured by the 1998 Ordinance Sinking Fund Reserve, the 1998 Ordinance Sinking Fund Depository is required to pay over to the Fiscal Agent, from the 1998 Ordinance Sinking Fund Reserve, the amount of the deficiency. If by reason of such withdrawal (including draws on any Credit Facilities held to satisfy the Sinking Fund Reserve Requirement) or for any other reason there shall be a deficiency in the 1998 Ordinance Sinking Fund Reserve, the City has covenanted to restore such deficiency (either by a deposit of funds or the reinstatement of the cash limits of

the Credit Facilities) within twelve (12) months. The 1998 Ordinance Sinking Fund Reserve shall be valued by the Sinking Fund Depository promptly after any withdrawal from the 1998 Ordinance Sinking Fund Reserve or any other event indicating a possible deficiency in the 1998 Ordinance Sinking Fund Reserve and on August 31 of each Fiscal Year of PGW. As of March 31, 2009, the value of the funds and investments on deposit in the 1998 Ordinance Sinking Fund Reserve was required to be at least \$67.2 million and the amount in the 1998 Ordinance Sinking Fund Reserve met this requirement. The 1998 Ordinance Sinking Fund and 1998 Ordinance Sinking Fund Reserve are managed by, and invested and reinvested under the direction of, the Director of Finance of the City. *The 1998 Ordinance Sinking Fund Reserve is established solely for the benefit and security of the Holders of 1998 Ordinance Bonds, including the Bonds. Neither Holders of 1975 Ordinance Bonds nor Qualified Swap Providers shall have any claim on amounts in the 1998 Ordinance Sinking Fund Reserve.*

ADDITIONAL BONDS

Additional 1975 Ordinance Bonds

The 1975 General Ordinance permits the issuance of additional 1975 Ordinance Bonds on a parity with other currently outstanding 1975 Ordinance Bonds. The 1998 General Ordinance limits the issuance of additional 1975 Ordinance Bonds, providing that they may only be issued to refund prior 1975 Ordinance Bonds. In order to issue 1975 Ordinance Bonds to refund prior 1975 Ordinance Bonds, among other requirements, it is necessary that a financial report of the chief fiscal officer of the City be provided which determines that, over the amortization period of the additional 1975 Ordinance Bonds, estimated Project Revenues will be sufficient to meet the 1975 Ordinance Rate Covenant.

Additional 1998 Ordinance Bonds

The 1998 General Ordinance permits the issuance of additional 1998 Ordinance Bonds which may be either Senior 1998 Ordinance Bonds, on a parity with outstanding Senior 1998 Ordinance Bonds, including the Bonds, or Subordinate 1998 Ordinance Bonds. All 1998 Ordinance Bonds issued under the 1998 General Ordinance are subordinated to the 1975 Ordinance Bonds. In order to issue additional 1998 Ordinance Bonds, among other requirements, it is necessary that a financial report of the chief fiscal officer of the City be provided which determines that, over the amortization period of the additional 1998 Ordinance Bonds, estimated Gas Works Revenues will be sufficient to meet the 1998 Ordinance Rate Covenant.

Bond Anticipation Notes

The Act authorizes the City to issue revenue bond anticipation notes as well as Gas Works Revenue Bonds. Section 16 of the Act provides that the City may issue its revenue bond anticipation notes which shall be payable by exchange for, or out of the proceeds of the sale of, a designated series of revenue bonds referred to in the bond anticipation notes. The reference to the revenue bonds shall specify a maximum rate of interest to be borne by said bonds and may provide that said bonds shall be offered for sale, but if no proposals shall be received, the sole remedy of the Holders of the revenue bond anticipation notes shall be either to accept the bonds at the specified maximum interest rate, or to extend the maturity of the revenue bond anticipation notes for one or more specified additional periods of not less than six months during which additional offers of the bonds may be made. At the present time, there are no bond anticipation notes outstanding and the City has no present intention to issue revenue bond anticipation notes.

OTHER OUTSTANDING DEBT OBLIGATIONS

Short-Term Borrowings

Gas Works Notes. The City is authorized to issue, from time to time, bonds or notes (collectively, the "Gas Works Notes") pursuant to The City of Philadelphia Municipal Utility Inventory and Receivables Financing Act of the Commonwealth of Pennsylvania (the "Inventory and Receivables Financing Act") and the General Inventory and Receivables Gas Works Revenue Note Ordinance of 2005 (Bill No. 051138, approved December 22, 2005), as amended by an Ordinance (Bill No. 070047, duly adopted by City Council on March 1, 2007, and signed by the

Mayor on March 15, 2007) (the "Amendment") (collectively, the "Note Ordinance") in amounts, as approved by the Mayor, the City Controller and the City Solicitor or any two of them (the "Committee"), in a principal amount not to exceed, in the aggregate, \$200,000,000 at any one time outstanding. Such amount can, in the future, be increased or decreased by action of City Council. The proceeds of the Gas Works Notes may be used to finance or refund the costs of acquisition or funding of Inventory or Receivables (as such terms are defined in the Note Ordinance) of PGW or to refund Gas Works Notes. The Gas Works Notes are junior in priority of payment to the 1975 Ordinance Bonds and the Senior 1998 Ordinance Bonds and are on a parity with Subordinate 1998 Ordinance Bonds and payments due in respect of obligations on a parity with Subordinate 1998 Ordinance Bonds. The Note Ordinance provides that the final maturity date of Gas Works Notes shall be no later than the earlier of 270 days after their respective dates of issuance, 13 months from the date of initial issuance of any installment of any Gas Works Note under the Note Ordinance or August 31, 2010. As of June 30, 2009, there were no outstanding Gas Works Notes issued under the City's commercial paper program for PGW. Payment of the principal of and interest on all Gas Works Notes outstanding is secured by a letter of credit issued by JPMorgan Chase Bank, National Association, which expires on May 29, 2010. See APPENDIX B – "Independent Consultant's Engineering Report – Projected Revenue Requirements" and "– Adequacy of Projected Revenues to Meet Projected Revenue Requirements Under Ordinance Requirements."

The Note Ordinance requires establishment of a sinking fund for the benefit and security of the Holders of each series of the Gas Works Notes. The City covenants to deposit to the credit of the sinking fund for the Gas Works Notes from Gas Works Revenues such amounts as will, together with interest and profits earned and to be earned on investments held therein, be sufficient to pay, on or before each payment date of the Gas Works Notes, the amount required, after taking into account amounts paid from refunding Gas Works Notes and credit support instruments, to pay the Gas Works Notes then becoming due and payable.

Interfund Borrowing. It is PGW's practice to make interfund loans from various consolidated accounts of PGW for payment, as necessary, of PGW obligations, including debt service on bonds issued under the General Ordinances. PGW anticipates that it will reimburse such accounts as revenues are received by the end of each Fiscal Year during which such withdrawals were made.

City Loan

On November 27, 2000, the City and PGW, acting through PFMC, entered into a Loan Agreement pursuant to which the City agreed, subject to certain terms and conditions, to loan \$45,000,000 to PGW (the "City Loan"). The City Loan did not bear interest. Proceeds of the City Loan were deposited to the credit of a segregated account held by PGW and earnings on such account were transferred to the City. The City Loan was unsecured and was subordinated in priority of payment to the 1975 Ordinance Bonds, the Senior 1998 Ordinance Bonds, the Subordinated Bonds and the Gas Works Notes. On August 29, 2008 PGW satisfied the City Loan in full and the City Loan is no longer outstanding.

DEBT SERVICE SCHEDULE FOR ALL OBLIGATIONS

Fiscal Year Ending August 31	1975 Ordinance Bonds		1998 Ordinance Bonds		1998 Ordinance Bonds				1998 Ordinance Bonds			1975 & 1998 Ordinances		
	Existing Debt Service	Existing Debt	Principal Eighth Series A Bonds	Interest Eighth Series A Bonds	Principal Eighth Series B Bonds	Interest Eighth Series B Bonds ²	Principal Eighth Series C Bonds	Interest Eighth Series C Bonds ²	Principal Eighth Series D Bonds	Interest Eighth Series D Bonds ²	Principal Eighth Series E Bonds	Interest Eighth Series E Bonds ²	Total Debt Service	Combined Total Debt Service
2010	30,100,500	53,962,685	1,595,000	2,757,884.86		3,654,596.46	1,740,284.03	1,740,284.03		1,740,284.03	1,740,284.03	1,740,284.03	13,228,333.41	97,291,518.41
2011	30,690,793	51,690,655	1,635,000	2,847,750.00		3,858,225.00	1,837,250.00	1,837,250.00		1,837,250.00	1,837,250.00	1,837,250.00	13,852,725.00	96,234,173.00
2012	32,109,844	47,956,448	1,705,000	2,782,350.00		3,858,225.00	1,837,250.00	1,837,250.00		1,837,250.00	1,837,250.00	1,837,250.00	13,857,325.00	93,923,617.00
2013	30,520,781	43,435,275	5,315,000	2,697,100.00		3,858,225.00	1,837,250.00	1,837,250.00		1,837,250.00	1,837,250.00	1,837,250.00	17,382,075.00	91,338,131.00
2014	28,952,588	40,139,881	10,130,000	2,431,350.00		3,858,225.00	1,837,250.00	1,837,250.00		1,837,250.00	1,837,250.00	1,837,250.00	21,931,325.00	91,023,794.00
2015	27,261,263	37,422,594	13,770,000	1,924,850.00		3,858,225.00	1,837,250.00	1,837,250.00		1,837,250.00	1,837,250.00	1,837,250.00	25,064,825.00	89,748,682.00
2016	22,653,038	39,355,775	12,295,000	1,236,350.00		3,858,225.00	1,837,250.00	1,837,250.00		1,837,250.00	1,837,250.00	1,837,250.00	22,901,325.00	84,910,138.00
2017	21,125,125	38,611,025	11,840,000	621,600.00	705,000	3,858,225.00	335,000	1,837,250.00	335,000	1,837,250.00	1,824,940.42	1,837,250.00	23,541,575.00	83,277,725.00
2018	19,598,438	37,863,069			5,550,000	3,852,319.78	2,645,000	1,824,940.42	2,645,000	1,824,940.42	2,645,000	1,824,940.42	22,792,141.04	80,253,648.04
2019	18,069,869	37,121,031			6,070,000	3,628,385.02	2,895,000	1,727,749.90	2,895,000	1,727,749.90	2,895,000	1,727,749.90	23,566,634.72	78,757,534.72
2020	16,531,588	36,388,231			6,620,000	3,405,342.88	3,150,000	1,621,373.12	3,150,000	1,621,373.12	3,150,000	1,621,373.12	24,339,462.24	77,259,281.24
2021	15,006,281	35,638,888			7,185,000	3,162,090.98	3,420,000	1,505,626.38	3,420,000	1,505,626.38	3,420,000	1,505,626.38	25,123,970.12	75,769,139.12
2022	13,518,963	34,895,125			7,770,000	2,898,078.16	3,705,000	1,379,958.48	3,705,000	1,379,958.48	3,705,000	1,379,958.48	25,922,953.60	74,337,041.60
2023	12,733,125	34,154,875			8,390,000	2,612,569.50	3,990,000	1,243,818.26	3,990,000	1,243,818.26	3,990,000	1,243,818.26	26,704,024.28	73,592,024.28
2024	11,171,750	34,404,625			8,730,000	2,304,278.96	4,150,000	1,097,205.70	4,150,000	1,097,205.70	4,150,000	1,097,205.70	26,775,896.06	72,352,271.06
2025	4,159,000	33,714,875			9,395,000	1,983,495.10	4,475,000	944,713.96	4,475,000	944,713.96	4,475,000	944,713.96	27,637,636.98	65,511,511.98
2026	3,769,500	33,572,750			9,860,000	1,638,275.82	4,700,000	780,280.08	4,700,000	780,280.08	4,700,000	780,280.08	27,939,116.06	65,281,366.06
2027		31,666,125			11,065,000	1,275,970.12	5,265,000	607,578.58	5,265,000	607,578.58	5,265,000	607,578.58	29,958,705.86	61,624,830.86
2028		31,732,125			11,520,000	869,386.70	5,490,000	414,116.16	5,490,000	414,116.16	5,490,000	414,116.16	30,101,735.18	61,853,860.18
2029		31,830,500			5,670,000	446,084.30	2,700,000	212,386.10	2,700,000	212,386.10	2,700,000	212,386.10	14,853,242.60	46,683,742.60
2030		30,202,250			3,175,000	237,740.16	1,510,000	113,174.60	1,510,000	113,174.60	1,510,000	113,174.60	8,282,263.96	38,484,513.96
2031		30,198,625			3,295,000	121,074.78	1,570,000	57,689.66	1,570,000	57,689.66	1,570,000	57,689.66	8,299,143.76	38,497,768.76
2032		30,197,250											30,197,250.00	30,197,250.00
2033		21,800,125											21,800,125.00	21,800,125.00
2034		21,803,750											21,803,750.00	21,803,750.00
2035		43,121,375											43,121,375.00	43,121,375.00
2036		12,857,250											12,857,250.00	12,857,250.00
2037		12,855,250											12,855,250.00	12,855,250.00
2038		12,853,500											12,853,500.00	12,853,500.00
Total	337,972,446	981,465,932	58,285,000	17,299,234.86	105,000,000	59,077,263.72	50,000,000	28,131,645.43	50,000,000	28,131,645.43	50,000,000	28,131,645.43	474,056,434.87	1,793,494,812.87

¹ Net of Sixth Series Bonds

² Interest based on the Swap Agreement

REMEDIES OF BONDHOLDERS

Remedies under the Act and the 1975 General Ordinance available to Holders of the 1975 Ordinance Bonds and remedies under the Act and the 1998 General Ordinance available to Holders of 1998 Ordinance Bonds, including Holders of the Bonds, and to any trustee for Bondholders appointed by the Holders of 25% in principal amount of any series of bonds in default, are described in the summaries contained in APPENDIX D hereto. In addition to the remedies described therein, Bondholders or a trustee therefor are entitled under the Pennsylvania Uniform Commercial Code to all remedies of secured parties in respect of the Project Revenues or Gas Works Revenues (as the case may, be) and the funds on deposit in the respective Sinking Funds; including the respective Sinking Fund Reserves. The remedies of the Holders of 1998 Ordinance Bonds are subject to the prior lien of the Holders of 1975 Ordinance Bonds on Project Revenues. So long as DTC or its nominee is the Registered Owner, the remedies of Beneficial Owners are exercisable by means of written instructions given by them, as transmitted through the respective Participants, to DTC.

Limitation on Remedies of Bondholders

The ultimate enforcement of Bondholders' rights upon any default by the City in the performance of its obligations under the Act, the 1975 General Ordinance, the 1998 General Ordinance, the Ninth Supplemental Ordinance, the Bond Authorization and the Bonds will depend upon the application of remedies provided in the Act, the 1998 General Ordinance, the applicable Supplemental Ordinance and other applicable laws. Litigation may be necessary to obtain relief in accordance with these remedies. Such litigation may be protracted and costly. Remedies such as mandamus, specific performance or injunctive relief are equitable remedies that are subject to the discretion of the courts.

The following references to the United States Bankruptcy Code (the "Bankruptcy Code") and certain provisions of the Intergovernmental Cooperation Act (hereinafter defined) should not be construed as implying that the City has any expectation or plan to seek to invoke the provisions of such statutes or that if the City were to seek to invoke such provisions, that the consent of the Governor of Pennsylvania (the "Governor") would be obtained. Further, such references are not intended to imply that even if the City were to file for protection under the Bankruptcy Code, any proposed restructuring would include a dilution of the sources of payment of and security for the Bonds. The statutory provisions of the Bankruptcy Code pertaining to the City have not been subject to extensive interpretation by the courts and there can be no assurance that the following discussion accurately reflects the interpretation that a court might make.

Enforcement of Bondholders' rights may be limited by, and is subject to, the provisions of the Bankruptcy Code, as now or hereafter enacted, or to other laws or legal or equitable principles which may affect the enforcement of creditors' rights. The Intergovernmental Cooperation Authority Act for Cities of the First Class (53 P.S. § 12720.101 *et seq.*) (the "Intergovernmental Cooperation Act"), enacted in 1991, prohibits the City from filing a petition for relief under the Bankruptcy Code, 11 U.S.C. 901, *et seq.* ("Chapter 9"), as long as the authority created thereunder has outstanding any bonds issued pursuant to the Intergovernmental Cooperation Act. If no such bonds are outstanding, the Intergovernmental Cooperation Act requires written approval by the Governor of the City's petition and plan following a hearing, prior to a filing under Chapter 9 by the City. There are currently bonds outstanding that were issued under the Intergovernmental Cooperation Act, which bonds are scheduled to mature at various dates to and including the year 2023, subject to redemption prior to maturity. See "Background — The Pennsylvania Intergovernmental Cooperation Authority" in APPENDIX C. If the City were to obtain authorization from the Governor to file a petition under Chapter 9 of the Bankruptcy Code and in fact filed such a petition, the enforcement of Bondholders' rights and remedies might be limited.

The filing of a petition under Chapter 9 operates as an automatic stay of the commencement or continuation of any judicial or other proceeding against the debtor or its property. However, a petition filed under Chapter 9 does not operate as a stay of application of pledged special revenues to the payment of indebtedness secured by such revenues. Special revenues include receipts derived from the ownership or operation of systems that are used to provide utility services and the proceeds of borrowings to finance such systems and would include the pledged Project Revenues or Gas Works Revenues (as the case may be). The Bankruptcy Code further provides that special revenues acquired by the debtor after commencement of a Chapter 9 case shall remain subject to any lien resulting from any security agreement entered into by the debtor before the commencement. However, the lien on special

revenues derived from a system will be subject to the payment of the necessary operating expenses of that system. Therefore, Gas Works Revenues acquired by the City before and after the filing of a Chapter 9 petition will remain subject to the lien of the 1998 General Ordinance and the Ninth Supplemental Ordinance in favor of Holders of the Bonds, but will be subject to the payment of PGW's necessary operating expenses as determined by the City (and subject and subordinate to the pledge of Project Revenues under the 1975 General Ordinance for the security and payment of the 1975 Ordinance Bonds). These operating expense payments could be inconsistent with the requirement in the 1975 General Ordinance with respect to the 1975 Ordinance Bonds, that, under certain circumstances, at least 50% of the Project Revenues be deposited in the 1975 Ordinance Sinking Fund on a daily basis. If the pledged Project Revenues or Gas Works Revenues cannot support both the applicable debt service requirements and operating expenses of PGW, it is possible that payments to Holders of the Bonds may be reduced. The Bankruptcy Code also provides that a transfer of property of a debtor to or for the benefit of a bondholder, on account of such bond, may not be avoided as a preferential transfer.

Unless a debtor consents or the plan proposed under Chapter 9 provides, the bankruptcy court may not interfere with any of the property or revenues of a Chapter 9 debtor or with such debtor's use or enjoyment of any income producing property. Accordingly, if the City should decide to use the proceeds of the Bonds or the Project Revenues or the Gas Works Revenues (as the case may be) pledged for the benefit of the Bondholders other than to benefit the Gas Works, it is unclear whether a bankruptcy court would have the power to interfere with that decision. Even if a bankruptcy court had such power, the court, in the exercise of its equitable powers, could refuse to require the City to use the proceeds of the Bonds and the Project Revenues or the Gas Works Revenues (as the case may be) to pay Holders of the Bonds, could permit a subordination of the liens to new bonds if the former were found more than "adequately protected" or could avail itself of a broad range of equitable remedies.

Under the Bankruptcy Code, a debtor may file a plan for the adjustment of its debts which may include provisions modifying or altering the rights of creditors generally, or any class of them, secured or unsecured. The plan, when confirmed by the court, binds all creditors who had notice or knowledge of the case and discharges all claims against the debtor provided for in the plan, unless excepted from discharge by the plan. No plan may be confirmed unless certain conditions are met, among which are that the plan is in the best interests of creditors, is feasible and has been accepted by each class of claims impaired thereunder. Each class of claims has accepted the plan if the votes of at least two-thirds in dollar amount and more than one-half in number of the allowed claims of the class that are voted are cast in favor of the plan. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable and certain other tests are met. Thus, under the provisions of the Bankruptcy Code, a plan of adjustment could be imposed on the Bondholders that would give them less than their anticipated rate of interest on the Bonds or possibly even less than a full return of their principal and/or extend the time for payment of principal or interest on the Bonds.

PHILADELPHIA GAS WORKS

General

PGW consists of real and personal property owned by the City and used for the acquisition, manufacture, storage, processing and distribution of natural gas in the City, and all property, books and records employed and maintained in connection with the operation, maintenance and administration of PGW. Included among such assets, in addition to an extensive distribution system, are facilities for the liquefaction, storage and vaporization of natural gas to supplement the natural gas supply from pipeline transmission companies and facilities for storage. Such facilities include two liquefied natural gas ("LNG") plants.

Of total billed gas revenues for the twelve month period ended August 31, 2008, approximately 72% were derived from residential customers, approximately 25% were derived from commercial and industrial customers and approximately 3% were derived from municipal and housing authority customers.

For an explanation of revenues and expenses, see "PGW BUDGET, RATES AND FINANCES," "MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION" and APPENDIX B. See also the table entitled "Historical Revenues and Debt Service Coverage" below for future debt service payments.

PGW Service Area, Gas Sales, and Accounts Receivable

PGW, the nation’s largest municipally-owned gas utility, purchases, sells and distributes gas within the limits of the City. The City’s boundaries enclose an urbanized area of 129 square miles in southeastern Pennsylvania along the Delaware River. Within these boundaries, PGW maintains a distribution system with approximately 3,024 miles of gas mains and approximately 466,814 service lines serving slightly more than a half million customers. The mix of sales to PGW’s customers, net of transportation sales, during each of the five Fiscal Years ended August 31, is shown in the following table:

PERCENT OF GAS SALES FOR THE YEARS ENDED AUGUST 31*

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Residential	71.0	70.3	70.9	71.7	74.3
Commercial and Industrial	25.9	26.9	25.7	25.0	22.9
Municipal and Housing Authority	<u>3.1</u>	<u>2.8</u>	<u>3.4</u>	<u>3.3</u>	<u>2.8</u>
TOTAL	100.0	100.0	100.0	100.0	100.0

*This information was obtained from PGW’s historical records.

Five Year Summary of Gas Sales

Total gas sales for PGW are comprised of sales to firm and interruptible customers. Firm customers receive gas service under various schedules which anticipate no interruptions in the delivery of natural gas. Firm service is sold to residential, commercial, and industrial customers, the Philadelphia Housing Authority and the City depending on the type of service required and represented 96.2% of total gas sales by volume in Fiscal Year 2008. Interruptible sales service is offered to customers under schedules or contracts which anticipate and permit interruptions on short notice, generally in peak-load periods. Interruptible gas service is sold to high volume commercial and industrial customers and represented 3.8% of total gas sales in Fiscal Year 2008.

Gas Sales in Fiscal Year 2008 totaled 47.3 Bcf a reduction of 3.3 Bcf from the 2007 period. Temperatures during the 2008 heating season were warmer than normal and consistent with the prior year resulting in 3,746 degree days a decrease of 27 degree days or 0.7% less than experienced during the previous fiscal year. Sales to firm customers of 45.5 Bcf were 2.4 Bcf lower than in Fiscal Year 2007. Associated interruptible revenues decreased by 15.1% to \$26,679,000 reflecting a decrease of 0.9 Bcf in sales.

Gas Sales in Fiscal Year 2007 totaled 50.6 Bcf an increase of 1.9 Bcf from the 2006 period. Temperatures during the 2007 heating season were warmer than normal and slightly warmer than the prior year resulting in 3,773 degree days a decrease of 46 degree days or 1.2 % less than experienced the previous fiscal year. Sales to firm customers of 47.9 Bcf were 1.7 Bcf higher than in fiscal year 2006. Associated interruptible revenues decreased by 6.2% to \$31,439,000 reflecting a slight increase of 0.3 Bcf in sales.

Gas Sales in Fiscal Year 2006 totaled 48.7 Bcf, a reduction of 9.6 Bcf from the 2005 period. Temperatures during the 2006 heating season were warmer than normal and significantly warmer than the prior year resulting in 3,819 degree days, a decrease of 508 degree days or 11.7% less than experienced the previous fiscal year. Sales to firm customers of 46.2 Bcf were 7.6 Bcf less than in Fiscal Year 2005. Associated interruptible revenues decreased by 25.1% to \$33,509,000 reflecting a 2.1 Bcf or 46.2% decrease in sales.

Gas Sales in Fiscal Year 2005 totaled 58.3 Bcf, a reduction of 2.0 Bcf from the 2004 period. Temperatures during the 2005 heating season were warmer than normal but slightly colder than the prior year resulting in 4,327 degree days, an increase of 40 degree days or 1% greater than experienced in the previous fiscal period. Sales to firm customers of 53.8 Bcf were 2.4 Bcf less than in the Fiscal Year 2004. Associated interruptible revenues rose by 38.0% or \$12,274,000 to \$44,678,000 million reflecting a 0.4 Bcf or 9.9% increase in sales.

Gas Sales in Fiscal Year 2004 totaled 60.3 Bcf, a decline of 7.8 Bcf from the 2003 period. Temperatures during the 2004 heating season were warmer than normal and significantly warmer than the previous year resulting in 4,287 degree days, a reduction of 507 degree days or 10.6% less than experienced in the prior fiscal period. Sales to firm customers of 56.2 Bcf were 5.8 Bcf less than in the Fiscal Year 2003. Associated interruptible revenues decreased by 17.7% or \$6,986,000 to \$32,404,000 reflecting a 2.0 Bcf or 32.7% decline in sales.

Natural Gas

In Fiscal Year 2008 natural gas costs decreased by \$27,358,000 or 5.1% from the prior year to a level of \$511,938,000 million. Natural Gas utilization requirements declined by 4.6 Bcf reflecting a migration of gas sales customers towards transportation gas. The reduced natural gas utilized volume resulted in a \$37,641,000 decrease compared to the 2007 Fiscal Year. Natural gas prices increased slightly, resulting in an increase of \$13,502,000, 2.7% or 25 cents per Mcf. Pipeline demand charges increased \$6,793,000 compared to Fiscal Year 2007. Pipeline refunds increased \$10,012,000 in Fiscal Year 2008 compared to Fiscal Year 2007 as a result of a large one time pipeline settlement.

In Fiscal Year 2007 natural gas costs decreased by \$85,781,000 or 13.7% from the prior year to a level of \$539,296,000. Natural gas utilization requirements rose by 3.0 Bcf despite a heating season very similar to the prior fiscal year. The additional utilized volume resulted in a \$30,573,000 increase compared to the 2006 Fiscal Year. Natural gas prices fell resulting in decrease of \$117,227,000, 19.7% or \$2.02 per Mcf. Pipeline demand charges increased \$700,000 while natural gas refunds received from pipeline supplier settlements decreased \$200,000.

In Fiscal Year 2006 natural gas costs increased dramatically by \$115,375,000 or 22.6% from the prior year to a level of \$625,076,000. Gas utilization requirements declined by 9.9 Bcf reflecting a significantly warmer 2006 heating season, resulting in a \$66,072,000 decrease compared to the 2005 Fiscal Year. A significant rise in the cost of natural gas totaling \$195,578,000, 53.0% or \$3.55 per Mcf more than offset the reduced volume of gas utilized. Pipeline demand charges decreased by \$13,866,000. Pipeline refunds increased by \$200,000 from Fiscal Year 2005.

In Fiscal Year 2005, natural gas costs increased dramatically by \$58,833,000 or 13.0% from the prior year to a level of \$509,701,000. Sendout requirements declined by 3.6 Bcf reflecting continued customer conservation. The heating season was slightly colder than the Fiscal Year 2004 period, resulting in a \$20,211,000 decrease when compared to the 2004 Fiscal Year. Also, continued escalating prices for natural gas totaling \$73,347,000 per Mcf more than offset the lower volume of gas utilized for sendout. Pipeline demand charges increased by \$6,150,000, while the level of natural gas refunds received from pipeline supplier settlements rose by \$453,000 compared to the Fiscal Year 2004 period.

In Fiscal Year 2004, natural gas costs rose by \$23,436,000 or 5.5% from the previous year to a level of \$450,868,000. Sendout requirements declined by 7.4 Bcf, reflecting a warmer heating season compared to the much colder Fiscal Year 2003 winter period, resulting in a \$35,813,000 decrease compared to the 2003 Fiscal Year. In addition, a significant rise in the cost of natural gas totaling \$51,777,524, 15.7% or 75.5 cents per Mcf more than offset the reduced volume of gas utilized for sendout, while pipeline demand charges rose by \$1,915,000. The level of natural gas refunds received from pipeline supplier settlements declined to \$136,000, \$5,555,000 less than the prior year.

Accounts Receivable

Accounts receivable (net) of \$99,304,000 increased by \$10,686,000 or nearly 12.1% from August 31, 2007 to August 31, 2008, mainly due to firm transportation suppliers' billings and an increase in participation in the Customer Responsibility Program (CRP). The accumulated provision for uncollectible accounts totaling \$140,435,000 decreased by \$9,796,000 and should be satisfactory to cover uncollectible amounts in the estimated accounts receivable balance at August 31, 2008.

**ACCOUNTS RECEIVABLE, RESERVE FOR BAD DEBT EXPENSE; NET WRITE-OFF EXPENSES,
DELINQUENT CUSTOMERS AND REVENUE STATISTICS
(DOLLAR AMOUNTS IN THOUSANDS)**

FISCAL YEAR ENDED AUGUST 31

	Actual 2004	Actual 2005	Actual 2006	Actual 2007	Actual 2008
Billed Gas Revenues During the Year	\$786,406	\$846,729	\$899,174	\$868,586	\$842,287
Accounts Receivable	323,340	295,114	243,249	238,849	239,739
Reserve for Bad Debt	(230,216)	(207,480)	(168,889)	(150,231)	(140,435)
Net Accounts Receivable at 8/31	\$93,124	\$87,634	\$74,360	\$88,618	\$99,304
Reserve for Bad Debt as a Percentage of Accounts Receivable	71.2%	70.3%	69.4%	62.9%	58.6%
Net Write-Offs	\$69,332	\$93,160	\$78,732	\$58,658	\$46,796
Receivable as a Percentage of Billed Gas Revenues	41.1%	34.9%	27.1%	27.5%	28.5%
Bad Debt Expense:	\$71,000	\$70,424	\$40,132	\$40,000	\$37,000
As a Percentage of Billed Gas Revenues	9.0%	8.3%	4.5%	4.6%	4.4%
As a Percentage of Accounts Receivable	22.0%	23.9%	16.5%	16.7%	15.4%
Delinquent Customers at 8/31	167,576	165,479	162,202	149,721	147,010

PGW's most volatile and problematic expense item, outside of natural gas costs is bad debt expense and associated customer accounts receivable balances. Over the past five years, PGW has collected approximately 95% of annual customer billings. PGW's bad debt expense over the past five years has ranged from \$37,000,000 in Fiscal Year 2008 to \$71,000,000 in Fiscal Year 2004.

The substantial decreases over the five year period in bad debt expense were primarily due to the increased collection rate and timely write-off of accounts receivable balances. Enhancements and implementation of Act 201 changes to the billing system have given PGW full functionality to effectively manage its delinquent customer base.

PGW implemented a Collection Renewal Initiative ("CRI") in early Fiscal Year 2004. The CRI effort covers Customer Service operations involved in the collection of delinquent accounts receivable. The renewal effort is in response to increasing accounts receivable caused by higher natural gas prices during the winter heating seasons. Over the past two fiscal periods, PGW has increased its collection rate to 95.5 % in 2008 and 95.8% in 2007, respectively. With these collection initiatives in place, PGW believes that the worst of the billing related problems are in the past.

Management Agreement

PFMC has operated PGW pursuant to the Management Agreement since January 1, 1973. Under the Management Agreement, various aspects of PFMC's management of PGW are subject to review and approval by the Gas Commission and, where authorization of City Council is required, recommendation of the City's Director of Finance and/or the Gas Commission. The Gas Commission has various responsibilities for the oversight of the operations of PGW; the City's Director of Finance oversees certain financial practices of PGW; and the City's Law Department is the designated legal advisor to the Gas Commission and PGW. The Law Department has assigned the representation of PGW to the Office of General Counsel of PGW. See "CITY GOVERNMENTAL OVERSIGHT — Gas Commission" and "PGW BUDGET, RATES AND FINANCES" for discussions of the Gas Commission.

The term of the Management Agreement commenced on January 1, 1973 for a period of two years. In the absence of notice of cancellation, the term is automatically extended for additional two year periods. The term is subject to cancellation by the City at any time, or upon the expiration of the two-year period, upon ninety days notice. No cancellation will be effective unless and until approved by resolution or ordinance of City Council.

Management

Under the Management Agreement, PFMC is responsible for providing executive management of PGW. The Management Agreement states that PFMC shall provide a chief executive officer, chief operating officer, chief financial officer and other personnel as deemed appropriate by PFMC. Certain PFMC personnel provided to PGW, including the chief executive officer, chief operating officer and the chief financial officer, are subject to the approval of the Gas Commission. PFMC's officers also serve as officers of PGW.

The following are brief biographical descriptions of the current PFMC/PGW Senior Officers:

Thomas E. Knudsen, President and Chief Executive Officer. Mr. Knudsen joined PGW as Interim Chief Financial Officer in March 2000. He served in that capacity until July 2001 when he was appointed Interim President and Chief Executive Officer. Mr. Knudsen was appointed to his present position by PFMC in June 2002. Prior to joining PGW, Mr. Knudsen was the founding partner of The Woodside Group, a management consulting firm located in Stamford, Connecticut specializing in utility economics and regulation. For over 25 years, Mr. Knudsen advised industrial, commercial and residential customers and groups, as well as regulatory commissions, regarding appropriate utility operations, budgeting, pricing and rate design issues. Mr. Knudsen's involvement with PGW dates from 1986, having served as a consultant to the Public Advocate in all rate and budget proceedings of PGW before the Gas Commission from 1986 until 2000. His prior experience includes management consulting with Touche Ross & Co. (now Deloitte & Touche), as Assistant to the Finance Administrator of the City of New York and the United States Navy Supply Corp. Mr. Knudsen received his Masters of Business Administration degree in Finance from Columbia University in 1968 and a Bachelor of Arts degree in Economics from Northwestern University in 1964. He also serves on the Energy Association of Pennsylvania's Board of Directors and has recently been reappointed to the American Gas Association's Board of Directors.

Craig E. White, Executive Vice President and Acting Chief Operating Officer. Mr. White was appointed Acting Chief Operating Officer in July 2001. He is responsible for Field Operations, Customer Service, Sales and Marketing, Corporate Preparedness, Information Services, and Gas Management issues. His previous positions at PGW include: Senior Vice President, Marketing and Supply Services; Vice President, Marketing and New Business Development; Manager, Gas Planning & Federal Regulatory Affairs; Administrator, Federal Regulatory Affairs; Federal Regulatory Specialist; Planning Analyst; Demand Analyst; and Accounting Specialist. Mr. White received his Bachelor of Science degree in Business Administration from Kutztown University in Kutztown, Pennsylvania, and Master of Business Administration degree in Financial Management from Drexel University. Mr. White has been a member of PGW's management team since January 1980. He also serves on the following: American Public Gas Association's Board, the American Gas Association's Leadership Council and the Energy Association of Pennsylvania's Executive Gas Board.

Joseph R. Bogdonavage, Senior Vice President – Finance. Mr. Bogdonavage was appointed Senior Vice President, Finance in November 2000. His responsibilities include the oversight of PGW's Operating & Capital Budget, Accounting & Reporting, and Treasury functions. Mr. Bogdonavage has over 36 years of diverse experience in the finance area of PGW. He previously held the positions of Director, Budget & Financial Forecasting; Manager, Budget & Financial Forecasting; Supervisor, Budget & Financial Forecasting; Accounting Assistant Supervisor; and Budget Analyst. Mr. Bogdonavage is a member of the American Gas Association's Financial and Administrative Committee and the Energy Association of Pennsylvania's Finance Committee. Mr. Bogdonavage received his Bachelor of Business Administration in Accounting in 1972 from Temple University.

Randall J. Gyory, Senior Vice President – Operations & Customer Affairs. Mr. Gyory was appointed Senior Vice President of Operations and Customer Affairs in August 2007. His responsibilities include overseeing the Distribution and Field Services Operations, Call Center Operations, Credit and Collections, Regulatory Compliance, Account Management, Bill Processing, Universal Service Programs, Customer Service Center Operations, Billing System operations and support. Prior to his current position, Mr. Gyory served as Vice President

of Customer Affairs. He also managed PGW's Program Management Office and led a team of functional and business analysts in correcting and improving the billing system software issues associated with the transition from their legacy billing system to a client server system. In his twenty-nine years of experience at PGW, Mr. Gyory has spent the majority of his career in the Distribution Department where he held several positions in Maintenance, Construction and Engineering. Mr. Gyory received a Bachelor of Science degree in civil engineering from the University of Pittsburgh.

Thomas L. Kuczynski, Senior Vice President – Office of Business Transformation & Information Services.

Mr. Kuczynski was appointed Senior Vice President of Business Transformation and Information Services in August 2007. Mr. Kuczynski rejoined PGW in February 2004 as Vice President - Information Services & CIO. He has over 30 years of experience in Information Technology including 18 years of prior experience at PGW. In his present position, Mr. Kuczynski is responsible for all aspects of the Office of Business Transformation and Information Services. He previously held the position of Director of Technology Strategic Planning for PG&E's National Energy Group ("NEG"). In this role, he was responsible for new technology research and development, strategy and architecture, business continuity planning, disaster recovery and security. Prior to joining NEG, Mr. Kuczynski spent one year at Delmarva Power where he provided IT Strategic Planning Services to the Energy Supply Group. Before Delmarva, Mr. Kuczynski spent 18 years at PGW where he led development efforts for PGW's customer information system, credit and collection, automated meter reading and distribution leak tracking. In 1993 Mr. Kuczynski was recognized by the American Gas Association with the Distribution Achievement Award for his efforts in designing and building PGW's first mobile field service system. Mr. Kuczynski is a graduate of La Salle College in Philadelphia, and the Executive MBA program at University of Maryland University College.

Abby L. Pozefsky, Esq., Senior Vice President – Administration and General Counsel.

Ms. Pozefsky was appointed Senior Vice President and General Counsel in July 1998, and Senior Vice President, Administration and General Counsel in 2005. She manages the Human Resources, Organizational Development, Risk Management, Technical Compliance and Legal Departments. Ms. Pozefsky previously held the position of Chief Deputy City Solicitor of Regulatory Affairs for the City of Philadelphia Law Department, where she was also General Counsel for the Philadelphia Water Department and Airport. Having been licensed in four states, Ms. Pozefsky practiced law with a private law firm, a community legal services organization, and a state attorney general's office, and has taught on a university level. Ms. Pozefsky received her Bachelor of Arts degree from the University of Pennsylvania cum laude and a Juris Doctor degree from New York University Law School.

Cristina Coltro, Vice President – Customer Affairs.

Ms. Coltro was appointed Vice President of Customer Affairs in 2007. Her responsibilities include overseeing the Call Center Operations, Credit and Collections, Regulatory Compliance, Commercial Resource Center, Account Management, Bill Processing, and Customer Service Center Operations. Prior to her current position, Ms. Coltro served as the Director of Regulatory Compliance, responsible for the Universal Services programs, Customer Review Unit, Dispute Resolution Unit, Program Management Office and Training Department. Ms. Coltro received her Bachelor of Science degree in Economics from Hunter College, New York, and a Master of Science degree in Energy and Environmental Management and Policy from the University of Pennsylvania. She also serves on the Utility Emergency Service funds (UESF) Board of Directors, and is a member of the Energy Association of Pennsylvania and the American Gas Association Customer Services committees.

Raquel N. Guzman, Esq., Vice President – Legal and Associate General Counsel.

Ms. Guzman was appointed Vice President - Legal in August 2005 and Associate General Counsel in 2003. She, together with the General Counsel and Assistant General Counsel, is responsible for PGW's Legal Department. Prior to joining PGW's legal staff, Ms. Guzman was a Deputy City Solicitor for Regulatory Affairs for the City of Philadelphia and also practiced at a major Philadelphia law firm in its real estate department. She holds a Juris Doctor degree from the University of Pennsylvania Law School and an undergraduate degree from Harvard College.

Michael W. Handwerk, Vice President – Technical Compliance.

Mr. Handwerk was appointed Vice President of Technical Compliance in September 2005. In this capacity, he is responsible for services to Operations involving regulatory compliance, chemical laboratory analyses and environmental related activities, as well as development and implementation of operational changes and best practices. Mr. Handwerk's previous position was Director, Operations Compliance & Technical Services. He has been with PGW since 1979. Mr. Handwerk is a

member of the American Gas Association's Operations Safety Regulatory Action Committee (OSRAC) and the American Public Gas Association's Operations Committee. He is also a member of the Energy Association of Pennsylvania's Gas Transmission and Distribution Committee, and the American Chemical Society. Mr. Handwerk has a B.S. degree in Chemistry from Elizabethtown College, a B.A. degree in Corporate Management from Ursinus College, and a M.B.A. in Financial Management from Saint Joseph's University.

Steven P. Hershey, Vice President – Regulatory & External Affairs. Mr. Hershey joined PGW as Vice President, Community Initiatives in January 2004 and was appointed Vice President – Regulatory & External Affairs in January 2006. In his current position, Mr. Hershey's primary responsibility is working with the President and CEO and senior management regarding certain regulatory and stakeholder matters and developing initiatives to enhance PGW's regulatory and legislative goals as well as improving PGW's relationship with various stakeholders, including customers. Prior to joining PGW, Mr. Hershey was a partner in the law firm of Eckert, Seamans, Cherin & Mellott, LLC of Philadelphia, Pennsylvania. He represented clients in matters involving energy, telecommunications, and utility policy, implementation of competition, rate setting, conservation, customer service and economics. Prior to becoming a partner at Eckert, Seamans, Cherin & Mellott, LLC, Mr. Hershey was a Supervising Attorney for Community Legal Services of Philadelphia, Pennsylvania. While at CLS, Mr. Hershey served as Lead Attorney for the Public Advocate, representing the interests of residential customers of Philadelphia utilities from 1985 to 1998. Mr. Hershey's involvement with PGW dates back to approximately 1977 when he began representing PGW's residential customers. Mr. Hershey has more than 30 years of experience in the utility and energy field, including the practice of law. Mr. Hershey holds a B.A. degree from Hamilton College and a Juris Doctor degree from Georgetown University Law Center.

Paul A. Mondimore, Vice President – Field Operations. Mr. Mondimore was appointed Vice President, Field Operations in October 2002. He is responsible for PGW's Distribution and Field Services Departments. He previously held many positions at PGW in the Distribution Department since commencing employment in June 1981 including: Director, Distribution Department; Project Manager, Mobile Dispatch Project; General Supervisor; and Supervisor. Mr. Mondimore received his Bachelor of Science degree in Civil Engineering from Drexel University. He has been a member of the American Gas Association, AGA Best Practices Group and the Energy Association of Pennsylvania.

Douglas A. Moser, Vice President – Gas Management. Mr. Moser was appointed Vice President, Gas Management in October 2002. He is responsible for PGW's Gas Processing; Gas Supply, Transportation & Control; Gas Planning, Rates & Federal Regulatory; and Engineering & Facilities Departments. Since commencing employment in September 1979 at PGW, he has held the following positions: Senior Project Manager in the Strategic Planning Department; Manager, Gas Control and Manager, Gas Acquisition in the Gas Supply Department; and Engineering Assistant, Production Engineer, Supervisor, Gas Conditioning, and Operations Engineer in the Gas Processing Department. Mr. Moser received his Bachelor of Science degree in Chemical Engineering from Pennsylvania State University and his Master in Business Administration degree from Widener University.

Jo Ann Muniz, Vice President – Supply Chain. Ms. Muniz was appointed Vice President of Supply Chain in August 2007. She is responsible for PGW's Fleet Operations, Procurement and Materials Management Departments. Since commencing employment in July 1980 as an Engineering Assistant in Gas Supply, she has held many positions at PGW including: Fleet Engineer in Fleet Operations; Staff Engineer in the Engineering Department; and Internships in Field Services and Customer Affairs; Co-Project Manager of the Work Management and Mobile Project Team; Project Manager of Customer Service Training and Process Development; Director, Procurement and Contract Services and Director, Fleet Operations and Materials Management. She most recently held the position of Director, Support Services. She serves as Chair of the Energy Association of Pennsylvania's Materials and Procurement Management Committee. She holds a B.S. in Mechanical Engineering from Temple University and a M.S. in Electrical Engineering from Pennsylvania State University.

William C. Muntzer, Vice President – Human Resources. Mr. Muntzer was appointed Vice President, Human Resources in August 2008. Mr. Muntzer oversees the administration function of Human Resources and Labor Relations. He has approximately 27 years experience of utility management in Philadelphia, Pennsylvania. Areas of responsibility include project management, local, state and federal regulatory work, advocacy, information technology, planning, rate design, marketing and utility operations. Mr. Muntzer also has experience in the

manufacturing sector: responsibilities included inventory control, planning, production scheduling and shipping. Recent accomplishments include several major utility initiatives including the implementation of the Pennsylvania Gas Choice Initiative, replacement of a city wide dispatching system for over 400 field employees, the refurbishment of a large meter testing facility, and oversight of a Management Audit conducted on behalf of the Pennsylvania Public Utility Commission. Mr. Muntzer earned his undergraduate and graduate degrees at LaSalle University's Business School.

Joseph A. Smith, Vice President – Marketing & Sales. Mr. Smith was appointed Vice President, Marketing & Sales in May 2005. Mr. Smith oversees the operations of Major Accounts, Sales and Customer Support and Business Development/Technical Services. He previously held the position of Director, Major Accounts; Manager, Major Accounts as well as other positions within the Marketing Department. In addition, he has held several positions in PGW's Field Operations Department. Mr. Smith received his Bachelors Degree in Business Administration in 2004. Mr. Smith has served as the President of the Association of Energy Engineers (AEE), in which he now serves as a Board member. He is currently a member of the American Public Gas Association's Marketing Committee and the American Society of Heating, Refrigeration and Air Conditioning Engineers (ASHRAE).

John P. Straub, Vice President – Corporate Preparedness. Mr. Straub was appointed Vice President of Corporate Preparedness (formerly known as Labor, Safety and Preparedness) in April 2003. He is responsible for matters including Safety, Security, Policies & Procedures, Business Continuity & Disaster Planning, and Occupational Health & Safety. Mr. Straub previously held the position of Vice President – Human Resources Department. Before coming to PGW in January 1999, Mr. Straub headed the Special Litigation Group for the City of Philadelphia's Law Department where he was responsible for the management and supervision of all employment law related matters and litigation involving the City of Philadelphia. Mr. Straub also previously worked as an Assistant District Attorney for the Philadelphia District Attorney's office. He holds a Juris Doctor degree from Temple University School of Law and is a graduate of Villanova University.

Lorraine S. Webb, Vice President - Organizational Development. Ms. Webb was appointed Vice President of Organizational Development in May 2005. She is responsible for Staffing, Performance Management, Succession Planning, EEO, Affirmative Action, Training and Development and the Leadership Development program. Ms. Webb previously held the position of Director of Strategic Planning and prior to that Director of Human Resources for PGW. Before joining PGW, Ms. Webb held various positions in the field of human resources. Previous positions included Manager of Human Resources, Affirmative Action Officer for Ciba Geigy (now Novartis), as well as Senior Career Transition Counselor for the Ayers Group of New York. Ms. Webb holds a B.A. degree from State University of New York-Binghamton. She is a member of SHRM.

Eloise N. Young, Vice President – Information Services & Chief Information Officer. Ms. Young was appointed Chief Information Officer of the Philadelphia Gas Works in August 2007. As CIO, Ms. Young is responsible for delivering information technology capabilities to PGW. Prior to this appointment, Ms. Young served in a number of positions in PGW's Information Services Department including Director of Technical Strategy and Support, Manager of Systems Services, System Administrator in both the Unix and CICS environments, DBA, and applications developer. Ms. Young received a Bachelor of Science degree in Information Technology from the University of Phoenix in 2003.

Joseph F. Golden, Jr., Controller. Mr. Golden was appointed Controller in March 2001. He is responsible for the treasury and accounting functions at PGW. Prior titles held by Mr. Golden at PGW include: Treasurer; Manager - Treasury Department; Senior Staff Accountant; and Staff Accountant. Mr. Golden started his career with PGW in August of 1986. Mr. Golden has prior work experience in public accounting, treasury accounting and cash management, and manufacturing. Mr. Golden holds a Bachelor of Science degree in Accounting from Villanova University, a Master of Business Administration degree from Drexel University, and a Juris Doctor degree, cum laude, from Temple University School of Law.

Management and Governance of the Gas Works

Thomas E. Knudsen was appointed as President and Chief Executive Officer in 2002. PGW's permanent management organization is outlined in the Independent Consultant's Engineering Report attached hereto as

APPENDIX B. Governance includes (i) ownership of PGW property and establishment of legislation for the functioning of PGW by the City; (ii) approval by City Council of capital budgets and certain gas supply contracts for PGW; (iii) review and approval by the Gas Commission of personnel provided by PFMC and operating budgets, and recommendation by the Gas Commission to City Council of certain gas supply contracts, real estate matters and capital budgets; and (iv) provisions of executive management functions and directions for operation of PGW facilities by PFMC. PGW personnel are responsible for the day to day management of the construction, operation and maintenance of the gas system. Any changes in governance of PGW must be made pursuant to ordinances adopted by City Council.

Labor Relations

As of March 2009, PGW employed 1,718 people. Presently, approximately 71% of PGW's employees are represented by the Gas Works Employees' Union Local 686 ("Local 686"). Local 686 transferred affiliation from the Service Employees International Union ("SEIU") to the Utility Workers Union of America ("UWUA") in 2003. On October 17, 2006, a new two-year Collective Bargaining Agreement was ratified by the Gas Works Employees' Union, Local 686 and the UWUA. The two-year extension went into effect on May 19, 2008 and will be valid through May 15, 2010. The Collective Bargaining Agreement includes an incremental wage increase of 3.5% in May 2009.

Facilities

Gas Facilities. The principal PGW gas facilities include plants for the liquefaction, storage and/or vaporization of natural gas in the Richmond and Passyunk sections of the City. Located at these plants are two LNG facilities, a deactivated propane/air facility and two gas holders, one of which has been removed from service.

Gate Stations. Natural gas is received through nine city gate stations from two pipeline transmission companies, Spectra Energy ("Spectra") and Transcontinental Gas Pipe Line Corporation. The facilities at each of the city gate stations perform two basic functions, metering the flow of gas and controlling the pressure delivered to PGW's distribution system. Dispatchers at the gas control center, located at PGW's operating offices at 1800 N. 9th Street, Philadelphia, monitor and control gas flow and pressure from the nine city gate stations to the high pressure distribution system. The gas control dispatchers also provide direction to the LNG production plant operators concerning startup, shutdown and gas flow output from the LNG facilities. Operations are facilitated through the use of a computer system which includes a backup unit and an auxiliary power supply.

Propane/Air Facility. The propane/air facility exists at the Passyunk location only. This facility has been idle since 1994 due to PGW removing this capacity from service. Its use is not anticipated in the current six-year gas supply projection.

Gas Holder Storage Facilities. The Richmond Plant has a low pressure gas holder. The Passyunk Plant holder has been removed from service. The Richmond holder has an operating capacity of 1,000 Mcf. It was installed in the manufactured gas era and is in working order. It is used to enhance operational flexibility of the Richmond LNG Plant.

LNG Facilities. There are two LNG facilities, the Richmond Plant and the Passyunk Plant. The smaller LNG storage and vaporization facility at the Passyunk Plant receives its liquefied gas supply from the larger Richmond Plant via cryogenic trailer trucks. The Passyunk LNG facility consists of one LNG storage tank of 3,066,000 gallons gross capacity (i.e., the equivalent of 253,300 thousand cubic feet ("Mcf") of natural gas) and two LNG vaporizers, each having a capacity of 45,000 Mcf per day resulting in 45,000 Mcf per day planned capacity and 45,000 Mcf per day reserve.

The Richmond LNG plant is one of the largest liquefaction facilities in the United States and also includes storage and vaporization facilities. A new liquefaction facility was completed and tested in March 2005, which replaced the original modified liquefaction facility which was subsequently moth balled. The new facility utilizes an open expander loop technology. It has a daily liquefaction capacity of 16,000 to 18,000 Mcf per day. This technology utilizes energy from the high transmission delivery pressure of the interstate pipeline system throughput

to run the expander/compressors, significantly reducing fuel requirements. In addition, these facilities have the capability to liquefy natural gas year round providing greater operational flexibility. Further, this technology utilizes significantly fewer components than the older modified cascade facility and should result in lower operation and maintenance costs. The maximum capacity of the liquefaction facilities of 18,000 Mcf per day will not be available at all times during the summer months because the demand on the PGW system is not sufficient to create the throughput necessary to run at this capacity.

The vaporization and storage facilities at the Richmond Plant are not affected by the new liquefaction facilities. The two storage tanks at the Richmond Plant have a combined gross capacity of 48,970,000 gallons of LNG (4,045,800 Mcf). Regasification of the liquid natural gas is accomplished with six vaporizers having a total output of 411,000 Mcf per day plus 100,000 Mcf per day in reserve. The Richmond Plant also has facilities to receive LNG from and deliver LNG to cryogenic trailer trucks.

Distribution Facilities. The principal gas distribution facilities consist of approximately 3,024 miles of main, 466,814 service lines, 208 regulator stations, approximately 563,287 meters (of which approximately 519,890 are active) and miscellaneous valves, instruments and other appurtenances. PGW operates five different operating pressure systems; each system is connected to the others by control regulators. The high-pressure systems operate at approximately 110, 60 and 35 pounds per square inch gauge (psig); the intermediate pressure system operates at 5 psig; the low-pressure system operates between 6 and 9 inches of water column (approximately 0.25 pounds per square inch). The majority of customers are served from the low-pressure system.

Approximately 53% (by length) of the gas mains are cast iron, 33% are steel, 4% are ductile iron, and 10% are plastic. Of the steel mains, approximately 49% are wrapped, coated, and cathodically protected. Approximately 35% of the service lines are steel (of which 13% are protected) and 64% are plastic.

Other Facilities. PGW has its executive and operating offices located at 800 West Montgomery Avenue, which is a 150,000 square foot office building constructed in 1988. The former general office building, located at 1800 N. 9th Street, houses administrative operations in addition to distribution and field service dispatch centers, gas control dispatching, a customer information center, operating stations, a post office, duplicating center, radio repair shop, training facilities, parking facilities, telecommunication and warehousing, as well as information systems center and a metal fabrication shop. Additional facilities include six district offices, the Tioga station for Distribution crews, two LNG plants, and three operating stations for field service crews. There are also five other warehousing facilities, a meter shop, and an automotive maintenance and repair facility. The automotive maintenance and repair facility is responsible for the upkeep of PGW's fleet of approximately 694 vehicles 100 portable compressors and 42 trailers. PGW also maintains three minor automobile repair facilities, bulk fuel dispensing equipment, and materials and supplies.

Environmental Matters

PGW's operations and facilities are subject to federal, state and local environmental requirements, including the need to obtain certain permits and approvals. Because these requirements are subject to change, additional or different requirements may be imposed upon PGW in the future. No assurances can be given that PGW would be able to fully comply with any such change or requirement, or that compliance with such requirements would not materially increase PGW's capital or operating costs, or have a material adverse effect on Gas Works Revenues.

Like many providers of utility services throughout the northeastern United States, PGW has been in operation for more than 168 years, and many of its facilities were built decades ago. As a result of preliminary internal environmental evaluations of its facilities, PGW believes that several PGW facilities, which had been used in gas manufacturing, contain contaminants from those operations or from other sources. Additionally, certain equipment and fixtures that PGW removed from service years ago may no longer comply with current environmental requirements. In order to address these issues, PGW and the City voluntarily approached the Pennsylvania Department of Environmental Protection ("PADEP") and proposed to resolve these issues under PADEP's Land Recycling and Environmental Remediation Standards (Act 2).

PGW has determined the extent to which it is necessary to remediate environmental conditions impacting its facilities through environmental site assessment studies that were conducted by an environmental consulting firm (the "Firm") on relevant properties in 2002, 2003 and 2004. In 2004, PGW received a set of five remedial investigation reports by the Firm that were based upon the findings of the environmental site assessment studies. Based on the reports developed by the Firm, PGW submitted Notice of Intent to Remediation ("NIR") Forms with copies of the five Firm reports to the PADEP for review at the end of 2004. In early 2005, PGW conducted a series of public meetings to inform the public of PGW's upcoming remediation projects, and also to address any specific concerns raised by local residents regarding PGW's future remediation plans.

PGW has developed a project schedule and budget to address and conduct any necessary remedial work for impacted PGW properties over the next five years. PGW expects that this will provide PGW with allocated resources in a manner calculated to avoid any material adverse effect on PGW or on PGW's revenues. Nevertheless, until the Project schedule work plans are finalized with the PADEP, it is not possible to determine with quantifiable certainty what the costs of several remediation projects will be. Preliminary indications are that PGW expenditures are estimated to be \$10,828,000 over the next six years. These estimates, which were calculated in accordance with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, may be subject to substantial revision. PGW has recorded a total environmental remediation liability of \$24,043,000 through FY 2040 at the end of fiscal year 2008 for these and all known estimated future environmental costs in accordance with GASB 49. The majority of these expenses are expected to be covered by amounts generated from settlements of PGW's environmental insurance policies.

Gas Supply and Federal Regulation

In 1992, the Federal Energy Regulatory Commission ("FERC") issued Order 636 which restructured the interstate pipeline industry to provide non-discriminatory, open-access to all transporters. All interstate pipelines regulated by the FERC were required to exit the gas supply business as a result of Order 636. The interstate pipelines were historically permitted by the FERC to pass through, on a dollar-for-dollar basis, all of their gas supply costs to the pipelines' customers. Therefore, the revenues of the pipelines pledged to their bonds remained unchanged by Order 636 simply because of the historical pass-through nature of the pipelines' gas supply costs.

In the restructured, unbundled marketplace resulting from Order 636, PGW had to contract individually for its gas supply, storage and transportation requirements on the pipelines. PGW now has in place firm year round and seasonal contracts for natural gas supply for its firm requirements. Further, PGW has contracted for natural gas storage services with four different pipelines operating storage facilities. This permits, among other things, the injection of summer supply and its storage and subsequent withdrawal to meet higher winter demands of its firm heating customers. Finally, PGW has contracted for firm transportation service with the two directly connected pipelines, as well as with the necessary upstream pipelines feeding these pipelines, to deliver all volumes purchased, together with those volumes withdrawn from storage.

The two interstate pipelines delivering natural gas to PGW have limited delivery capacity and cannot meet PGW's peak-day or winter season requirements. Therefore, PGW owns and operates supplemental LNG facilities to meet incremental demand in excess of flowing gas and underground storage supplies. PGW's supplies of natural gas and LNG are adequate to meet its projected demand under either normal or design (colder than normal) conditions in the future.

Competition

PGW is subject to the Natural Gas Choice and Competition Act No. 1999-21, PL. 122, 66 Pa. C.S. Section 2201 et seq. (the "Gas Choice Act"). Pursuant to the Gas Choice Act, customers have the option of choice among natural gas suppliers on and after September 1, 2003. See the section below titled "EFFECTS OF NATURAL GAS CHOICE AND COMPETITION ACT" for a full discussion of the Gas Choice Act's impact on competition. PGW competes to supply natural gas to interruptible customers who are capable of switching to alternative fuels, including fuel oil, steam, propane and electricity. PGW also competes to supply natural gas to transportation customers who might seek to buy gas from a competitive natural gas supplier and use PGW's distribution system for transportation of that gas. PGW has negotiated contracts with such customers. In addition, PGW's rate schedules offer gas transportation service, on both a firm and interruptible basis, to potential customers.

PGW also has Boiler and Power Plant Services ("BPS") and Load Balancing Service ("LBS") interruptible sales rates that permit discounts to compete with alternative fuels, provided that the rate per Mcf is not less than 110% of the monthly weighted average gas costs for gas sold under these rate schedules.

Insurance

PGW 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, PGW purchases insurance coverage where appropriate. PGW's real and personal property is insured against the risk of loss or damage in the amount of \$250,000,000, subject to a \$500,000 per accident deductible at the Richmond and Passyunk Plants and a \$100,000 deductible per accident at all other locations. PGW's property insurance includes coverage for damages incurred from a terrorist attack. In addition, PGW maintains boiler and machinery, blanket crime, and other forms of property insurance.

PGW maintains \$210,000,000 in liability (including terrorism) coverage insuring against the risk of damage or injury to the public with a \$1,000,000 deductible per occurrence.

PGW is a qualified self insured employer in the Commonwealth of Pennsylvania for workers' compensation. In addition, PGW maintains excess workers' compensation liability coverage up to \$35,000,000 with a \$500,000 per occurrence retention. Above that is another layer of coverage for statutory limits which means that regardless of the size of the loss, the policy will pay whatever PGW must pay. The excess liability coverage described above applies after the \$500,000 retention is exhausted. PGW is also qualified to self-insure its automobile liability in the Commonwealth.

PGW maintains Public Officials (Directors and Officers) liability coverage with a \$10,000,000 annual aggregate limit and a \$500,000 retention.

Pension Plan and Other Postemployment Benefits

Pension Plan. PGW maintains a noncontributory pension plan (the "Pension Plan") covering all eligible employees, which provides certain retirement benefits at age 65, or earlier in certain situations, and certain death and disability benefits. The Pension Plan currently has an unfunded actuarial accrued liability. In recent years, payments to beneficiaries under the Pension Plan have exceeded PGW's annual required pension contribution. The annual required contribution is determined using the most recent actuarial study of the Pension Plan. Based on the actuarial valuation completed in April, 2008, the Pension Plan had an estimated unfunded actuarial accrued liability of \$64.8 million at the end of Fiscal Year 2008. The unfunded actuarial accrued liability is presently being amortized over 20 years. In Fiscal Year 2008, PGW's annual required contribution to the Pension Plan was \$14.2 million, such contribution consisted of \$8.0 million of normal cost and \$6.2 million representing partial amortization of the unfunded balance of the Pension Plan assets. PGW's annual required contribution for Fiscal Year 2009 is projected to be and budgeted at \$14.4 million (consisting of \$8.1 million of normal cost and \$6.3 million representing partial amortization of the unfunded balance of Pension Plan assets). See APPENDIX A – "Notes to Financial Statements (10) Pension Costs."

Other Postemployment Benefits. PGW provides certain post-employment health care and life insurance benefits to approximately 1,920 and 1,935 participating retirees and their beneficiaries and dependents, respectively. PGW pays up to 100% of premiums for medical, hospital and prescription drug coverage for retirees and their participating dependents. PGW also pays a portion of the premiums for life insurance for each eligible retiree. Currently, PGW provides for the cost of health care and life insurance benefits for retirees and their beneficiaries and dependents on a pay-as-you-go basis. In Fiscal Year 2008, expenditures for such purposes were approximately \$18.3 million and are projected to be approximately \$20.9 million in Fiscal Year 2009.

PGW adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45 (GASB 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, as of September 1, 2006 and had a zero net Other Postemployment Benefits (OPEB) obligation at transition. PGW adopted the provisions of GASB 45 a year earlier than required by GASB because PGW is a component unit of the

City of Philadelphia for financial reporting purposes, and its fiscal year 2007 financial statements were consolidated into the City's financial statements for the fiscal year ended June 30, 2008. The difference between the fiscal year 2008 annual required contribution (ARC) of \$44.1 million and the expenses paid by the company of \$18.3 million resulted in an additional liability of \$25.8 million, bringing the cumulative OPEB liability at the end of fiscal year 2008 to \$52.2 million, which is recorded in other liabilities and deferred credits.

PGW engaged actuarial consultants to provide an actuarial valuation of PGW's other postemployment benefits ("OPEB") obligations for current retirees and active employees as of August 31, 2007. The report, issued in September 2007, estimated that PGW's total OPEB actuarial accrued liability as of August 31, 2008 was \$591,599,000 (assuming a 5% discount rate) if PGW continued to provide for its OPEB obligations on a pay-as-you-go basis. The report further estimated that PGW's actuarial accrued liability would be reduced to \$380,000,000 (assuming an 8.25% discount rate) if PGW adopted a policy of funding its Annual Required Contribution ("ARC"). Based on these estimates, PGW's annual OPEB cost for the then current and estimated future retirees (taking into consideration projected increases in health care costs) was projected to increase from \$46,291,000 in 2008 (inclusive of the \$22,350,000 actually paid) to \$70,210,000 per annum over the ensuing approximate 18-year period on a pay-as-you-go basis and from \$39,000,000 (inclusive of the \$22,350,000 actually paid) in 2008 to \$49,767,000 per annum over the ensuing approximate 18-year period if PGW adopted a policy of funding its ARC based on a 20-year amortization of the unfunded actuarial accrued liability.

Litigation

In the ordinary course of their business operations, PGW and/or PFMC are from time to time sued or threatened with litigation. Most frequently such litigation alleges property damage or personal injury to third parties. However, other forms of litigation also arise from time to time. PGW is aware of no litigation pending or threatened in which a final adverse determination, singly or in the aggregate, would have a material adverse effect on PGW's operations or financial condition. PGW believes it has set aside sufficient reserves to meet liabilities arising out of litigation to the extent not covered by insurance. See "PHILADELPHIA GAS WORKS — Litigation Relating to the Gas Choice Act" below.

Effects of the Natural Gas Choice and Competition Act

In June 1999, the Legislature enacted and the Governor signed the Gas Choice Act, which amended the Public Utility Code by providing for the implementation of choice of suppliers of natural gas for all retail customers of gas distribution companies. The Gas Choice Act requires each natural gas utility under Pennsylvania Public Utility Commission ("PUC") jurisdiction (including PGW) to "unbundle" and establish separate charges for natural gas supply services and natural gas distribution services. It provided that each natural gas distribution utility will file a restructuring proceeding with the PUC and, in the context of that proceeding, the utility's tariff has been revised to reflect the unbundling referred to above and to implement customer choice. In addition, the Gas Choice Act provided that PGW be subject to regulation by the PUC effective July 1, 2000, and directed that PGW file for restructuring of the rates. PGW filed for restructuring on July 1, 2002. Most issues related to restructuring proceeding were resolved by September 1, 2003, and PGW customers have had the option of choice among natural gas suppliers effective September 1, 2003 as explained above in the section titled "PHILADELPHIA GAS WORKS — Competition." PGW will continue to be the supplier of last resort for retail customers who do not choose another gas supplier in most instances, unless, upon petition of PGW, the PUC approves an alternative supplier of last resort or, after July 1, 2004, the PUC approves a petition from a party to serve in that capacity for certain groups of customers. As of May 1, 2009, no party has petitioned the PUC to serve as an alternative supplier of last resort.

Notwithstanding the initiation of customer choice in gas suppliers, PGW's gas distribution business remains a regulated monopoly. After the initiation of gas choice, customers may purchase gas from other natural gas suppliers or choose to continue to buy natural gas from PGW. Whomever consumers choose as their supplier, all customers continue to receive their gas through PGW's distribution system of mains and pipes to homes and businesses, and continue to pay a distribution charge to PGW for that service. PGW continues to provide gas to its customers that elect PGW as their supplier and to those who cannot obtain natural gas from an alternate supplier.

The structure of the unbundled services and the rates for each service are set forth in PGW's restructured tariff, which went into effect on September 1, 2003 (the "Restructuring Filing"). These unbundled rates are designed to realize the same level of margin revenues experienced by PGW prior to restructuring.

The Gas Choice Act contains provisions which are designed to (i) preserve the tax-exempt status of bonds or other obligations issued by the City for PGW, including the Bonds, (ii) preserve the ability of the City to comply with its covenants, including the City's covenants with respect to the imposition and collection of rates and charges, to the Holders of such bonds and other obligations, including the Bonds, and (iii) require rates be set for PGW utilizing the ratemaking methodology and requirements that were applicable to PGW's natural gas distribution operation prior to the assumption of jurisdiction by the PUC. The Gas Choice Act provides, among other things:

- As of July 1, 2000, PGW is regulated by the PUC and, except as otherwise provided in the Gas Choice Act, the provisions of the Public Utility Code apply to PGW and the PUC sets rates for PGW's customers.
- Notwithstanding customer choice in gas supplies, PGW gas distribution business will be regulated as a monopoly.
- In setting rates and notwithstanding any other provision of the Public Utility Code, the PUC must permit PGW to impose, charge and collect rates or charges as necessary to permit the City to comply with its covenants to the Holders of any Approved Bonds, as defined in the Gas Choice Act. All bonds issued by the City on behalf of PGW under the Act, including the Bonds, are Approved Bonds.
- The PUC is obligated to use the same rate-making methodology and requirements used by PGW until all Approved Bonds are repaid or defeased. The methodology employed by PGW is a "cash flow" method, not a "rate of return" method.
- The PUC is barred from requiring the City or PGW to take any action (or to omit taking any action) under the Public Utility Code if such action or omission would have the effect of causing the interest on any tax exempt bonds issued by the City, including the Bonds, to be includable in the gross income of the Holders of such bonds for federal income tax purposes.
- The Gas Choice Act permits, but does not require, the PUC to approve a senior citizen discount. On September 30, 2004, the PUC denied PGW's request to continue the senior discount program for post-September 1, 2003, applicants. Since September 1, 2003, the program is not available to new participants.
- Effective June 30, 2000, Gas Commission powers and duties were abrogated to the extent inconsistent with the Gas Choice Act.
- The City cannot be required to take any action under the Public Utility Code if the effect of the action is to cause a variance in the City's financial plan approved by the Pennsylvania Intergovernmental Cooperation Authority.
- The City's executive or legislative powers to "legislate or otherwise determine the powers, functions, budgets, activities and mission of PGW" are not abrogated or limited.

Senior Citizen Discount Program

The Senior Citizen Discount Program is a closed program. PGW currently has approximately 37,000 participants in its Senior Citizen Discount Program. All participants currently in the program were "grandfathered" in when the PUC discontinued it in September 2003. In 2004 there were approximately 70,000 "grandfathered" participants in the program. The senior citizen discount amounts to a 20% reduction on the participant's total gas bill each month.

Act 201 — "Responsible Utility Customer Protection Act"

In November 2004, the Pennsylvania Legislature passed and the Governor signed Act 201, entitled the "Responsible Utility Customer Protection Act." Under specified conditions, PGW may shut off service to delinquent customers during the winter and on Fridays. To shut off service to non-low-income customers during winter months, PGW is no longer required to first obtain PUC permission. PGW may now require customers whose service has been shut off to pay past due bills, arrange for a payment agreement, pay a reconnect fee, and/or pay a deposit before it restores service. Act 201 also permits PGW to hold any adult living in a home where service has been shut off accountable for all or part of an overdue balance before the adult can obtain service in his or her name.

Act 201 provides a number of other tools to help PGW collect payment. Under Act 201:

1. The time allowed to terminate service following shut-off notification was extended to 60 days.
2. Shut-off with notice is permitted if the customer does not pay a required deposit, does not follow through with payment arrangements or refuses to allow PGW access to its equipment.
3. Shut-off without notice is permitted for theft of service, obtaining service through fraud, tampering with a gas meter or unsafe service conditions.
4. Winter (December 1- March 31) termination is now permitted under specified conditions without PUC prior approval if the customer's household income exceeds 150 percent of the federal poverty level.

CITY GOVERNMENTAL OVERSIGHT

Gas Commission

The Management Agreement provides for a five member Gas Commission consisting of the City Controller, two members appointed by City Council and two members appointed by the Mayor, and vests in the Gas Commission the responsibility for overseeing the operation by PFMC of PGW. The City Controller holds office during his incumbency. The members appointed by the City Council and the Mayor each serve for terms of four years and hold office until their successors are appointed and qualified. The current members of the Gas Commission are listed below:

Marian B. Tasco, Chairwoman. Ms. Tasco represents the Ninth District in City Council where she also serves as Majority Leader. Councilwoman Tasco was appointed to the Gas Commission by City Council on August 2, 1992 and has served as Chairwoman since that time. She was reappointed to the Gas Commission by City Council on January 24, 2008 for a term ending January 7, 2012.

Alan L. Butkovitz. Mr. Butkovitz is the City Controller of the City. Mr. Butkovitz has served as Controller and a member of the Gas Commission since January 2, 2006. Mr. Butkovitz's current term expires on January 3, 2010. He has duly appointed Harvey M. Rice, First Deputy City Controller, and Robert Jaffe, Director of Legal Policy for the City Controller's Office, to serve as an Alternate Commissioner in his absence.

Carmen E. Adames. Ms. Adames is the President of Adames Professional Services, an accounting and business consulting firm primarily serving Hispanic-owned businesses. She is the past Treasurer and past President of the Philadelphia Hispanic Chamber of Commerce. She was appointed to the Gas Commission by Mayor Michael A. Nutter on March 26, 2008.

Royal E. Brown. Mr. Brown is the Vice President, Treasury Services for Independence Blue Cross. Mr. Brown was appointed to the Gas Commission by then Mayor Edward G. Rendell on August 8, 1996 and has served continuously since that time. He was reappointed to the Gas Commission by Mayor Michael A. Nutter on March 26, 2008.

Curtis Jones, Jr. Mr. Jones represents the Fourth District in City Council where he also serves as Chairman of the Committee on Transportation & Public Utilities. He was appointed to the Gas Commission by City Council on January 24, 2008 for a term ending January 7, 2012.

The Management Agreement grants the Gas Commission certain specified powers and duties and other powers not specifically granted to PFMC. The powers and duties granted to the Gas Commission include the fixing of PGW rates and charges (now the jurisdiction of the PUC), approval of personnel provided by PFMC, review of gas supply contracts for approval by City Council, approval of changes in tests and standards of gas quality and pressure, approval of PGW's operating budget, review of PGW's capital budgets and recommendations thereon to City Council, approval of certain loans (but not issuance of bonds), access to and review of all books, records and accounts of PGW, prescription of insurance requirements, promulgation of standards for procurement and disposal of material, supplies and services and approval of all real property acquisitions, sales and leases for further approval of City Council.

PGW BUDGET, RATES AND FINANCES

The revenues which PGW uses to pay debt service on its indebtedness and to fund its operations are derived primarily from the sale of gas distribution and related services to its customers. Rate and tariff charges for the sale of gas services are proposed by PGW based on, among other factors, anticipated revenues and expenses, required working capital, required debt service coverage and need for funds for capital expenditures.

Budget Approval

The Management Agreement requires PGW to prepare an annual operating budget and an operating forecast for the three years following the budget year. The operating budget and forecast are subject to the approval of the Gas Commission. PGW also prepares annually a proposed capital budget and a forecast for the five years following the budget year. The Gas Commission and the Director of Finance of the City review the capital budget and forecast and forward it, together with their recommendations, to City Council for its approval.

The Gas Commission holds public hearings on the budgets at which PGW and other interested parties are permitted to present evidence to support their positions. Community Legal Services, Inc. was appointed by the Gas Commission in 1988 to serve as Public Advocate and continues to represent residential customers in budget proceedings. The Gas Commission considers a number of factors before determining whether to accept, modify or reject the budgets proposed by PGW. Based on its findings, the Gas Commission issues an order regarding the operating budget. The capital budget and forecast are reviewed by the Director of Finance of the City and by the Gas Commission, and are forwarded to City Council for approval. The Gas Commission order regarding the operating budget and the City Council ordinance regarding the capital budget may direct PGW to reduce expenses in certain areas or increase spending on certain items or to undertake specific projects. This process remains unchanged after passage of the Gas Choice Act which provides that the City continues to determine PGW's budget function.

Rates and Charges

The rates charged by PGW for providing gas service are subject to various statutory provisions. The 1975 General Ordinance, the 1998 General Ordinance, the Note Ordinance and the Management Agreement, the complete text of which was authorized by ordinance, each contain a rate covenant. See APPENDIX D for further descriptions of the 1975 General Ordinance and the 1998 General Ordinance. PGW's rates are also subject to regulation under the Public Utility Code by virtue of the Gas Choice Act.

Section 2212(b) of the Public Utility Code transferred rate setting authority for PGW from the Gas Commission to PUC, effective July 1, 2000. Section 2212(e) of the Public Utility Code requires the PUC, notwithstanding any other Public Utility Code provision, to follow the "same ratemaking methodology and requirements" that were applied by the Gas Commission, when determining PGW's revenue requirements and overall rates and charges. The Gas Choice Act requires the PUC to follow that ratemaking methodology until all "approved bonds have been retired, redeemed, advance refunded or otherwise defeased." Approved Bonds are those

obligations issued in accordance with the Act or the Inventory and Receivables Financing Act and which were outstanding as of July 1, 2000, or which are issued on or after July 1, 2000, unless City Council declares such bonds not to be "approved." All 1975 Ordinance Bonds and 1998 Ordinance Bonds are Approved Bonds. As discussed below, the PUC, in its October 4, 2001 Order confirmed PGW's ratemaking methodology by stating: "That, in accordance with Section 2212(e) of the Gas Choice Act, we herein set rates for Philadelphia Gas Works in accordance with its previous ratemaking methodology and requirements. In this instance, Philadelphia Gas Works' previous ratemaking methodology, as contained in its Management Agreement and affirmed by the Pennsylvania courts, is the cash flow method."

As acknowledged by the PUC in its October 4, 2001 Order, the specific elements of PGW's "prior ratemaking methodology and requirements" are set forth in the Management Agreement. The Management Agreement directs the Gas Commission to fix rates and charges which, together with Project Revenues, will in each Fiscal Year produce revenues sufficient, at a minimum:

- (a) to pay all the operation and maintenance costs and expenses of PGW, including but not limited to, depreciation, employee retirement costs and a management fee to PFMC equal to the actual costs of PFMC in managing PGW, to pay expenses of the Gas Commission, to pay debt service (including sinking fund deposits) becoming due in such Fiscal Year on debt incurred for PGW and to meet applicable rate covenants and sinking fund reserve requirements;
- (b) to make annual payments to the City in the aggregate principal amount of \$18 million;
- (c) to provide appropriations for prepayment of debt reduction and capital additions not otherwise provided which are determined by the Gas Commission to be reasonable and which are approved by City Council; and
- (d) to provide cash or equivalent for working capital in such reasonable amounts as may be determined by PFMC and approved by the PUC.

The Management Agreement provides that, for purposes of complying with such rate requirements, the amount of operating expenses which do not represent an actual outflow of funds (e.g., depreciation) may be included in determining whether revenues are sufficient to meet other costs, expenses and requirements. Further, Section VII, 1(c) of the Management Agreement obligates rates to be set to comply with the covenants of PGW's bonds and commercial paper program.

Section 2212(e) of the Public Utility Code also states that, notwithstanding any other provision of the Public Utility Code, the PUC is required to set PGW's rates to permit the City to comply with its covenants to the Holders of any Approved Bonds. There are three bond covenants that are relevant with respect to establishing PGW's revenue requirement: a) a covenant that requires PGW to produce net revenues at least equal to 150% of the annual debt service obligation; b) a covenant that requires PGW and its owner, the City of Philadelphia, to charge rates that permit PGW to have sufficient cash to pay all of its third party obligations, including its debt service obligations, during each Fiscal Year in full when they are due; and c) a covenant that requires PGW and the City to continuously maintain and operate PGW's gas works system.

In regulating PGW, the PUC is further required by Section 2212(f) of the Public Utility Code to permit PGW to impose, charge and collect rates and charges as necessary to make its annual payment to the City as PGW's owner. Additionally, the PUC has stated in its September 21, 2001 Order, "Thus, we conclude that PGW's payment of \$18,000,000 to the City of Philadelphia should be included in its rates requested in this proceeding."

PGW recovers its costs through various mechanisms (discussed below) reflected in its tariff. Changes in the cost of raw materials, primarily natural gas costs, are reflected in rates embodied in a Gas Cost Rate ("GCR"). Discounts provided to low income customers and senior citizens are recovered in a separate Universal Service Charge. The remainder of PGW's costs, including debt service payments, operating expenses (other than costs covered in the GCR) and the annual payment to its owner, the City of Philadelphia, are recovered in PGW's base rates, either through monthly customer charges or volumetric charges.

PGW's base rates are set, in accordance with the Cash Flow method, to enable PGW to recover a normal level of expenses and annual obligations, together with an allowance for cash working capital or liquidity. In PGW's most recent rate proceedings, the PUC authorized rates that produced debt service coverages that complied with PGW's 1998 General Ordinance and 1975 General Ordinance requirements and produced revenues sufficient to provide coverage of all obligations including the Base Payment. Any resulting rate increase is then recovered by increases in the customer or volumetric charges of the various classes of customers taking service from PGW.

Gas Cost Rate

PGW's largest expense item is the cost of the natural gas delivered into its distribution system. Prior to industry restructuring mandated under FERC Order No. 636, the cost of bundled pipeline sales service was reviewed and approved by FERC.

Currently, changes in these costs are recovered on a dollar-for-dollar basis through the operation of the GCR as authorized by the PUC. PGW's tariff permits PGW to charge annual projected changes in natural gas costs in its GCR factor, after review and approval by the PUC. The GCR is designed to permit PGW, on an annual or quarterly basis, to adjust its gas cost charge to firm sales customers to approximate its actual cost of natural gas. PGW calculates its anticipated annual cost for natural gas and allocates that cost to its customers on a level basis for payment during the Fiscal Year. GCR collections are then matched against actual costs for the year to date, and the GCR is adjusted annually or quarterly if necessary, to credit or charge customers in the upcoming period for overpayment or underpayment of natural gas costs to date.

Base Rate Filings

Permanent Base Rates. Base rates for PGW are established, using the Cash Flow method, to produce a targeted amount of revenue for PGW based on various assumptions, such as normal weather conditions and a projected and normalized level of revenues, expenses, capital expenditures and required working capital and liquidity. Base rates in effect at any time cannot be modified by PGW except pursuant to a proposed rate filing by PGW for new base rates, and only to the extent such proposed modification is approved by the PUC for implementation on a going forward basis.

Prior to passage of the Gas Choice Act transferring rate setting authority for PGW from the Gas Commission to the PUC, PGW's last base rate increase was approved by the Gas Commission in December 1991 to generate an additional \$15,000,000 of annual revenue.

On January 5, 2001, PGW filed a proposal with the PUC to permanently increase its base rates by \$65,000,000 annually. By a PUC order entered on December 6, 2001, PGW was awarded total permanent rate relief of \$33,558,000, including \$11,000,000 of rate relief that the PUC had granted on an interim basis in November 2000.

On February 25, 2002, PGW filed a proposal with the PUC to permanently increase its base rates by an additional \$60,000,000 annually. Additional permanent base rate relief of \$36 million was approved by the PUC on August 8, 2002. This \$36,000,000 of base rate relief had initially been approved by the PUC on an interim basis by order entered April 12, 2002, as part of PGW's request for extraordinary rate relief. As a result, the \$36,000,000 was effective on April 16, 2002.

On December 22, 2006, PGW filed for a \$100,000,000 increase in base rates. PGW sought the rate increase primarily to cover the increase in non-gas operating expenses and interest expense since its 2002 rate case, provide sufficient funds available for debt service to meet its rate covenants under the 1975 General Ordinance and the 1998 General Ordinance, to provide for sufficient cash working capital and ensure, that in the long term, PGW has adequate liquidity when needed through internally generated funds without having to continually resort to borrowing funds externally for capital improvements. On September 13, 2007, the PUC granted PGW a \$25,000,000 increase in base rates, effective September 20, 2007. PGW appealed the PUC's order to the Commonwealth Court where it was affirmed by an opinion and order issued February 4, 2009. On May 4, 2009, PGW filed a petition for allowance of appeal of the Commonwealth Court decision with the Pennsylvania Supreme

Court. PGW alleged that, while the PUC professed to have utilized the specific cash flow ratemaking method mandated by Section 2212 of the Gas Choice Act, its actual application failed to adequately consider PGW's cash working capital and internal generation needs.

On November 14, 2008, PGW filed for extraordinary base rate relief of \$60,000,000, effective January 1, 2009. The request was granted December 19, 2008. PGW filed the request primarily with the intention of improving financial ratios to cover increased financing costs in the future and providing for the continuation of more reliable service. In granting the extraordinary relief, the PUC required PGW to file a permanent base rate case no later than December 31, 2009. The Office of Small Business Advocate filed a petition for reconsideration of the PUC's extraordinary rate order, challenging the allocation of the rate increase. The PUC dismissed the petition on March 26, 2009. The PUC imposed several conditions on PGW's receipt of extraordinary rate relief, all of which PGW has accepted: PGW was required to: (1) file its Business Transformation Initiative -Full Plan with the PUC for review, followed up by annual reports on its implementation and savings; (2) provide monthly reports of financial and operational performance, and the results of cost containment efforts; (3) submit a performance-based incentive compensation plan for all management employees for comment by the PUC; (4) submit, ninety (90) days in advance of negotiating its next employee collective bargaining agreement, a plan for improving performance and implementing efficiencies for hourly employees; (5) convene a collaborative process to explore options for transitioning default service supply customers to alternative suppliers; (6) take appropriate steps to seek repeal of the City of Philadelphia ordinance mandating the annual \$18 million payment to the City.

Weather Normalization. The Weather Normalization Adjustment Clause ("WNA") was approved by the PUC Order dated August 8, 2002. The purpose of the WNA is to neutralize the impact of weather on PGW's revenues. This allows PGW to achieve the recovery of appropriate costs as authorized by the PUC. The WNA results in neither a rate increase nor a rate decrease, but acts as a billing adjustment. The main benefits of the WNA are the stabilization of cash flow and the reduction of the need for short-term borrowing from year to year. The WNA is applied to customer invoices rendered during the period of October 1 through May 31 of each year for each billing cycle. The WNA will continue in place unless the PUC issues an order directing that it be discontinued.

Restructuring's Effect on PGW Rates

Consistent with the requirements of the Gas Choice Act, as of September 1, 2003, PGW has provided service pursuant to unbundled tariff terms and conditions of service. The principal changes that occurred were: 1) the rates of all PGW customers are separated into a distribution component and a natural gas commodity component; 2) as of September 1, 2003, all customers have the right to purchase natural gas from an alternative natural gas supplier, but are required to utilize PGW's distribution system to deliver the commodity to the customer's meter; 3) PGW will provide certain services to suppliers, for a tariffed charge, to facilitate the supplier's sale of natural gas to customers and the delivery of gas supply to PGW's city gate; and 4) PGW is the Supplier of Last Resort for all residential, small commercial and industrial and human needs customers who do not take service from an alternative natural gas supplier.

The rate unbundling and choice options available as of September 1, 2003 were designed by PGW to be revenue neutral such that PGW's earnings levels will not change as a result of restructuring.

PGW was also required as part of its restructuring filing, and has so filed with the PUC, a plan to come into compliance with all applicable PUC rules and regulations (i.e., PGW's Compliance Filing on September 1, 2003). The Gas Choice Act also establishes that any incremental costs that PGW incurs in complying with new regulatory requirements may be recovered in a non-bypassable surcharge to be embedded in PGW's base rates. As of September 1, 2003, PGW charged incremental restructuring costs in a Restructuring Surcharge which were charged to all firm customers on a non-bypassable basis and was reconcilable so as to result in dollar-for-dollar recovery. In 2007, the Restructuring Surcharge was removed from the tariff by PGW because the related costs were recovered or are being recovered elsewhere. Additionally, on September 30, 2004, the PUC denied PGW's request to continue the senior discount program for post-September 1, 2003 applicants and its appeal to the Commonwealth Court of Pennsylvania was denied. There are currently approximately 37,000 "grandfathered senior citizen discount participants." All current participants are "grandfathered" into the existing program and will continue to receive the 20% discount unless the program is modified or ended by the enactment of an ordinance by the City.

Capital Improvement Program

Net proceeds of revenue bond sales (other than sales of refunding bonds) are placed into restricted segregated accounts for the Capital Improvement Program and are requisitioned for expenditures as required for the Capital Improvement Program or to reimburse PGW for expenditures made in advance of issuance of bonds. For use of the proceeds of the Bonds, see "PLAN OF FINANCE AND ESTIMATED SOURCES AND USES OF FUNDS." PGW determines its capital improvement requirements from projected customer additions, pipeline gas availability, peak day gas requirements, enforced relocation due to highway and bridge construction and the need to maintain its plant and equipment in a safe, adequate and reliable manner. For further discussion of the Capital Improvement Program, see "FISCAL YEAR 2007 AND 2008 CAPITAL BUDGET AND FORECASTS" below and APPENDIX B — "Independent Consultant's Engineering Report."

The following table represents information regarding actual net capital expenditures for each of the five Fiscal Years 2004-2008 as well as unaudited information for the periods September 1, 2007 through March 31, 2008 and September 1, 2008 through March 31, 2009:

	PHILADELPHIA GAS WORKS CAPITAL EXPENDITURES*					PERIOD	
	(DOLLAR AMOUNTS IN THOUSANDS)					SEPTEMBER 1	
	(FISCAL YEAR ENDED AUGUST 31)					THROUGH	
						MARCH 31	
						(UNAUDITED)	
	2004	2005	2006	2007	2008	2008	2009
Gas Processing	\$ 9,843	\$ 5,008	\$ 3,615	\$ 3,332	\$ 2,515	\$ 1,429	\$ 1,024
Distribution	40,096	43,572	44,583	48,549	47,748	26,545	26,573
Field Services	3,266	5,288	5,221	6,621	5,813	2,976	3,028
Information	1,304	1,928	1,819	1,228	1,139	543	257
Technology							
Other	5,407	11,114	6,075	10,288	4,527	3,421	4,279
Departments ⁽¹⁾							
Total ⁽²⁾	<u>59,916</u>	<u>66,910</u>	<u>61,313</u>	<u>70,018</u>	<u>61,742</u>	<u>34,914</u>	<u>35,161</u>
Capital Fund	<u>(55,601)</u>	<u>(68,000)</u>	<u>(60,295)</u>	<u>(65,000)</u>	<u>(70,000)</u>	NA	NA
Drawdowns							
Other Funding	<u>4,315</u>	<u>(1,090)</u>	<u>1,018</u>	<u>5,018</u>	<u>(8,258)</u>	NA	NA
Sources (Uses) for Capital Expenditures							

* This information was obtained from PGW's historical records.

⁽¹⁾ Includes Approved and Budgeted Programs for Field Operations, Building Services, Customer Affairs and Systems Technology

⁽²⁾ Net of reimbursements, contributions and salvage.

Other Funding Sources

PGW provides for a portion of capital costs to be funded through the use of, internally generated funds. Internally generated funds consist of net revenues after payment of City Charges. See "PGW BUDGET, RATES AND FINANCES — Debt Service Coverage Ratio." A decline in net revenues reduces internally generated funds and requires that the shortfall be funded from the issuance of bonds or other indebtedness or the incurrence of capital leases. In Fiscal Years 2004-2008, PGW provided \$1,000,000 of other funding sources of actual capital expenditures.

Fiscal Year 2008 and 2009 Operating Budgets

On May 29, 2008, PGW filed its fiscal 2009 Operating Budget. The PGC conducted informal discovery concerning the budget in July and August 2008 and public hearings in September 2008. The PGC authorized interim spending authority of \$88,140,000 for the period September 1, 2008 through December 31, 2008, pursuant to a Motion dated September 23, 2008. A final Order approving interim spending was approved by the PGC at its September 23, 2008 meeting. Briefs were filed on October 15, 2008, a Recommended Decision was received on October 27, 2008 and a final budget approval was granted by the PGC on December 2, 2008.

On July 13, 2007, PGW filed its fiscal year 2008 Operating Budget. The PGC conducted hearings concerning this budget in August 2007 and approved PGW's proposed operating revenues and expenses with net adjustments of \$4,197,000.

Fiscal Year 2008 and 2009 Capital Budgets and Forecasts

On January 2, 2009, PGW filed a proposed FY 2010 Capital Budget in the amount of \$74,407,000. On April 13, 2009, the PGC, after review and evaluation, approved a recommendation to City Council for a budget of \$72,215,000. An Ordinance approving this budget was approved by City Council on May 21, 2009; the Ordinance was signed by the Mayor on June 4, 2009.

During Fiscal Year 2009, PGW projects net capital expenditures of approximately \$50,459,000, with an additional \$381,339,000 forecasted for the five year forecast period. Approximately 83% of Fiscal Year 2009 capital expenditures are for Distribution, Field Services and Gas Processing Department projects.

On January 2, 2008, PGW filed a proposed fiscal year 2009 Capital Budget in the amount of \$73,436,000. After review and evaluation, the PGC on April 30, 2008 approved a recommendation to City Council for a budget of \$71,956,000. The PGC's recommendation was approved by City Council on June 19, 2008 and the ordinance signed by the Mayor on July 2, 2008.

On January 2, 2007, PGW filed with the Philadelphia Gas Commission ("PGC") its fiscal year 2008 Capital Budget requesting spending authority in the amount of \$118,243,000. This budget request was amended by PGW to reflect the deferral of two projects, construction of Phase II LNG Replacement and Implementation of Billing Collection Customer Service (BCCS) for a reduction of \$47,300,000. The PGC conducted hearings concerning this budget in February 2007. Briefs were filed on March 13, 2007. The Hearing Examiner issued a Recommended Decision on March 27, 2007 for consideration by the Commissioners further reducing the budget by \$295,000. The PGC's Resolution and Order recommending approval of the fiscal year 2008 Capital Budget to City Council was passed on April 25, 2007. This recommendation of \$70,648,000 was approved by City Council on June 15, 2007. The Mayor signed the Ordinance approving the fiscal year 2008 Capital Budget on September 20, 2007.

On September 27, 2007, PGW filed with the PGC a proposal to amend the approved fiscal year 2008 Capital Budget for two new line items totaling \$1,433,000. These line items were Supplemental Funding - Consolidate Fire Protection System - Richmond Plant for \$1,171,000 and Disaster Recovery for Richmond and Passyunk Plans for \$262,000. On October 23, 2007, PGW filed a proposal to further amend the budget by adding another new line item Partial Reauthorization - Customer Service Data Warehouse for \$169,000. Concurrently, PGW proposed a reduction of \$1,523,000 in fiscal year 2008 budget authorization to compensate for the additional funding requested. The PGC, after review and evaluation, recommended that City Council approve an amended budget for fiscal year 2008 in the amount of \$70,727,000. Subsequently, City Council approved the PGC's recommendation on March 6, 2008, with the Mayor signing the budget ordinance on March 12, 2008.

On April 21, 2008, the Philadelphia Facilities Management Corporation (PFMC) Board approved PGW's Request to file an amendment to the fiscal year 2008 budget in the amount of \$2,300,000 for funding to support the Risk-Based Collections and Field Operations projects. These projects are critical efforts in support of PGW's Business Transformation effort. The PGC, after review and evaluation, approved a recommendation to City Council supporting PGW's amendment on July 2, 2008. City Council approved the PGC's recommendation on October 23, 2008 and the Mayor signed the ordinance on November 5, 2008.

Over the six year forecast period, approximately 84% of PGW's capital expenditures are in Gas Processing, Distribution and Field Services. These expenditures will support new and replacement main and services and meter and regulator facilities, as well as projects to maintain PGW's gas processing facilities in proper condition.

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Selected Operating Data

The following data is based upon PGW's historical records.

	SELECTED OPERATING DATA FISCAL YEARS ENDED AUGUST 31					PERIOD SEPTEMBER 1 THROUGH MARCH 31 (UNAUDITED)	
	2004	2005	2006	2007	2008	2008	2009
Summary of Customers at End of Period							
Residential	471,941	470,758	459,842	479,553	478,716	489,888	491,184
Industrial and Commercial:							
Firm	26,243	25,990	25,718	25,970	25,919	26,341	26,353
Interruptible	470	397	312	105	68	198	167
Municipal and PHA	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>
Total Customers	<u>498,656</u>	<u>497,147</u>	<u>485,874</u>	<u>505,630</u>	<u>504,705</u>	<u>516,429</u>	<u>517,706</u>
Gas Sales By Classification (Mmcf)							
Residential:							
Heating	40,826	39,033	32,980	35,245	34,357	26,843	29,359
Non-Heating	1,951	1,955	1,521	1,040	802	703	514
Industrial and Commercial:							
Firm	11,543	11,156	10,104	10,491	10,202	7,518	8,078
Interruptible	4,103	4,510	2,426	2,704	1,791	1,587	1,009
Other	<u>1,796</u>	<u>1,573</u>	<u>1,755</u>	<u>1,580</u>	<u>1,833</u>	<u>3,856</u>	<u>3,888</u>
Total Gas Sales & Transport	<u>60,219</u>	<u>58,227</u>	<u>48,786</u>	<u>51,060</u>	<u>48,985</u>	<u>40,507</u>	<u>42,848</u>
Supply & Disposition of Gas (Mmcf)							
Natural Gas Purchased	64,244	65,695	53,886	55,905	53,380	36,379	36,190
Liquefied Natural Gas	<u>2,609</u>	<u>2,199</u>	<u>1,084</u>	<u>1,948</u>	<u>1,280</u>	<u>947</u>	<u>1,236</u>
Total Gas Supply	<u>66,853</u>	<u>67,894</u>	<u>54,970</u>	<u>57,853</u>	<u>54,660</u>	<u>37,326</u>	<u>37,426</u>
Deduct:							
Additions to (Withdrawals) from Gas Storage	290	2,457	(166)	(261)	1,088	(7,205)	(8,738)
PGW's Use and Other	<u>6,344</u>	<u>7,210</u>	<u>6,350</u>	<u>7,054</u>	<u>4,587</u>	<u>4,025</u>	<u>3,316</u>
Total Gas Sales	<u>60,219</u>	<u>58,227</u>	<u>48,786</u>	<u>51,060</u>	<u>48,985</u>	<u>40,506</u>	<u>42,848</u>
Average Monthly Usage of Residential Customers (Mcf):							
Heating	8.0	7.6	6.6	7.0	6.6	NA	NA
Non-Heating	2.6	2.7	2.7	1.9	1.7	NA	NA
Average Monthly Bill Of Residential Customers:							
Heating	\$104.57	\$110.68	\$139.66	\$136.70	\$131.01	NA	NA
Non-Heating	\$45.00	\$49.09	\$61.55	\$44.22	\$41.48	NA	NA
Degree Days							
Normal Degree Days	4,287	4,327	3,819	3,773	3,746	3,431	3,832
Percentage of Normal Degree Days	4,555	4,555	4,555	4,525	4,510	4,095	4,031
	94%	95%	84%	83%	83%	84%	95%

Maximum 24-Hour Sendout (Mcf)	620,413	591,133	490,923	589,588	533,349	533,349	574,126
Peak-day Average Temperature (Degrees)	13	15	21	14	23	23	15

Summary of Statements of Income and Expenses

Information for each of the Fiscal Years ended August 31 should be read in conjunction with and was derived from the audited financial statements and notes thereto.

(Dollar Amounts in Thousands)

	FISCAL YEARS ENDED AUGUST 31					PERIOD SEPTEMBER 1 THROUGH MARCH 31 (UNAUDITED)	
	2004	2005	2006	2007	2008	2008	2009
Operating Revenues							
Residential:							
Heating	\$534,406	\$565,533	\$593,797	\$587,648	\$588,536	\$431,468	\$502,301
Non-Heating	33,159	35,537	34,182	24,439	20,040		
Industrial and Commercial:						12,717	12,978
Firm	159,977	171,838	200,313	187,076	173,080	126,805	142,077
Interruptible	32,404	44,678	33,509	31,439	26,679	22,917	14,674
Gas Transportation	2,945	4,679	6,459	8,850	8,575	6,055	6,109
Other Gas Revenues (Municipal, Philadelphia Housing Authority ("PHA"), Unbilled Revenues and GCR Adjustment)	20,465	8,285	61,701	653	14,518	68,240	66,747
Appliance & Other	<u>10,065</u>	<u>10,895</u>	<u>10,482</u>	<u>9,398</u>	<u>8,607</u>	<u>4,784</u>	<u>4,926</u>
Total Gas Revenues	793,421	841,445	940,443	849,503	840,035	672,986	749,812
Other Operating Revenues	<u>18,889</u>	<u>21,912</u>	<u>13,525</u>	<u>9,848</u>	<u>9,592</u>	<u>5,453</u>	<u>5,546</u>
Total Operating Revenues	812,310	863,357	953,968	859,351	849,627	678,439	755,358
Operating Expenses							
Natural Gas & Raw Material	450,868	509,704	625,093	539,300	511,976	423,488	493,170
Gas Processing	17,284	18,584	15,234	16,240	14,436	7,971	9,367
Field Services	29,557	28,455	35,667	36,100	37,126	23,469	23,381
Distribution	15,778	15,115	15,179	17,119	17,319	9,907	11,306
Customer Activities	105,417	104,194	70,971	69,422	67,380	44,543	51,247
Administrative & General	64,670	60,995	59,484	83,240 ⁽²⁾	86,550 ⁽²⁾	46,397 ⁽²⁾	53,857 ⁽²⁾
Pensions	14,973	14,702	17,563	15,217	14,258	8,199	8,268
Taxes, other than income	6,638	6,218	6,124	6,730	5,677	2,860	3,925
Depreciation	<u>33,966</u>	<u>35,045</u>	<u>34,725</u>	<u>36,380</u>	<u>39,524</u>	<u>22,871</u>	<u>22,076</u>
Total Operating Expenses	739,151	793,012	880,040	819,748	794,246	589,705	676,597
Operating Income	73,159	70,345	73,928	39,603	55,381	88,734	78,761
Interest and Other Income	3,580	4,778	8,518	13,073	15,732	10,242	7,186
Income before Interest Expense	76,739	75,123	82,446	52,676	71,113	98,976	85,947
Interest Expense	<u>59,580</u>	<u>63,851</u>	<u>65,687</u>	<u>68,780</u>	<u>68,006</u>	<u>40,263</u>	<u>40,970</u>
Net Income (Loss)⁽¹⁾	<u>\$17,159</u>	<u>\$11,272</u>	<u>\$16,759</u>	<u>(\$16,104)</u>	<u>\$3,107</u>	<u>\$58,713</u>	<u>\$44,977</u>

⁽¹⁾ Net Income (Loss) is before payment of the \$18,000,000 Base Payment portion of City Charges.

⁽²⁾ Includes Post Employment Benefits

Debt Service Coverage Ratio

The annual operating budget approved by the Gas Commission estimates the level of revenues required to reach at least the minimum debt service coverage ratio mandated by the 1975 General Ordinance and the 1998

General Ordinance. The following table presents historical revenue and debt service coverage calculated under the 1975 General Ordinance and the 1998 General Ordinance.

**HISTORICAL REVENUES AND DEBT SERVICE COVERAGE
(DOLLAR AMOUNTS IN THOUSANDS)**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Operating Revenues	\$812,310	\$863,357	\$953,968	\$859,351	\$849,627
Interest and Other Income	2,635	22,126	25,866	30,448	33,107
AFUDC (Interest)	<u>907</u>	<u>907</u>	<u>981</u>	<u>408</u>	<u>338</u>
Total Funds	815,852	886,390	980,815	890,207	883,072
Adjustments	<u>234</u>	<u>(3,109)</u>	<u>3,451</u>	<u>(6,650)</u>	<u>(11,851)</u>
Project Revenues	816,086	883,281	984,266	883,557	871,221
Operating Expenses	739,151	793,012	880,040	819,748	794,246
Less:					
Depreciation	38,868	39,547	37,955	39,708	42,868
Other Adjustments	<u>478</u>	<u>443</u>	<u>894</u>	<u>27,163⁽²⁾</u>	<u>26,655⁽²⁾</u>
Net Operating Expenses	699,805	753,022	841,191	752,877	724,723
Funds Available To Cover Debt Service	116,281	130,259	143,075	130,680	146,498
Debt Service Requirements:					
Revenue Bonds 1975	48,630	38,806	41,949	35,359	34,225
PMA/Capital Leasing	3,997	1,998	-	-	-
Revenue Bonds 1998	39,655	45,999 ⁽¹⁾	32,838 ⁽¹⁾	47,611	59,695
Subordinate Revenue Bonds 1998	1,988	1,987	1,986	1,987	1,986
Commercial Paper Notes	<u>2,085</u>	<u>2,864</u>	<u>5,968</u>	<u>8,098</u>	<u>4,099</u>
Total Debt Service	96,355	91,654	82,741	93,055	100,005
Net Funds Available for Other Purposes:	19,926	38,605	60,334	37,625	46,493
Debt Service Coverage:					
Senior Revenue Bonds 1975	2.39	3.36	3.41	3.70	4.28
Senior Revenue Bonds 1998	1.61	1.94	3.08	2.00	1.88
Subordinate Revenue Bonds 1998	12.07	21.87	34.38	24.01	26.47
Coverage of Debt Service & City Payment	1.01	1.18	1.41	1.17	1.23

⁽¹⁾ Capitalized Interest of \$2,283,000 and \$6,000,000 excluded from the 1998 Ordinance Coverage Calculation in Fiscal Year 2005 and 2006, respectively.

⁽²⁾ Other adjustments include non-cash Postemployment Benefits for Fiscal Year 2007 and 2008 totaling \$26,421,000 and \$25,834,000, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS RESULTS OF OPERATIONS AND FINANCIAL CONDITION FOR THE SEVEN MONTHS ENDED MARCH 31, 2009 AND 2008 (UNAUDITED)

The narrative overview and analysis of the financial statements of Philadelphia Gas Works for the seven months ended March 31, 2009 and 2008 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 audited financial statements as of and for the years ended August 31, 2008 and 2007 attached hereto in APPENDIX A.

Financial Highlights

- The seven-month period ended March 31, 2009 reflected a 4.9% warmer than normal winter. The seven-month period ending March 31, 2009 was 11.7% cooler than the prior comparative period and firm gas sales increased by 2.6 Billion cubic feet (Bcf). In addition, the Weather Normalization Adjustment (WNA), which was in effect from October 2008 through March 2009, resulted in heating customers receiving credits totaling \$1.7 million as a result of the temperatures experienced during the period. The period ended March 31, 2008 reflected a 15.7% warmer than normal winter. The seven-month period ended March 31, 2008 was 1.5% cooler than the same period the prior year and firm gas sales decreased by 1.4 Bcf. In addition, the Weather Normalization Adjustment (WNA), which was in effect from October 2007 through May 2008, resulted in heating customers receiving charges totaling \$10.8 million as a result of the temperatures experienced during the period.

- PGW achieved a collection rate of 93.3% during the rolling twelve months ended March 31, 2009, as compared to 97.6% for the comparable period ended March 31, 2008. The collection rate of 93.3% is calculated by dividing the total gas receipts collected in a rolling 12 month period by the total gas billings that were applied to PGW customers' accounts during the same period. The same methodology was utilized for the comparative period ended March 31, 2008.

Condensed Statements of Revenues and Expenses (Thousands of Dollars)

	Seven Months Ended March 31	
	2009	2008
Total gas revenues	\$749,812	\$672,986
Other revenues	5,546	5,453
Total operating revenues	755,358	678,439
Total operating expenses	676,597	589,705
Operating income	78,761	88,734
Interest and other income	7,186	10,242
Total interest expense	(40,970)	(40,263)
Excess (deficiency) of revenues over (under) expenses	\$44,977	\$58,713

Operating Revenues

Operating revenues for the period ended March 31, 2009 were \$755.4 million, an increase of \$76.9 million or 11.3% from same period ended March 31, 2008. The increase for the period ended March 31, 2009 was due to a colder heating season. Operating revenues for the period ended March 31, 2008 were \$678.4 million, an increase of \$7.2 million or 1.1% from the same period ended March 31, 2007.

Total sales volumes, including gas transportation deliveries, for the period ended March 31, 2009 increased by 4.7 Bcf to 58.3 Bcf or 8.8% from the same period ended March 31, 2008. For the period ended March 31, 2008 total sales volumes, including gas transportation deliveries, increased by 2.0 Bcf to 53.6 Bcf or 3.8% from the same period ended March 31, 2007.

The number of customers served by PGW as of March 31, 2009 and March 31, 2008 were approximately 518,000 and 516,000, respectively. Commercial accounts were approximately 26,000, reflecting no change from March 31, 2009 and March 31, 2008. Industrial accounts decreased by 4.6% from the prior period's level to 833. Residential customers increased to 491,000 customers, an increase of 1,200 from the prior year.

Operating Expenses

Total operating and maintenance expenses, including fuel costs, for the seven-period ended March 31, 2009 were \$654.5 million (net of depreciation), an increase of \$87.7 million or 15.5% from the same period ended March 31, 2008. The increase for the March 31, 2009 period is a result of increased utilization of natural gas as compared to the same period ended March 31, 2008. Total expenses decreased by \$23.8 million or 4.0% for the period ended

March 31, 2008 compared to the same period ended March 31, 2007. The decrease for the March 31, 2008 period reflects a small decrease in the commodity price of gas as well as decreased demand for Natural Gas.

Cost of Fuel – The cost of natural gas utilized increased by \$69.7 million or 16.5% to \$493.2 million for the seven-month period ended March 31, 2009 compared with \$423.5 million in the same period ended March 31, 2008. The average commodity price per Thousand cubic feet (Mcf) increased by \$1.22 or \$56.4 million, while the volume of gas utilized increased by 1.7 Bcf, 3.8% or \$13.7 million. Demand charges decreased by \$0.4 million, as compared to the comparative period ended March 31, 2008.

The cost of natural gas utilized decreased by \$16.5 million or 3.7% to \$423.5 million for the period ended March 31, 2008 compared with \$440.0 million for the same period ended March 31, 2007. The average commodity price per Mcf decreased by \$0.32 or \$14.1 million, while the volume of gas utilized decreased by 1.8 Bcf, or \$14.8 million. In addition, pipeline supplier refunds for the period decreased by \$0.3 million while demand charges increased by \$12.1 million, compared to the same period ended March 31, 2007. 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 current assets or 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 gas for the seven-month periods ended March 31, 2009 and 2008 were \$9.34 and \$8.12 per Mcf, respectively.

Other Operating Expenses – Expenditures for street operations, infrastructure improvements, and plant operations for the seven-month period ended March 31, 2009 totaled \$44.1 million compared to \$41.3 million for the comparative period ended March 31, 2008. This is a result of higher labor costs. In addition, the cost for customer services, collections, account management, marketing and the administrative area increased by \$5.0 million or 9.3% in the seven-month period ended March 31, 2009 primarily due to costs related to health care premiums, risk management claims, litigation and cost related to business transformation.

Provision for Uncollectible Accounts – The provision for uncollectible accounts for the seven-month period ended March 31, 2009 totaled \$33.7 million, an increase of \$6.2 million or 22.4% over the comparative period ended March 31, 2008, which totaled \$27.5 million, based on the most recent accounts receivable collectibility evaluation. The accumulated provision for uncollectible accounts at March 31, 2009 reflects a balance of \$146.1 million, compared to the \$151.5 million balance as of March 31, 2008. 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.

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Condensed Balance Sheets
(Thousands of Dollars)

Assets	March 31	
	2009	2008
Utility plant, net	\$1,074,135	\$1,051,989
Restricted investment funds	223,486	308,118
Current assets:		
Accounts receivable (net of accumulated provision for uncollectible accounts of \$146,057 and \$151,539 for 2009 and 2008, respectively)	249,471	241,270
Other current assets and deferred debits, cash and cash equivalents, gas inventories, materials and supplies	<u>208,925</u>	<u>143,492</u>
Total current assets	458,396	384,762
Other assets and deferred debits	<u>101,086</u>	<u>98,548</u>
Total assets	<u>\$1,857,103</u>	<u>\$1,843,417</u>
Fund Equity and Liabilities		
Fund equity	\$ 260,885	\$ 271,514
Total long-term debt	1,123,805	1,223,857
Current liabilities:		
Note payable	148,000	89,300
Current portion of long-term debt	75,984	43,967
Other current liabilities and deferred credits	<u>149,924</u>	<u>151,181</u>
Total current liabilities	373,908	284,448
Other liabilities and deferred credits	<u>98,505</u>	<u>63,598</u>
Total fund equity and liabilities	<u>\$1,857,103</u>	<u>\$1,843,417</u>

Assets

Utility Plant – Utility plant, net of depreciation, totaled \$1,074.1 million as of March 31, 2009, an increase of \$22.1 million or 2.1% compared with the March 31, 2008 balance of \$1,052.0 million. Capital expenditures for construction of distribution facilities, purchase of equipment, information technology enhancements, and other general improvements were \$5.1 million for the seven-period ended March 31, 2009 compared to \$4.8 million for the period ended March 31, 2008. PGW funded capital expenditures through drawdowns from the Capital Improvement Fund in the amounts of \$0.0 million, and \$31.6 million at March 31, 2009 and March 31, 2008, respectively. The major capital expenditures are associated with PGW's gas supply infrastructure, namely, gas mains and customer service lines.

Restricted Investment Funds – Restricted investment funds decreased by \$84.6 million as of March 31, 2009 from March 31, 2008 primarily due to drawdown from the Capital Improvement Fund offset by interest income. Interest income on these funds, to the extent not drawn, is reflected as an increase and approximated \$3.5 million for the period ended March 31, 2009 and \$4.1 million for the period ended March 31, 2008.

Accounts Receivable – At March 31, 2009 accounts receivable (net) totaled \$249.5 million, an increase of \$8.2 million, or 3.4% from March 31, 2008. Accounts receivable (net) of \$241.3 million increased by \$21.4 million, or 9.7% from March 31, 2007. The accumulated provision for uncollectible accounts, totaling \$146.1 million decreased by \$5.4 million for March 31, 2009 as compared to March 31, 2008. The accumulated provision for uncollectible accounts totaled \$151.5 million on March 31, 2008 and \$174.1 million on March 31, 2007.

Other Current Assets and Deferred Debits, Cash and Cash Equivalents, Gas Inventories, Materials, and Supplies – As of March 31, 2009 cash and cash equivalents were \$100.0 million, an increase of \$58.4 million from March 31, 2008. Gas storage increased by \$2.6 million or 3.2%. The increase in gas inventory reflects an increase in the gas cost per Mcf Materials and supplies of \$93.2 million, which principally include gas inventory, maintenance spare parts, and material, increased by \$1.7 million and were \$91.4 million at March 31, 2008 and \$83.9 million at March 31, 2007. Other current assets and deferred debits totaled \$15.8 million at March 31, 2009 up \$5.4 million from March 31, 2008. At March 31, 2008 other current assets and deferred debits totaled \$10.4 million, up \$2.0 million from March 31, 2007.

Other Assets and Deferred Debits – At March, 31 2009 other assets and deferred debits including unamortized bond issuance costs, unamortized loss on reacquired debt, and a deferred regulatory asset for environmental expenses totaled \$101.0 million. This represents an increase of \$2.5 million from March 31, 2008, mainly due to an increase in a deferred regulatory asset for environmental expenses related to the implementation of GASB 49 on September 1, 2007, offset partially by unamortized loss of reacquired debt.

Liabilities

Long-Term Debt – Long-term debt, including the current portion, and unamortized discount and premium in the amount of \$24.2 million, totaled \$1,199.8 million for the period ended March 31, 2009, \$68.0 million less than the previous period ended March 31, 2008, as a result of PGW paying off its \$45 million loan from the City and normal debt principal payments. This represents 82.1% of total capitalization in FY 2009.

Short-Term Debt – Due to the highly seasonal nature of PGW's business, short-term debt is utilized to meet working capital requirements. PGW, pursuant to the provisions of the City of Philadelphia Note Ordinance, may sell short-term notes in a principal amount, which together with interest, may not exceed \$200.0 million outstanding at any one time. The letter of credit supporting PGW's commercial paper program fixed the maximum level of outstanding notes plus interest at \$150.0 million in both FY 2009 and FY 2008. These notes are intended to provide additional working capital and are supported by an irrevocable letter of credit and a security interest in PGW's revenues. The notes outstanding at March 31, 2009 had a weighted average interest rate of 0.57% and a remaining weighted average time to maturity of 41 days. The principal amounts outstanding at March 31, 2009 and 2008 were \$148.0 million and \$89.3 million, respectively.

In addition, the City provided PGW with a \$45.0 million, 0.0% interest loan in FY 2001. In FY 2007, PGW paid \$2.0 million of the loan leaving an outstanding balance of \$43.0 million. In FY 2008, PGW paid \$20.5 million and \$22.5 million in December 2007 and August 2008, respectively to completely repay the remaining balance of the loan.

Accounts Payable – In the period ended March 31, 2009 accounts payable increased \$1.8 million or 2.7% compared with the period ended March 31, 2008. In the period ended March 31, 2008 accounts payable decreased \$5.4 million or 8.5% compared with the same period ended March 31, 2007 primarily due to a decrease in natural gas payables.

Other Liabilities and Deferred Credits – At March 31, 2009 other liabilities and deferred credits totaling \$98.5 million increased \$34.9 million compared to March 31, 2008. The increase in the period ended March 31, 2009 is the effect of recording the change in the liability for OPEB in the amount of \$25.7 million as of August 31, 2008, and an increase in the environmental remediation liability resulting from the implementation of GASB 49 during fiscal year 2008.

Other Financial Factors

Liquidity/Cash Flow – PGW had no commercial paper outstanding at June 30, 2009, resulting in the full availability of all \$150.0 million of the Commercial Paper Program. Additionally, PGW had \$102.6 million available in its Capital Improvement Fund to be utilized for construction expenditures. These funding sources may be utilized to provide liquidity. The Operating Fund cash balance at June 30, 2009 was \$16.9 million. Additionally,

the City has granted back PGW's annual \$18.0 million payment, in each of the last four fiscal years, thereby improving PGW's overall liquidity position.

PGW's total OPEB actuarial accrued liability as of March 31, 2009 was \$599.1 million if PGW continued to provide for its OPEB obligations on a pay-as-you-go basis. PGW's actuarial accrued liability would be reduced to \$405.6 million if PGW adopted a policy of funding its ARC. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of 30 years. The actuarial valuation utilized a discount rate of 8.25% for purposes of developing the liabilities and ARC to demonstrate the effect of funding the Plan. This rate is based on the investment return expected on investments segregated in a funded trust. The annual OPEB cost was \$27.4 million for the period ended March 31, 2009 and is projected to increase to \$43.5 million per year over the ensuing 20-year period on a pay-as-you-go basis. The annual OPEB cost was \$26.5 million for the period ended March 31, 2008.

In November 2008, PGW filed for an extraordinary or emergency base rate increase of approximately \$60.0 million or 5.2% and simultaneously requested an \$85.0 million or 7.4% decrease in the GCR for a net 2.2% overall rate decrease of approximately \$25.0 million. The proposed base rate increase will serve several purposes. First, the increase will cover the additional financing costs that PGW anticipates it will incur in the next few months. Second, the increase will improve PGW's financial position so as to enhance its ability to access the financial markets and maintain its bond rating. Third, the increase will provide additional liquidity and financial flexibility in this tight credit market. On December 18, 2008, the PUC issued its decision approving a base rate increase of \$60.0 million or 5.2% and a decrease in the GCR of \$107.0 million for a net decrease in rates of \$47.0 million or 4.2%. These rates are effective as of January 1, 2009.

PGW did not receive an extension or replacement of the current Liquidity Facility consisting of the Standby Bond Purchase Agreement; the Sixth Series Bonds were required to be purchased by the Fiscal Agent on the mandatory tender date of January 2, 2009. As of June 30, 2009, \$311.6 million of the Sixth Series Bonds are held by the providers of the Standby Bond Purchase Agreement as bank bonds. Per the terms of the Standby Bond Purchase Agreement, if the Standby Bond Purchase Agreement is not renewed, and no substitute liquidity facility is provided, any bank bonds held at that time will be amortized in ten payments payable in December and July for the next five years. Pursuant to the Standby Bond Purchase Agreement, the first amortization payment was due on August 3, 2009. The City received an extension on such payment until August 21, 2009. PGW recorded as current debt at June 30, 2009 one tenth of the outstanding Sixth Series Bonds as of June 30, 2009 (\$61.2 million.).

The fair value of the interest rate swap related to the Sixth Series Bonds as of June 30, 2009, including accrued interest, was negative \$33,430,598. This means that PGW would have to pay this amount to terminate the swap. Per the swap agreement, the refunding or defeasance of the Sixth Series Bonds, in whole or in part, without the prior written consent of both the counterparty and the insurer, may constitute an event of termination unless certain conditions are met. There is a termination risk related to the interest rate swap agreement if the credit ratings of the Swap Provider, on the one-hand, or PGW and Financial Security Assurance Inc. (the "Swap Insurer"), on the other hand, fall below certain designated ratings levels. If the Swap Provider's ratings fall below A3 or A- (Moody's/S&P), PGW may terminate the Swap unless the Swap Provider transfers the Swap to a new swap provider acceptable to PGW or provides credit enhancement or collateral in form and substance acceptable to PGW. The Swap Provider may terminate the swap if both PGW's bond rating falls below Baa2 or BBB (Moody's/S&P) and the Swap Insurer's credit rating falls below A2 and A (Moody's/S&P), and PGW fails to provide a Credit Support Provider acceptable to the Swap Provider or post collateral in form and substance acceptable to the Swap Provider. While PGW's current credit rating is below the designated levels, the Swap Insurer's rating is currently AAA and Aa3.

UNDERWRITING

The underwriters for the Bonds have agreed to purchase such Bonds from the City, subject to the terms of the Purchase Agreement between the City and underwriters for the Bonds, at a purchase price of \$58,297,602.66 (which is equal to the par amount of \$58,285,000, plus net original issue premium of \$422,616.90, less the underwriter's discount of \$410,014.24).

The underwriters may offer and sell the Bonds to certain dealers and others (including sales for deposit into investment trusts, certain of which may be sponsored or managed by one or more of the underwriters) at prices lower than the public offering prices stated on the inside cover page hereof. Wells Fargo Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wachovia Bank, National Association.

RATINGS

Moody's Investors Service ("Moody's"), Standard & Poor's Rating Services, a Division of the McGraw-Hill Companies, Inc. ("Standard & Poor's") and Fitch Ratings, Inc. ("Fitch") have assigned the Bonds the ratings of "Baa2" with a negative outlook, "BBB-" with a stable outlook and "BBB-" with a stable outlook, respectively.

A rating, including any related outlook with respect to potential changes in such ratings, reflects only the view of the agency giving such rating and is not a recommendation to buy, sell or hold the Bonds. An explanation of the significance of such ratings may be obtained only from the rating agency furnishing the same. Such ratings may be changed at any time, and no assurance can be given that they will not be revised downward or withdrawn entirely by any of such rating agencies if, in the judgment of any of them, circumstances so warrant. Any such downward revision or withdrawal of any of such ratings may have an adverse effect on the market price of the Bonds.

The City is not required to maintain any particular rating on the Bonds and shall have no liability if a rating is lowered, withdrawn or suspended.

TAX MATTERS

Federal

Exclusion of Interest From Gross Income

In the opinion of Co-Bond Counsel, under existing statutes, regulations, rulings, and court decisions, assuming that the City complies with covenants relating to certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), interest on the Bonds will not be includible in gross income of the holders thereof for federal income tax purposes, is exempt from individual and corporate federal alternative minimum tax ("AMT"), and is not includible in adjusted current earnings for purposes of corporate AMT.

In rendering its opinion, Co-Bond Counsel has assumed compliance by the City with its covenants contained in the 1998 General Ordinance and the Bond Authorizations, and the representations in the Tax Compliance Certificate relating to actions to be taken by the City after issuance of the Bonds necessary to effect or maintain the exclusion from federal gross income of the interest on the Bonds. These covenants relate to, inter alia, the use of and investment of proceeds of the Bonds, and rebate to the United States Treasury of specified arbitrage earnings, if any. Failure to comply with such covenants could result in interest on the Bonds becoming includible in gross income for federal income tax purposes from the date of issuance of the Bonds.

Other Federal Tax Matters

Ownership or disposition of the Bonds may result in other federal tax consequences to certain taxpayers, including, without limitation, certain S corporations, foreign corporations with branches in the United States, property and casualty insurance companies, taxpayers who have an initial basis in the Bonds greater or less than the principal amount thereof, individual recipients of Social Security or Railroad Retirement benefits, and taxpayers, including banks, thrift institutions and other financial institutions subject to Code Section 265, who may be deemed to have incurred or continued indebtedness to purchase or to carry the Bonds.

Co-Bond Counsel is not rendering any opinion regarding any federal tax matters other than those described under the caption Exclusion of Interest from Gross Income and expressly stated in the form of Co-Bond Counsel

opinion included as APPENDIX F. Purchasers of the Bonds should consult their independent tax advisors with regard to all federal tax matters.

Pennsylvania

In the opinion of Co-Bond Counsel, under the laws of the Commonwealth of Pennsylvania as enacted and construed on the date hereof, interest on the Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax, and the Bonds are exempt from personal property taxes in Pennsylvania; however, any profits, gains, or income derived from the sale, exchange, or other disposition of the Bonds will be subject to Pennsylvania taxes and local taxes within the Commonwealth.

The Bonds and the interest thereon may be subject to state and local taxes in jurisdictions other than the Commonwealth of Pennsylvania under applicable state and local tax laws. Purchasers of the Bonds should consult their independent tax advisors with regard to all state and local tax matters.

CERTAIN LEGAL MATTERS

All legal matters incident to the authorization, issuance and sale of the Bonds are subject to approval of the legality of the issuance of the Bonds by Blank Rome LLP and Andre C. Dasent, P.C., both of Philadelphia, Pennsylvania, Co-Bond Counsel. The proposed forms of such opinions are included herein as APPENDIX F. Certain legal matters will be passed upon for the Underwriters by Saul Ewing LLP and Kelly, Monaco and Naples, LLP Co-Counsel to the Underwriters, both of Philadelphia, Pennsylvania. Certain legal matters will be passed upon for the City by the City of Philadelphia Law Department. Certain legal matters will be passed upon for PGW by the Office of General Counsel of Philadelphia Gas Works and by Eckert Seamans Cherin and Mellott, LLC of Harrisburg, Pennsylvania.

FINANCIAL ADVISOR

Public Financial Management, Inc., of Philadelphia, Pennsylvania, has served as financial advisor (the "Financial Advisor") to the City in respect of the sale of the Bonds. The Financial Advisor assisted in the preparation of this Official Statement, and in other matters relating to the planning, structuring and issuance of the Bonds, and has provided other advice. Public Financial Management, Inc. is a financial advisory and consulting organization and is not engaged in the business of underwriting or marketing of municipal securities or any other negotiable instruments.

INDEPENDENT AUDITORS

The basic financial statements and supplementary information of the Philadelphia Gas Works as of and for the years ended August 31, 2008 and August 31, 2007 included in APPENDIX A to this Official Statement have been audited by KPMG LLP, as stated in their report appearing therein.

Any financial information other than in APPENDIX A to this Official Statement has not been audited by any firm of independent auditors and no opinion on such information is expressed in this Official Statement.

INDEPENDENT CONSULTANT'S REPORT

The report prepared by Black & Veatch Corporation, and contained herein as APPENDIX B, has been included in reliance upon the expertise of that company as an independent consulting firm having broad experience in the design and analysis of the operation of gas works or gas distribution systems of the magnitude and scope of PGW and having skill in assessing assumptions used in the preparation of forecast financial statements of gas works systems.

CERTAIN RELATIONSHIPS

Public Financial Management, Inc., financial advisor to the City, acts as a consultant to PGW on certain management and labor relations issues and has provided testimony before the PUC on several of PGW's rate cases. Blank Rome LLP and Andre C. Dasent, P.C. provide certain legal services to the City and to PGW. Saul Ewing LLP provides certain legal services to the City. Kelly, Monaco and Naples, LLP provides certain legal services to the City. Black & Veatch Corporation provides certain professional services (unrelated to the Independent Consultant's Report) to PGW.

NO LITIGATION

To the knowledge of the City of Philadelphia Law Department and, solely with respect to the opinion described in (E) below, based upon certain representations from PGW's General Counsel, after customary inquiry, no litigation is pending against the City before any court, public board or agency, or threatened in writing against the City (A) to restrain or enjoin the issuance, sale, execution or delivery of the Bonds, (B) which contests the validity or enforceability of the Bonds or any proceedings of the City taken with respect to the issuance, sale, execution or delivery thereof, (C) which contests the pledge or application of any monies or security provided for the payment of the Bonds, (D) challenges the existence or powers of the City or (E) in which a final adverse determination, singly or in the aggregate, would have a material and adverse effect on PGW's operations or financial condition.

Upon delivery of the Bonds, the City Solicitor shall furnish a written confirmation, to the effect, among other things, that except for litigation which is disclosed in this Official Statement, to the knowledge of the Law Department after customary inquiry, no litigation is pending against the City before any court, public board or agency, or threatened in writing against the City (A) to restrain or enjoin the issuance, sale, execution or delivery of the Bonds, (B) which contests the validity or enforceability of the Bonds or any proceedings of the City taken with respect to the issuance, sale, execution or delivery thereof, (C) which contests the pledge or application of any monies or security provided for the payment of the Bonds, (D) challenges the existence or powers of the City or (E) in which a final adverse determination, singly or in the aggregate, would have a material and adverse effect on PGW's operations or financial condition.

NEGOTIABLE INSTRUMENTS

The Act provides that bonds issued thereunder shall have all the qualities and incidents of securities under the Uniform Commercial Code of the Commonwealth of Pennsylvania and shall be negotiable instruments.

CERTAIN REFERENCES

All summaries of the provisions of the Bonds and the security therefor, the Act, the General Ordinances and the Supplemental Ordinances set forth herein and in APPENDIX D hereof, and all summaries and references to other materials not purported to be quoted in full are only brief outlines of certain provisions thereof and do not constitute complete statements of such documents or provisions. Reference is made hereby to the complete documents relating to such matters for the complete terms and provisions thereof. So far as statements are made in this Official Statement involving matters of opinion, whether or not expressly so stated, they are made merely as such and not as representations of fact.

CONTINUING DISCLOSURE

The City will enter into a Continuing Disclosure Agreement with Digital Assurance Certification, L.L.C. with respect to the Bonds, which shall constitute a written undertaking for the benefit of the owners and beneficial owners of the Bonds. The proposed form of Continuing Disclosure Agreement is attached to this Official Statement as APPENDIX E.

ADDITIONAL INFORMATION

Upon written request to the office of the Director of Finance and payment of the costs of duplication and mailing, the Annual Report of the City for the fiscal year ended June 30, 2008, and the audited combined financial statements of the City for the fiscal year ended June 30, 2008, will be made available, as well as other pertinent information. Such a request should be addressed to: Office of the Director of Finance, Accounting Bureau, 1330 Municipal Services Building, 1401 John F. Kennedy Boulevard, Philadelphia, Pennsylvania 19102. The City will provide copies of the foregoing documents to one or more nationally recognized municipal securities information depositories. The City will provide financial and other information regarding PGW from time to time to Standard & Poor's Ratings Service, a Division of The McGraw-Hill Companies, Inc., Moody's Investors Service and Fitch Ratings in connection with securities ratings assigned by those rating agencies to obligations payable from Project Revenues or Gas Works Revenues. The City intends to continue these practices in future years on an annual basis on behalf of PGW as well as all obligations issued for PGW.

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This Official Statement has been duly executed and delivered by the following officers on behalf of the City of Philadelphia.

CITY OF PHILADELPHIA, PENNSYLVANIA

By: /s/ Michael A. Nutter
Honorable Michael A. Nutter, Mayor

By: /s/ Alan L. Butkovitz
Honorable Alan L. Butkovitz, City Controller

By: /s/ Shelley R. Smith
Shelley R. Smith, City Solicitor

Approved:

By: /s/ Rob Dubow
Rob Dubow, Director of Finance

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APPENDIX A

FINANCIAL STATEMENTS OF PGW FOR FISCAL YEARS ENDED
AUGUST 31, 2008 AND 2007

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

Basic Financial Statements and Supplementary Information

August 31, 2008 and 2007

(With Independent Auditors' Report Thereon)

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

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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 balance sheets of Philadelphia Gas Works (the Company), a component unit of the City of Philadelphia, as of August 31, 2008 and 2007, and the related statements of revenues and expenses, cash flows, and changes in fund equity, as of and for the years then ended. These financial statements are the responsibility of the Company's management. 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 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 the Company's internal control over financial reporting. Accordingly, we express no such opinion. 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. We believe that our audits provide a reasonable basis for our 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, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

The required supplementary information of management's discussion and analysis on pages 3 to 12 and the schedules of pension funding progress, other postemployment benefits funding progress, and other postemployment benefit employer contributions on pages 52 to 54 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. This supplementary information is the responsibility of the Company's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit such information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included on pages 55 to 58 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



As discussed in note 1(n), the Company adopted the provisions of Governmental Accounting Standards Board Statement (GASB) No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and GASB Statement No. 50, *Pension Disclosures*, as of September 1, 2006.

KPMG LLP

December 29, 2008

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Required Supplementary Information (Unaudited)
Management's Discussion and Analysis
August 31, 2008 and 2007

The narrative overview and analysis of the financial statements of Philadelphia Gas Works (the Company or PGW) for the years ended August 31, 2008 and 2007 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) 2008 reflected a 16.9% warmer than normal winter. The FY 2008 period was 0.7% warmer than the prior year and firm gas sales decreased by 2.4 Billion cubic feet (Bcf). In addition, the Weather Normalization Adjustment (WNA), which was in effect from October 2007 through May 2008, resulted in heating customers receiving charges totaling \$12.2 million as a result of the temperatures experienced during the period. FY 2007 reflected a 16.6% warmer than normal winter. The FY 2007 period was 1.2% warmer than the prior year; however, firm gas sales increased by 2.0 Bcf. In addition, the WNA, which was in effect from October 2006 through May 2007, resulted in heating customers receiving charges totaling \$6.5 million as a result of the temperatures experienced during the period.
- PGW achieved a collection rate of 95.5% in the current period, 95.8% in FY 2007 and 96.6% in FY 2006. The collection rate of 95.5% is calculated by dividing the total gas receipts collected in FY 2008 by the total gas billings that were applied to PGW customers' accounts from September 1 through August 31. The same methodology was utilized in FY 2007 and FY 2006, respectively.
- The Company adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45 (GASB 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as of September 1, 2006 and had a zero net Other Postemployment Benefits (OPEB) obligation at transition. PGW adopted the provisions of GASB 45 a year earlier than required by GASB because the Company is a component unit of the City of Philadelphia (the City) for financial reporting purposes and the Company's FY 2007 financial statements will be consolidated into the City's financial statements for the fiscal year ended June 30, 2008. The difference between the FY 2008 Annual Required Contribution (ARC) of \$44.1 million and the expenses paid by the Company of \$18.3 million resulted in a liability of \$25.8 million which has been recorded in other liabilities and deferred credits and expensed in FY 2008. The difference between the FY 2007 ARC of \$45.2 million and the expenses paid by the Company of \$18.8 million resulted in a liability of \$26.4 million which was recorded in other liabilities and deferred credits and expensed in FY 2007.
- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (GASB 49), is effective for the Company's fiscal year beginning September 1, 2008; however, the Company has chosen to implement the provisions of GASB 49 a year earlier than required by GASB because the Company is a component unit of the City for financial reporting purposes and the Company's FY 2008 financial statements will be consolidated into the City's financial statements for the fiscal year ended June 30, 2009. This statement establishes a framework for the recognition and measurement of pollution remediation liabilities. A pollution remediation obligation addresses the current or potential detrimental effects of existing pollution by participation in pollution remediation activities.

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Prior to the implementation of GASB 49, the Company recognized liabilities related to its voluntary participation in remediation activities under Pennsylvania Act 2, *Land Recycling and Environmental Remediation Standards Act of 1995*, which established the land recycling program, and its mandatory participation in activities under Pennsylvania Act 32, *Storage Tank and Spill Prevention Act of 1989*, which established a comprehensive program to prevent leaks and spills from underground and above ground tanks in accordance with existing U.S. generally accepted accounting principles (U.S. GAAP) related to the accrual of liabilities.

The Company revised its methodology for estimating its pollution remediation obligations to conform with GASB 49 in the current year, which resulted in an additional \$8.3 million liability which is reflected in other liabilities and deferred credits at August 31, 2008. GASB 49 requires pollution remediation liabilities to be measured at the beginning of the first period presented in the financial statements. The Company has not restated prior periods and instead recognized the effect of GASB 49 implementation in the current year, because the increase in the liability related to the implementation of GASB 49 is not material.

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.

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 are comprised of:

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 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 four statements presented are:

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

The balance sheet includes all of PGW's assets and liabilities, with the difference between the two reported as equity. Over time, increases or decreases in fund equity are indicators of whether PGW's financial position is improving or deteriorating.

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

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The statement of changes in fund equity provides a rollforward of the fund equity balance of PGW based upon the results from the statement of revenues and expenses.

Condensed Statements of Revenues and Expenses

(Thousands of dollars)

	Years ended August 31		
	2008	2007	2006
Total gas revenues	\$ 831,428	840,105	929,961
Other revenues	18,199	19,246	24,007
Total operating revenues	849,627	859,351	953,968
Total operating expenses	794,246	819,748	880,040
Operating income	55,381	39,603	73,928
Interest and other income	15,732	13,073	8,518
Total interest expense	(68,006)	(68,780)	(65,687)
Excess (deficiency) of revenues over (under) expenses	\$ 3,107	(16,104)	16,759

Operating Revenues

Operating revenues in FY 2008 were \$849.6 million, a decrease of \$9.8 million or 1.1% from the FY 2007 level. The decrease in FY 2008 was due to a milder winter. Operating revenues in FY 2007 were \$859.4 million, a decrease of \$94.6 million or 9.9% from the FY 2006 level. The decrease in FY 2007 was principally due to lower fuel costs which are a component of operating revenues through the gas cost rate (GCR). Please see the discussion of the cost of fuel in the Operating Expenses section below.

Total sales volumes, including gas transportation deliveries, in FY 2008 increased by 2.5 Bcf to 66.3 Bcf or 3.9% from FY 2007 sales volumes of 63.8 Bcf. In FY 2007 total sales volumes increased by 4.4 Bcf to 63.8 Bcf or 7.4% from FY 2006 sales volumes of 59.4 Bcf. Firm gas sales of 45.5 Bcf were 2.4 Bcf or 5.0% lower than FY 2007 firm gas sales of 47.9 Bcf were 1.7 Bcf or 3.7% higher than FY 2007. Interruptible customer sales decreased by 0.9 Bcf compared to FY 2007 and increased by 0.3 Bcf compared to FY 2006. Gas transportation sales in FY 2008 increased by 5.9 Bcf to 19.0 Bcf from the 13.1 Bcf level experienced in FY 2007. In FY 2007, the volume increased by 2.4 Bcf to 13.1 Bcf from the 10.7 Bcf level experienced in FY 2006.

The number of customers served by PGW at the end of FY 2008 decreased by 0.2% from the previous year to approximately 505,000 customers. The number of customers served by PGW at the end of FY 2007 and FY 2006 were approximately 506,000 and 486,000, respectively. Commercial accounts were approximately 25,000, reflecting no change from the previous two fiscal years. Industrial accounts decreased by 11.1% from the prior year's level to 800. Industrial accounts were 900 and 1,000 customers in FY 2007 and FY 2006, respectively.

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Residential customers decreased to 479,000 customers, a decrease of 1,000 from the prior year. The number of residential customers in FY 2007 increased to approximately 480,000 customers, an increase of 20,000 over the FY 2006 level.

Operating Expenses

Total operating and maintenance expenses, including fuel costs, in FY 2008 were \$794.2 million, a decrease of \$25.5 million or 3.1% from FY 2007. Total expenses decreased by \$60.3 million or 6.9% from FY 2007 compared to FY 2006. The decrease for FY 2008 reflects substantially lower natural gas utilization and an increase in refunds received from pipeline suppliers. The decrease for FY 2007 reflects substantially higher natural gas prices from FY 2006.

Cost of Fuel – The cost of natural gas utilized decreased by \$27.3 million or 5.1% to \$512.0 million in FY 2008 compared with \$539.3 million in FY 2007. The average commodity price per Thousand cubic feet (Mcf) increased by \$0.25 or \$13.5 million, while the volume of gas utilized decreased by 4.6 Bcf, 7.9% or \$37.6 million. In addition, pipeline supplier refunds in FY 2008 increased by \$10.0 million while demand charges increased by \$6.8 million, compared to FY 2007.

The cost of natural gas utilized decreased by \$85.8 million or 13.7% to \$539.3 million in FY 2007 compared with \$625.1 million in FY 2006. The average commodity price per Mcf decreased by nearly \$2.02 or \$117.2 million, while the volume of gas utilized increased by 3.0 Bcf, 5.4% or \$30.6 million, in FY 2007 despite a 1.2% decrease in degree days from FY 2006. In addition, pipeline supplier refunds in FY 2007 decreased by \$0.2 million while demand charges increased by \$0.7 million, compared to FY 2006.

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 current assets or 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 gas for FY 2008, FY 2007, and FY 2006 were \$8.48, \$8.23, and \$10.25 per Mcf, respectively.

Other Operating Expenses – Expenditures for street operations, infrastructure improvements, and plant operations in FY 2008 were \$68.9 million, down from the FY 2007 total of \$69.5 million as a result of lower labor costs and up from the FY 2006 total of \$66.1 million as a result of an increase in the value of gas used from the time customers request shutoff to the occupancy of the premise by a subsequent customer. This cost was partially reduced by lower operating expenses due to warmer weather conditions. In addition, the cost for customer services, collection and account management, marketing, and the administrative area increased by \$4.9 million or 5.7% in FY 2008 primarily due to costs related to the business transformation initiative and a decrease in the gas used by the utility. This category decreased by \$4.1 million or 4.5% in FY 2007, which was offset somewhat by higher premiums for active and retired employee health insurance coverage. Pension costs decreased by \$1.0 million and \$2.3 million in FY 2008 and FY 2007, respectively, based on the most recent actuarial valuation of the pension plan.

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Provision for Uncollectible Accounts – The provision for uncollectible accounts in FY 2008 totaled \$37.0 million, a decrease of \$3.0 million or 7.5% lower than FY 2007, which totaled \$40.0 million, a decrease of \$0.1 million or 0.3% compared to FY 2006 based on the most recent accounts receivable collectibility evaluation. The accumulated provision for uncollectible accounts at August 31, 2008 reflects a balance of \$140.4 million, compared to the \$150.2 million balance in FY 2007 and \$168.9 million in FY 2006. 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.

Depreciation Expense – Depreciation expense increased by \$3.1 million in FY 2008 compared with FY 2007. Depreciation expense increased by \$1.7 million in FY 2007 compared with FY 2006. The effective composite depreciation rates for FY 2008, FY 2007 and FY 2006 were 2.4%, 2.3% and 2.3%, respectively. Cost of removal is charged to expense as incurred.

Interest and Other Income – Interest and other income was \$2.7 million greater than FY 2007 as the result of increased earnings on higher restricted fund balances. Interest and other income in FY 2007 was \$4.6 million greater than FY 2006 as the result of increased earnings rates on higher restricted fund balances.

Interest Expense – Total interest expense decreased by \$0.8 million or 1.1% in FY 2008 compared with FY 2007 and increased by \$3.1 million or 4.7% in FY 2007 compared with FY 2006. Interest on long-term debt was \$3.9 million higher than the FY 2007 level as a result of the full year effect of the FY 2007 issuance of revenue bonds in May 2007. Other interest costs decreased by \$4.8 million or 28.0% in FY 2008 principally due to the reduction in the borrowing cost of the commercial paper program. Other interest costs increased by \$2.2 million or 14.6% in FY 2007 and increased by \$4.0 million or 36.4% in FY 2006 reflecting additional costs associated with PGW's commercial paper program and the amortization of the loss on reacquired debt.

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Excess (Deficiency) of Revenues Over (Under) Expenses – In FY 2008, the Company's excess of revenues over expenses was \$28.9 million prior to recording the expense of \$25.8 million related to OPEB. As a result, the Company ended with an excess of revenues over expenses of \$3.1 million. The Company had an excess of revenues over expenses of \$10.3 million in FY 2007 prior to recording the expense of \$26.4 million related to OPEB and \$16.8 million in FY 2006.

Condensed Balance Sheets
(Thousands of dollars)

Assets	August 31		
	2008	2007	2006
Utility plant, net	\$ 1,062,095	1,040,373	1,007,648
Restricted investment funds	219,788	277,139	135,625
Current assets:			
Accounts receivable (net of accumulated provision for uncollectible accounts of \$140,435, \$150,231, and \$168,889 for 2008, 2007, and 2006, respectively)	99,304	88,618	74,360
Other current assets and deferred debits, cash and cash equivalents, gas inventories, materials, and supplies	242,503	205,083	181,394
Total current assets	341,807	293,701	255,754
Other assets and deferred debits	105,975	103,727	106,983
Total assets	\$ 1,729,665	1,714,940	1,506,010
Fund Equity and Liabilities			
Fund equity	\$ 226,408	223,301	239,405
Total long-term debt	1,127,163	1,201,792	1,076,131
Current liabilities:			
Note payable	90,000	51,600	55,000
Current portion of long-term debt	76,030	86,995	39,591
Other current liabilities and deferred credits	126,235	103,276	73,854
Total current liabilities	292,265	241,871	168,445
Other liabilities and deferred credits	83,829	47,976	22,029
Total fund equity and liabilities	\$ 1,729,665	1,714,940	1,506,010

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Assets

Utility Plant – Utility plant, net of depreciation, totaled \$1,062.1 million in FY 2008, an increase of \$21.7 million or 2.1% compared with the FY 2007 balance of \$1,040.4 million. The FY 2007 balance of \$1,040.4 million, increased by \$32.8 million or 3.3% compared with the FY 2006 balance of \$1,007.6 million. Capital expenditures for construction of distribution facilities, purchase of equipment, information technology enhancements, and other general improvements were \$61.2 million in FY 2008 compared to \$69.1 million in FY 2007 and \$60.7 million in FY 2006. PGW funded capital expenditures through drawdowns from the Capital Improvement Fund in the amounts of \$60.9 million, \$60.7 million and \$63.1 million in FY 2008, FY 2007 and FY 2006, respectively. The major capital expenditures are associated with PGW's gas supply infrastructure, namely, gas mains and customer service lines.

Restricted Investment Funds – Restricted investment funds decreased by \$57.4 million in FY 2008 primarily due to the drawdown from its Capital Improvement Fund offset by interest income. Interest income on these funds, to the extent not drawn, is reflected as an increase and approximated \$2.7 million in FY 2008 and \$6.8 million in FY 2007. A drawdown from the Sinking Fund's capitalized interest account in the amount of \$0.1 million was utilized to offset the debt service payment in FY 2007. In FY 2006, this amount was \$6.0 million.

Accounts Receivable – In FY 2008 accounts receivable (net) of \$99.3 million increased by \$10.7 million, or 12.1% from FY 2007 due to firm transportation suppliers' billings and an increase in participation in the Customer Responsibility Program (CRP). Accounts receivable (net) increased by \$14.3 million, or 19.2% in FY 2007 compared to FY 2006. The accumulated provision for uncollectible accounts, totaling \$140.4 million decreased by \$9.8 million in FY 2008 and totaled \$150.2 million in FY 2007 and \$168.9 million in FY 2006.

Other Current Assets and Deferred Debits, Cash and Cash Equivalents, Gas Inventories, Materials, and Supplies – In FY 2008 cash and cash equivalents were \$49.3 million, a decrease of \$2.4 million from FY 2007, and totaled \$51.7 million in FY 2006. Gas storage increased by \$41.4 million or 29.9%. The increase in gas inventory reflects an increase in the gas cost per Mcf plus an increase in the amount of storage at year-end. Materials and supplies of \$187.5 million, which principally include gas inventory, maintenance spare parts, and material, increased by \$39.7 million and were \$147.8 million in FY 2007 and \$149.4 million in FY 2006. Other current assets and deferred debits totaled \$5.6 million in FY 2008, up \$0.1 million from FY 2007. In FY 2007 other current assets and deferred debits totaled \$5.6 million, down \$19.6 million from FY 2006, primarily due to the recovery of under-recovered GCR amounts from the prior year.

Other Assets and Deferred Debits – In FY 2008 other assets and deferred debits including unamortized bond issuance costs, unamortized loss on reacquired debt, and a deferred regulatory asset for environmental expenses totaled \$106.0 million, an increase of \$2.3 million from FY 2007, mainly due to an increase in the workers' compensation injuries and damages reserve. In FY 2007 the total was \$103.7 million and reflected an increase of \$3.3 million from FY 2006. The major portion of this change was related to the bond issuance costs on the \$313.4 million of debt issued in FY 2006, offset partially by deferred environmental costs.

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Liabilities

Long-Term Debt – Long-term debt, including the current portion and unamortized discount and premium, totaled \$1,203.2 million in FY 2008, \$85.6 million less than the previous year as a result of the Company paying off the City Loan and normal debt principal payments. This represents 84.2% of total capitalization in FY 2008. Long-term debt, including the current portion and unamortized discount, premium, and note payable – City Loan totaled \$1,288.8 million in FY 2007, \$173.1 million greater than the previous year as a result of principal payments on outstanding debt and the issuance of the Seventh Series and Nineteenth Series revenue bonds during FY 2007. This represents 85.2% of total capitalization in FY 2007. The total long-term debt for FY 2006 totaled \$1,115.7 million, which represented 82.3% of total capitalization.

Debt Service Coverage Ratio and Ratings – PGW has a mandatory debt service coverage ratio of 1.50 times debt service on the 1975 Ordinance Bonds and the 1998 Ordinance Bonds, respectively. In FY 2008, the debt service coverage was at 4.28 times debt service on the outstanding 1975 Ordinance Bonds and 1.88 times debt service on the Senior 1998 Ordinance Bonds compared to debt service coverage ratios of 3.70 and 2.00 times, respectively, in FY 2007 and 3.36 and 1.94 times, respectively, in FY 2006. PGW's current bond ratings are "Baa2" from Moody's Investors Service (Moody's), "BBB-" from Standard and Poor's Ratings Service (S&P), and "BBB-" from Fitch Ratings.

Short-Term Debt – Due to the highly seasonal nature of PGW's business, short-term debt is utilized to meet working capital requirements. PGW, pursuant to the provisions of the City of Philadelphia Note Ordinance, may sell short-term notes in a principal amount, which together with interest, may not exceed \$200.0 million outstanding at any one time as compared to \$150.0 million in FY 2006. The letter of credit supporting PGW's commercial paper program fixed the maximum level of outstanding notes plus interest at \$150.0 million in FY 2008 and FY 2007, respectively. These notes are intended to provide additional working capital and are supported by an irrevocable letter of credit and a security interest in PGW's revenues. The notes outstanding at August 31, 2008 had a weighted average interest rate of 1.63% and a remaining weighted average time to maturity of 61 days. The principal amounts outstanding at August 31, 2008 and 2007 were \$90.0 million and \$51.6 million, respectively. In addition, the City provided PGW with a \$45.0 million, 0.0% interest loan in FY 2001. In FY 2007, PGW paid \$2.0 million of the loan leaving an outstanding balance of \$43.0 million. In FY 2008, PGW paid \$20.5 million and \$22.5 million in December 2007 and August 2008, respectively to completely repay the remaining balance of the loan.

Liquidity/Cash Flow – At December 18, 2008, \$2.0 million was available from the Commercial Paper Program. Additionally, PGW had \$111.7 million available in its Capital Improvement Fund to be utilized for construction expenditures. These funding sources may be utilized during the fall and early winter period to provide liquidity until billings from the winter heating season are collected. The cash balance at December 18, 2008 was \$65.5 million.

Accounts Payable – In FY 2008 accounts payable increased \$6.9 million or 11.4% compared with FY 2007 primarily due to an increase in natural gas payables. In FY 2007 accounts payable increased \$3.1 million or 7.8% compared with FY 2006 reflecting a \$3.3 million increase in accounts payables associated with natural gas partially offset by a \$0.2 million decrease in trade payables.

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Other Liabilities and Deferred Credits – In FY 2008 other liabilities and deferred credits totaling \$83.8 million increased \$35.8 million compared to FY 2007. In FY 2007 other liabilities and deferred credits totaling \$48.0 million increased \$26.0 million compared to FY 2006. The increase in FY 2008 is the effect of recording the change in the liability for OPEB in the amount of \$25.8 million, an increase in the injuries and damages reserve and an increase in the environmental remediation liability. The increase in FY 2007 is the effect of recording the liability for OPEB in the amount of \$26.4 million.

Other Financial Factors

The City has made a major commitment to PGW by granting back its annual \$18.0 million payment, in each of the last three fiscal years, thereby improving PGW's overall liquidity position. PGW must continue to focus its efforts on becoming a competitive utility in the deregulated marketplace. PGW remains committed to achieving its tradition of providing high-quality service to customers, while continuing as a valuable enterprise of the City.

The Company's total OPEB actuarial accrued liability as of August 31, 2008 was \$591.6 million if the Company continued to provide for its OPEB obligations on a pay-as-you-go basis. The Company's actuarial accrued liability would be reduced to \$382.7 million if the Company adopted a policy of funding its ARC. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of 30 years. The actuarial valuation utilized a discount rate of 8.25% for purposes of developing the liabilities and ARC to demonstrate the effect of funding the Plan. This rate is based on the investment return expected on investments segregated in a funded trust.

The annual OPEB cost was \$52.3 million for the fiscal year ended August 31, 2008 and is projected to increase to \$70.2 million per year over the ensuing 20-year period on a pay-as-you-go basis. The annual OPEB cost was \$45.2 million for the fiscal year ended August 31, 2007.

On December 22, 2006, PGW filed for a \$100.0 million base rate increase with the Public Utility Commission (PUC). On September 28, 2007, the PUC approved a rate increase of \$25.0 million. PGW appealed this decision to Commonwealth Court on or about October 18, 2007 and this matter is still pending in the courts. The \$25.0 million rate increase was implemented in November 2007.

In November 2008, the Company filed for an extraordinary or emergency base rate increase of approximately \$60.0 million or 5.2% and simultaneously requested an \$85.0 million or 7.4% decrease in the GCR for a net 2.2% overall rate decrease of approximately \$25.0 million. The proposed base rate increase will serve several purposes. First, the increase will cover the additional financing costs that the Company anticipates it will incur in the next few months. Second, the increase will improve the Company's financial position so as to enhance its ability to access the financial markets and maintain its bond rating. Third, the increase will provide additional liquidity and financial flexibility in this tight credit market. On December 18, 2008, the PUC issued its decision approving a base rate increase of \$60.0 million or 5.2% and a decrease in the GCR of \$107.0 million for a net decrease in rates of \$47.0 million or 4.2%. These rates are effective as of January 1, 2009.

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The Company had \$90.0 million of commercial paper that was outstanding at August 31, 2008. Subsequent to year-end, all outstanding commercial paper matured, and additional commercial paper was issued. As of December 18, 2008, \$148.0 million of commercial paper was outstanding which matures on February 12, February 13 and March 12, 2009.

As of December 18, 2008, \$271.4 million of the Sixth Series Bonds are held by the providers of the Standby Bond Purchase Agreement as bank bonds. The providers of the Standby Bond Purchase Agreement continue, on a weekly basis, to remarket the bonds in accordance with the bond authorization. The Standby Bond Purchase Agreement expires on January 26, 2009. If the Standby Bond Purchase Agreement is not renewed, and no substitute liquidity facility is provided, any bank bonds held at that time will be amortized in ten payments payable the first business day of July and the first business day of December for the next five years. The Company has therefore recorded as current debt at August 31, 2008 one tenth of the outstanding Sixth Series Bonds as of August 31, including \$1.9 million due to mature in 2009 under the original amortization schedule and an additional \$29.3 million for a total of \$31.2 million.

The fair value of the interest rate swap as of December 18, 2008 was negative \$72.6 million. This means that the Company would have to pay this amount to terminate the swap. Per the swap agreement, the refunding or defeasance of the Sixth Series Bonds, in whole or in part, without the prior written consent of both the counterparty and the insurer, may constitute an event of termination unless certain conditions are met. There is a termination risk related to the interest rate swap agreement if PGW's bond rating falls below Baa2 or BBB (Moody's/S&P). Because the City's swap payments are insured by Financial Security Assurance Inc. (FSA) as long as FSA is rated at or above A2 or A (Moody's/S&P) the termination event based on the City's rating is stayed. Neither the Company's credit rating nor FSA's credit rating has declined below the levels required in the agreement as of December 18, 2008.

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, 2008 and 2007

(Thousands of dollars)

Assets	<u>2008</u>	<u>2007</u>
Utility plant, at original cost:		
In service	\$ 1,685,593	1,633,300
Under construction	46,969	48,013
Total	<u>1,732,562</u>	<u>1,681,313</u>
Less accumulated depreciation	<u>670,467</u>	<u>640,940</u>
Utility plant, net	<u>1,062,095</u>	<u>1,040,373</u>
Restricted investment funds:		
Sinking fund, revenue bonds	106,198	102,438
Capital improvement fund	111,207	172,134
City of Philadelphia	—	643
Workers' compensation escrow fund	<u>2,383</u>	<u>1,924</u>
Total restricted investment funds	<u>219,788</u>	<u>277,139</u>
Current assets:		
Cash and cash equivalents	49,338	51,698
Accounts receivable (net of provision for uncollectible accounts of \$140,435 and \$150,231 for 2008 and 2007, respectively)	99,304	88,618
Gas inventories, materials, and supplies	187,539	147,770
Other current assets and deferred debits	<u>5,626</u>	<u>5,615</u>
Total current assets	<u>341,807</u>	<u>293,701</u>
Unamortized bond issuance costs	38,738	42,086
Unamortized losses on reacquired debt	47,902	53,359
Other assets and deferred debits	<u>19,335</u>	<u>8,282</u>
Total assets	<u>\$ 1,729,665</u>	<u>1,714,940</u>

See accompanying notes to financial statements.

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

Balance Sheets

August 31, 2008 and 2007

(Thousands of dollars)

Fund Equity and Liabilities	<u>2008</u>	<u>2007</u>
Fund equity:		
Deficiency of capital assets, net of related debt	\$ (4,466)	(5,690)
Restricted	108,581	105,005
Unrestricted	<u>122,293</u>	<u>123,986</u>
Total fund equity	<u>226,408</u>	<u>223,301</u>
Long-term debt:		
Revenue bonds	<u>1,127,163</u>	<u>1,201,792</u>
Total long-term debt	<u>1,127,163</u>	<u>1,201,792</u>
Current liabilities:		
Note payable	90,000	51,600
Current portion of revenue bonds	76,030	43,995
Note payable – City Loan	—	43,000
Accounts payable	67,508	60,615
Customer deposits	7,325	9,049
Other current liabilities and deferred credits	32,581	15,524
Accrued accounts:		
Interest, taxes, and wages	15,821	15,088
Distribution to the City	<u>3,000</u>	<u>3,000</u>
Total current liabilities	292,265	241,871
Other liabilities and deferred credits	<u>83,829</u>	<u>47,976</u>
Total fund equity and liabilities	<u>\$ 1,729,665</u>	<u>1,714,940</u>

See accompanying notes to financial statements.

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

Statements of Revenues and Expenses

Years ended August 31, 2008 and 2007

(Thousands of dollars)

	2008	2007
Operating revenues:		
Gas revenues:		
Nonheating	\$ 78,687	90,798
Gas transport service	19,215	12,949
Heating	733,526	736,358
Total gas revenues	831,428	840,105
Appliance and other revenues	8,607	9,398
Other operating revenues	9,592	9,848
Total operating revenues	849,627	859,351
Operating expenses:		
Natural gas	511,976	539,300
Gas processing	14,436	16,240
Field services	37,126	36,100
Distribution	17,319	17,119
Collection and account management	15,447	15,221
Provision for uncollectible accounts	37,000	40,000
Customer services	12,305	11,783
Marketing	2,628	2,418
Administrative and general	60,716	56,819
Pensions	14,258	15,217
Other postemployment benefits	25,834	26,421
Taxes	5,677	6,730
Total operating expenses before depreciation	754,722	783,368
Depreciation	42,868	39,708
Less depreciation expense included in operating expenses above	3,344	3,328
Total depreciation	39,524	36,380
Total operating expenses	794,246	819,748
Operating income	55,381	39,603
Interest and other income	15,732	13,073
Income before interest expense	71,113	52,676
Interest expense:		
Long-term debt	56,075	52,146
Other	12,269	17,042
Allowance for funds used during construction	(338)	(408)
Total interest expense	68,006	68,780
Excess (deficiency) of revenues over (under) expenses	\$ 3,107	(16,104)

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended August 31, 2008 and 2007

(Thousands of dollars)

	2008	2007
Cash flows from operating activities:		
Receipts from customers	\$ 834,000	863,658
Payments to suppliers	(659,969)	(631,475)
Payments to employees	(105,596)	(106,018)
Claims paid	(2,691)	(2,958)
Other receipts	24,500	28,800
Net cash provided by operating activities	90,244	152,007
Cash flows from noncapital financing activities:		
Interest	3,548	4,766
Interest payments on notes payable	(4,099)	(8,098)
Net repayments of notes payable	38,400	(3,400)
Loan from City of Philadelphia	(43,000)	(2,000)
Restricted, City Loan deposit	643	(643)
Distribution to the City of Philadelphia	(18,000)	(18,000)
Grant back of distribution from the City of Philadelphia	18,000	18,000
Net cash used in noncapital financing activities	(4,508)	(9,375)
Cash flows from capital and related financing activities:		
Proceeds from long-term debt issued	—	245,350
Redemption of long-term debt	—	(45,450)
Long-term debt issuance costs	—	(5,652)
Long-term debt premium, discount, and issuance losses	—	(4,133)
Purchases of capital assets	(61,244)	(69,105)
Principal paid on long-term debt	(41,830)	(38,045)
Interest paid on long-term debt	(54,076)	(46,913)
Capital improvement fund deposits	—	(193,170)
Drawdowns on capital improvement fund	60,926	60,672
Interest income on capital improvement fund	8,089	4,497
Interest income on sinking fund	3,460	1,996
Sinking fund (deposits)	(3,759)	(8,086)
Other investment income	338	408
Net cash used in capital and related financing activities	(88,096)	(97,631)
Net increase (decrease) in cash and cash equivalents	(2,360)	45,001
Cash and cash equivalents at the beginning of the year	51,698	6,697
Cash and cash equivalents at the end of the year	\$ 49,338	51,698
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 55,381	39,603
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	39,812	36,732
Change in assets and liabilities:		
Receivables, net	(11,215)	3,387
Inventories	(39,769)	1,668
Accounts payable	6,892	3,133
Other liabilities and deferred credits	50,879	31,366
Other assets and deferred debits	(11,736)	36,118
Net cash provided by operating activities	\$ 90,244	152,007

See accompanying notes to financial statements.

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

Statements of Changes in Fund Equity

Years ended August 31, 2008 and 2007

(Thousands of dollars)

	<u>2008</u>	<u>2007</u>
Fund equity balance, beginning of the year	\$ 223,301	239,405
Excess (deficiency) of revenues over (under) expenses	3,107	(16,104)
Distribution to the City of Philadelphia	(18,000)	(18,000)
Grant back of distribution from the City of Philadelphia	18,000	18,000
Fund equity balance, end of the year	<u>\$ 226,408</u>	<u>223,301</u>

See accompanying notes to financial statements.

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

Notes to Financial Statements

August 31, 2008 and 2007

(1) Summary of Significant Accounting Policies

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

As described in note 2, the Company, is a component unit of the City, and consequently follows accounting principles promulgated by the Governmental Accounting Standards Board (GASB) as they apply to proprietary fund-type activities. In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Company does not apply accounting standards promulgated by the Financial Accounting Standards Board (FASB) issued after November 30, 1989. FASB Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*, is applicable to the Company. Under FASB Statement No. 71, certain assets or liabilities may be created by 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.

(b) Operating Budget

On May 29, 2008, the Company filed its fiscal year (FY) 2009 Operating Budget. The PGC conducted informal discovery concerning this budget in July and August 2008 and public hearings in September 2008. The PGC authorized interim spending authority of \$88,140,000 for the period September 1, 2008 through December 31, 2008, pursuant to a Motion, dated September 23, 2008. A final Order approving interim spending was approved by the Commission at its September 23, 2008 meeting. Briefs were filed on October 15, 2008, a Recommended Decision was received on October 27, 2008 and a final budget approval was granted by the Commission on December 2, 2008.

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

Notes to Financial Statements

August 31, 2008 and 2007

On July 13, 2007, the Company filed its FY 2008 Operating Budget. The PGC conducted hearings concerning this budget in August 2007 and approved the Company's proposed operating revenues and expenses with net adjustments of \$4,197,000.

(c) Capital Budget

On April 21, 2008, the Philadelphia Facilities Management Corporation (PFMC) Board approved the Company's Request to file an amendment to the FY 2008 budget in the amount of \$2,300,000 for funding to support the Risk-Based Collections and Field operations projects. These projects are critical efforts in support of the Company's Business Transformation effort. The Commission, after review and evaluation, approved a recommendation to City Council supporting the Company's amendment on July 2, 2008. City Council approved the Commission's recommendation on October 23, 2008 and the Mayor signed the ordinance on November 5, 2008.

On January 2, 2008 the Company filed a proposed FY 2009 Capital Budget in the amount of \$73,436,000. After review and evaluation, the PGC on April 30, 2008 approved a recommendation to City Council for a budget of \$71,956,000. The Gas Commission's recommendation was approved by City Council on June 19, 2008 and the ordinance signed by the Mayor on July 2, 2008.

On September 27, 2007 the Company filed with the PGC a proposal to amend the approved FY 2008 Capital Budget for two new line items totaling \$1,433,000. These line items were Supplemental Funding – Consolidate Fire Protection System – Richmond Plant for \$1,171,000 and Disaster Recovery for Richmond and Passyunk Plants for \$262,000. On October 23, 2007 the Company filed a proposal to further amend the budget by adding another new line item. Partial Reauthorization – Customer Service Data Warehouse for \$169,000. Concurrently, the Company proposed a reduction of \$1,523,000 in FY 2008 budget authorization to compensate for the additional funding requested. The Commission, after review and evaluation, recommended that City Council approve an amended budget for FY 2008 in the amount of \$70,727,000. Subsequently, City Council approved the PGC's recommendation on March 6, 2008, with the Mayor signing the budget ordinance on March 12, 2008.

On January 2, 2007, the Company filed with the PGC its FY 2008 Capital Budget requesting spending authority in the amount of \$118,243,000. This budget request was amended by the Company to reflect the deferral of two projects, Construction of Phase II Liquefied Natural Gas (LNG) Replacement and Implementation of Billing Collection Customer Service (BCCS) for a reduction of \$47,300,000. The PGC conducted hearings concerning this budget in February 2007. Briefs were filed on March 13, 2007. The Hearing Examiner issued a Recommended Decision on March 27, 2007 for consideration by the Commissioners further reducing the budget by \$295,000. The PGC's Resolution and Order recommending approval of the FY 2008 Capital Budget to City Council was passed on April 25, 2007. This recommendation of \$70,648,000 was approved by City Council on June 15, 2007. The Mayor of the City signed the Ordinance approving the FY 2008 Capital Budget on September 20, 2007.

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

Notes to Financial Statements

August 31, 2008 and 2007

(d) Base Rates

In November 2008, the Company filed for an extraordinary or emergency base rate increase of approximately \$60,000,000 or 5.2% and simultaneously requested an \$85,000,000 or 7.4% decrease in the GCR for a net 2.2% overall rate decrease of approximately \$25,000,000. The base rate increase will serve several purposes. First, the increase will cover the additional financing costs that the Company anticipates it will incur in the next few months. Second, the increase will improve the Company's financial position so as to enhance its ability to access the financial markets and maintain its bond rating. Third, the increase will provide additional liquidity and financial flexibility in this tight credit market. On December 18, 2008, the PUC issued its decision approving a base rate increase of \$60,000,000 or 5.2% and a decrease in the GCR of \$107,000,000 for a net decrease in rates of \$47,000,000, or 4.2%. These rates are effective as of January 1, 2009.

On December 22, 2006, the Company filed for a \$100,000,000 base rate increase with the PUC. The funds provided by this increase in base rates were to be used to pay increased operating and maintenance costs, establish an adequate level of working capital, repay the \$45,000,000 City loan, reduce the outstanding level of short-term commercial paper, provide a source of internal funds for capital expenditures, meet bond covenant requirements in each fiscal year, and provide funds for long-term debt reduction. On September 28, 2007, the PUC approved a rate increase of \$25,000,000 which was effective in November 2007. The Company appealed this decision to Commonwealth Court on or about October 18, 2007 and this matter is pending in the courts.

The previous increase in base rates of \$36,000,000 was approved by the PUC on April 12, 2002.

(e) Weather Normalization Adjustment Clause

The Weather Normalization Adjustment Clause (WNA) was approved by PUC Order dated August 8, 2002. The purpose of the WNA 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 results in neither a rate increase nor a rate decrease, but acts as a billing adjustment. The main benefits of the WNA are the stabilization of cash flow and the reduction of the need for short-term borrowing from year to year. The WNA is applied to customer invoices rendered during the period of October 1 through May 31 of each year for each billing cycle. The WNA will continue in place unless the PUC issues an order directing that it be discontinued. The Company cannot predict when the PUC will complete its review of the WNA, and the review was not completed as of August 31, 2008. The adjustments for the years ended August 31, 2008 and 2007 were an increase in billings of \$12,238,000 and \$6,498,000, respectively.

(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 gas cost rate (GCR) factor. The GCR reflects the increases or decreases in natural gas costs and the cost of other raw materials. 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.

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

Notes to Financial Statements

August 31, 2008 and 2007

At the end of the fiscal year, costs recovered through the GCR are compared to the actual cost of fuel and other specific costs. Customers are then credited or charged for over-recovery or under-recovery of costs. The GCR may be adjusted 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 and operating expenses, but do not affect operating income or net income. The Company at August 31, 2008 deferred approximately \$15,494,000 for GCR under-recovery.

GCR effective dates and rates

Effective date	GCR rate per Mcf*	Change
September 1, 2008	\$ 12.6527	(0.3709)
June 1, 2008	13.0236	2.3010
March 1, 2008	10.7226	0.1447
December 1, 2007	10.5779	0.4671
September 1, 2007	10.1108	(0.6143)
June 1, 2007	10.7251	0.2913
March 1, 2007	10.4338	(0.4781)
December 1, 2006	10.9119	(0.3439)
September 1, 2006	11.2558	(1.3074)
Prior	12.5632	—

* 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 are 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 \$2,847,000 and \$2,542,000 was charged to expense as incurred in FY 2008 and FY 2007, respectively, and is included in depreciation expense in the statements of revenues and expenses. 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 2008 and FY 2007 was 2.4% and 2.3%, respectively. The composite rates are supported by a depreciation study of utility plant as of August 31, 2004. The effective composite depreciation rates, as a percentage of cost, for FY 2008 were as follows:

Production plant	0.14% – 4.39%
Transmission, distribution, and storage	0.18% – 4.07%
General plant	1.62% – 9.97%

The next depreciation study is scheduled to be completed in FY 2010.

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

Notes to Financial Statements

August 31, 2008 and 2007

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 4.96% in FY 2008 and FY 2007, respectively.

The following is a summary of utility plant activity for the fiscal years ended August 31, 2008 and 2007, respectively (thousands of dollars):

	August 31, 2008			
	Beginning balance	Additions and transfers	Retirements and transfers	Ending balance
Land	\$ 5,267	328	—	5,595
Distribution and collection systems	1,221,067	52,803	(2,474)	1,271,396
Buildings and equipment	406,966	9,792	(8,156)	408,602
Total utility plant, at historical cost	1,633,300	62,923	(10,630)	1,685,593
Under construction	48,013	61,879	(62,923)	46,969
Less accumulated depreciation for:				
Distribution and collection systems	(556,620)	(28,609)*	2,768	(582,461)
Buildings and equipment	(84,320)	(11,412)*	7,726	(88,006)
Utility plant, net	\$ 1,040,373	84,781	(63,059)	1,062,095

* Cost of removal in the amounts of \$2,847 and \$2,542 was charged to expense as incurred in FY 2008 and FY 2007, respectively, and is not included in accumulated depreciation.

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

Notes to Financial Statements

August 31, 2008 and 2007

	August 31, 2007			
	Beginning balance	Additions and transfers	Retirements and transfers	Ending balance
Land	\$ 5,267	—	—	5,267
Distribution and collection systems	1,161,705	61,537	(2,175)	1,221,067
Buildings and equipment	388,697	25,500	(7,231)	406,966
Total utility plant, at historical cost	1,555,669	87,037	(9,406)	1,633,300
Under construction	65,122	70,055	(87,164)	48,013
Less accumulated depreciation for:				
Distribution and collection systems	(532,763)	(26,261)*	2,404	(556,620)
Buildings and equipment	(80,380)	(10,905)*	6,965	(84,320)
Utility plant, net	\$ 1,007,648	119,926	(87,201)	1,040,373

* Cost of removal in the amounts of \$2,847 and \$2,542 was charged to expense as incurred in FY 2008 and FY 2007, respectively, 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 and reconnection charges. Other operating revenues primarily consist of finance charges assessed on delinquent accounts.

Operating expenses include 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.

Revenue includes 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.

(i) Customers (Unaudited)

The Company's service territory encompasses the City. Of the Company's approximately 505,000 customers at August 31, 2008, nearly 95.0% were residential. Of the Company's approximately 506,000 customers at August 31, 2007, nearly 94.3% were residential.

PHILADELPHIA GAS WORKS
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Notes to Financial Statements

August 31, 2008 and 2007

The Company offers a discounted payment plan for current receivables with a possible forgiveness of arrearages in three years. The total number of customers with discounted payment plans as of August 31, 2008 and 2007 was approximately 77,000 and 78,000, respectively.

The Senior Citizen Discount also provides customers with a discounted payment plan. The total number of customers receiving the discount as of August 31, 2008 and 2007 was approximately 40,000 and 44,000, respectively.

(j) Provision for Uncollectible Accounts

The Company estimates its accumulated provision for uncollectible accounts based on a financial analysis and a collectibility study performed at the fiscal year-end. The methodology used in performing the collectibility study has been reviewed with the PGC. For FY 2008 and FY 2007, 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 \$19,014,000 and \$17,166,000 for FY 2008 and FY 2007, respectively, have been reclassified to accounts payable at year end.

(k) Gas Inventories, Materials, and Supplies

Gas inventories, materials, and supplies, consisting primarily of fuel stock, gases stored to meet peak demand requirements, and spare parts, are stated at average cost at August 31, 2008 and 2007, as follows (thousands of dollars):

	2008	2007
Gas inventory	\$ 179,751	138,388
Material and supplies	7,788	9,382
Total	\$ 187,539	147,770

(l) Bond Issuance Costs, Debt Discount, and Premium

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

(m) Losses on Recquired Debt

Losses on reacquired debt are deferred 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.

PHILADELPHIA GAS WORKS
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Notes to Financial Statements

August 31, 2008 and 2007

(n) Pensions and Postemployment Benefits

The Company sponsors a public employee retirement system (PERS), a single-employer defined-benefit plan, to provide pension benefits for all of its employees. The pension plan (the Pension Plan) is noncontributory, covering all employees and providing 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 the Company to the Sinking Fund Commission of the City. Management believes that the Pension Plan is in compliance with all applicable laws.

The Company sponsors a single employer defined benefit healthcare plan and provides postemployment healthcare and life insurance benefits to approximately 1,920 and 1,935 participating retirees and their beneficiaries and dependents for FY 2008 and FY 2007, respectively, in accordance with their retiree medical program. The Company also provides such benefits to approximately 1,699 and 1,720 active employees and their dependents for FY 2008 and FY 2007, respectively, by charging the annual insurance premiums to expense.

GASB Statement No. 45 (GASB 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, becomes effective for the Company's fiscal year beginning September 1, 2007. This Statement requires the Company to account for and report the value of its future other postemployment benefit (OPEB) obligations currently rather than on a pay-as-you-go basis. The Company adopted the provisions of GASB 45 as of September 1, 2006. The Company had a zero net OPEB obligation at transition. As discussed in note 11, the difference between the FY 2008 annual OPEB expense of \$44,114,000 and the expenses paid by the Company of \$18,280,000 resulted in an increase in the liability of \$25,834,000 which has been recorded in other liabilities and deferred credits and expensed in FY 2008.

Additionally, the Company adopted the provisions of GASB Statement No. 50, *Pension Disclosures*, which more closely aligns the financial reporting requirements for pensions with those of OPEB, as of September 1, 2006.

(o) Cash Equivalents

For the purpose of reporting cash equivalents, all nonrestricted highly liquid investments with original maturities of three months or less are considered cash equivalents.

(p) 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.

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

(q) 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.

(r) Estimates

In preparing the financial statements in conformity with U.S. GAAP, management uses estimates. The Company has disclosed in the financial statements all estimates where it is reasonably possible that the estimate will change in the near term and the effect of the change could be material to the financial statements.

(s) Pollution Remediation

GASB Statement No. 49 (GASB 49), *Accounting and Financial Reporting for Pollution Remediation Obligations*, is effective for the Company's fiscal year beginning September 1, 2008, however, the Company has chosen to implement the provisions of GASB 49 a year earlier than required by GASB because the Company is a component unit of the City for financial reporting requirements and the FY 2008 financial statements will be consolidated into the City's financial statements for the fiscal year ended June 30, 2009. This statement establishes a framework for the recognition and measurement of pollution remediation liabilities. A pollution remediation obligation addresses the current or potential detrimental effects of existing pollution by participation in pollution remediation activities.

Prior to the implementation of GASB 49, the Company recognized liabilities related to its voluntary participation in remediation activities under Pennsylvania Act 2, *Land Recycling and Environmental Remediation Standards Act of 1995 (Act 2)*, which established the "land recycling program, and related to its mandatory participation in activities under Pennsylvania Act 32, *Storage Tank and Spill Prevention Act of 1989 (Act 32)*, which established a comprehensive program to prevent leaks and spills from underground and above ground tanks in accordance with existing U.S. GAAP related to the accrual of liabilities.

Under Act 2, the Notice of Intent to Remediate (NIR) process was conducted by the Company in October of 2004 and a total of four Public Involvement Plan meetings were conducted at multiple City Recreation Centers throughout Philadelphia during February and March of 2005. In March of 2005 (after the public meetings were conducted), the Company submitted a series of five Remedial Investigation Reports (RIRs) to the Act 2 for review. In July 2005, the Act 2 program approved all five RIRs submitted in March 2005.

In accordance with GASB 49, the Company revised its methodology for estimating its pollution remediation obligations to 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

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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 Act 2 and Act 32 remediation efforts, adjusted as additional information becomes available.

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, price changes, changes in technology, or changes in applicable regulations.

The implementation of GASB 49 resulted in an additional \$8,300,000 liability which is reflected in other liabilities and deferred credits at August 31, 2008. Although GASB 49 requires pollution remediation liabilities to be measured at the beginning of the first period presented in the financial statements, because the increase in the liability related to the implementation of GASB 49 is not material, the Company has not restated prior periods and instead recognized the effect of GASB 49 implementation in the current year.

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.

(1) Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation.

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

The Company is 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 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 2008, the applicable maximum amount was calculated to be \$1,011,000. In FY 2007, the applicable maximum amount was calculated to be \$976,000. The agreement requires the Company to make annual payments of \$18,000,000 to the City. In FY 2008 and FY 2007, the Company made the annual payment of \$18,000,000 to the City. The City then granted the \$18,000,000 back to the Company in both years.

The Company engages in various other transactions with the City. The Company provides gas service to the City. Operating revenues include \$13,914,000 and \$17,245,000 in FY 2008 and FY 2007, respectively, relating to sales to the City. Water and sewer services and licenses are purchased from the City. Such purchases totaled \$616,000 and \$615,000 in FY 2008 and FY 2007, respectively. Net amounts receivable from the City were \$375,000 and \$240,000 at August 31, 2008 and 2007, respectively.

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Certain activities of the PGC are paid for by the Company. Such payments totaled \$788,000 and \$684,000 in FY 2008 and FY 2007, respectively.

(3) Cash, Cash Equivalents, and Investments

(a) Cash and Cash Equivalents

Cash and cash equivalents consist primarily of bank deposits, money market accounts, and repurchase agreements. Bank balances of such deposits and accounts at August 31, 2008 and 2007 were \$52,504,000 and \$54,892,000, respectively. Book balances of such deposits and accounts at August 31, 2008 and 2007 were \$49,338,000 and \$51,698,000, respectively. Federal depository insurance on these balances at August 31, 2008 and 2007 was \$158,000 and \$222,000, respectively. The remaining balances are not insured.

For the Company's cash equivalents, the Company's cash balances fluctuate significantly during the year. Excess cash balances are usually invested in money market accounts and repurchase agreements.

The highest balance of money market accounts during the fiscal years ended August 31, 2008 and 2007 were \$135,200,000 and \$157,200,000, respectively. Money market accounts with a carrying amount (at fair value) of \$51,200,000 and \$53,702,000 at August 31, 2008 and 2007, respectively, are included in the balances presented above.

The highest balance of repurchase agreements during the fiscal year ended August 31, 2008 was \$62,600,000. There were no repurchase agreements outstanding at August 31, 2008 and 2007.

(b) Restricted Investment Funds

The investments in the Company's Sinking Fund, Capital Improvement Fund, Workers' Compensation Escrow Fund, and City Loan Escrow Account consist primarily of a Guaranteed Investment Contract (GIC), 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. The balance of the Capital Improvement Fund at August 31, 2008 and 2007 was \$111,207,000 and \$172,134,000, respectively. The unexpended Capital Improvement Fund proceeds are restricted to the purchase of utility plant. In FY 2008 and FY 2007, the Company utilized the Capital Improvement Fund to provide liquidity for the additions to utility plant.

Investments are recorded at fair value except for certain money market funds recorded at amortized cost. The adjustment to market value for the Capital Improvement Fund resulted in a loss of \$71,500 at August 31, 2008. The adjustment to market value for the Capital Improvement Fund resulted in a gain of \$8,000 at August 31, 2007. The adjustment to market value for the Sinking Fund resulted in gains of \$242,000 and \$214,000 at August 31, 2008 and 2007, respectively.

Pursuant to the Pennsylvania Department of Labor and Industry Bureau of Workers' Compensation Self-Insurance policy, the Company has to establish and maintain a restricted trust account. As of August 31, 2008 and 2007, the trust account balances were \$2,383,000 and \$1,924,000, respectively.

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

Investment type	August 31, 2008			
	Fair value	Weighted average maturity (years)	Credit rating	Rating agency
U.S. government agencies and instrumentalities:				
Federal Home Loan Mortgage Corporation medium term notes	\$ 32,244	0.4608	Aaa/AAA	Moody's/S&P
Federal Home Loan Mortgage gold partner certificate	491	1.6694	N/A	
Federal National Mortgage Association global benchmark notes	7,129	0.2794	Aaa/AAA	Moody's/S&P
Federal National Mortgage Association medium term notes	1,248	1.8506	Aaa/AAA	Moody's/S&P
Federal Home Loan Banks	<u>9,405</u>	0.8250	Aaa/AAA	Moody's/S&P
Total U.S. government agencies and instrumentalities	<u>50,517</u>			
Corporate obligations:				
Goldman Sachs Group senior un subordinate	968	0.7083	Aa-/AA3	Moody's/S&P
Prioca Global	997	0.2917	Aa/AA3	Moody's/S&P
Societe Generale National Association commercial paper	4,950	1.6694	N/A/A-1+	S&P
HSBC Finance Corporation commercial paper	985	0.2403	P1/A-1+	Moody's/S&P
American Express commercial paper	985	0.2403	P1/A-1+	Moody's/S&P
Banco Santander PR San Juan certificate of deposit	98	0.0280	FDIC Insured	
Bank of Florida certificate of deposit	99	0.1043	FDIC Insured	

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Investment type	August 31, 2008			
	Fair value	Weighted average maturity (years)	Credit rating	Rating agency
Bridgewater Savings Bank certificate of deposit	\$ 98	0.0208	FDIC Insured	
Countrywide Bank certificate of deposit	99	0.0180	FDIC Insured	
Eurobank Hato Rey certificate of deposit	99	0.0205	FDIC Insured	
First Suburban National Bank certificate of deposit	98	0.1876	FDIC Insured	
Ironstone Bank certificate of deposit	98	0.1298	FDIC Insured	
Mutual Bank certificate of deposit	99	0.0745	FDIC Insured	
Ravenswood Bank certificate of deposit	<u>97</u>	0.1835	FDIC Insured	
Total corporate obligations	<u>9,770</u>			
Total fair value of investments	<u>60,287</u>			
Cash and cash equivalents:				
Citigroup Funding Inc. commercial paper	4,966	0.1474	N/A/A-1+	S&P
UBS Finance Delaware LLC commercial paper	<u>2,988</u>	0.0595	N/A/A-1+	S&P
Total cash and cash equivalents	<u>7,954</u>			
Money market:				
Morgan Stanley Prime Portfolio Institutional Class Funds	21,772	N/A	N/A	
First American Government Obligations Fund Class Z	13,884	N/A	N/A	
First American Prime Obligations Class Z	<u>6,847</u>	N/A	N/A	
Total money market	<u>42,503</u>			
Accrued interest	<u>463</u>			
Total fair value of investments, including cash deposits	<u>\$ 111,207</u>			
Portfolio weighted modified duration		0.5898		

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<u>Investment type</u>	August 31, 2007			
	<u>Fair value</u>	<u>Weighted average maturity (years)</u>	<u>Credit rating</u>	<u>Rating agency</u>
U.S. government agencies and instrumentalities:				
Federal Home Loan Banks discount note	\$ 2,369	0.1917	Aaa/AAA	Moody's/S&P
Federal National Mortgage Association note	<u>3,293</u>	0.4194	Aaa/AAA	Moody's/S&P
Total U.S. government agencies and instrumentalities	<u>5,662</u>			
Corporate obligations:				
American Express commercial paper	492	0.2861	P1/A1	Moody's/S&P
General Electric commercial paper	1,004	0.2889	P1/A1	Moody's/S&P
HSBC Finance commercial paper	1,003	0.2972	P1/A1	Moody's/S&P
JP Morgan Chase & Co Global Sr Holding Co note	992	0.4194	Aa2/AA-	Moody's/S&P
Goldman Sachs Group global note	<u>994</u>	0.3750	Aa3/AA-	Moody's/S&P
Total corporate obligations	<u>4,485</u>			
Total fair value of investments	<u>10,147</u>			
Money market:				
First American Prime Obligations Fund Class Z	<u>161,965</u>	N/A	N/A	
Total money market	<u>161,965</u>			
Accrued interest	<u>22</u>			
Total fair value of investments, including cash deposits	<u>\$ 172,134</u>			
Portfolio weighted modified duration		0.3304		

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The following is a schedule that details the Company's investments in the Sinking Fund (thousands of dollars):

Investment type	August 31, 2008			
	Fair value	Weighted average maturity (years)	Credit rating	Rating agency
Guaranteed investment contracts	\$ 48,129	12.5000	*	*
U.S. government obligations:				
U.S. Treasury notes	16,806	2.5158	Aaa/AAA	Moody's/S&P
Total U.S. government obligations	16,806			
U.S. government agencies and instrumentalities:				
Federal Home Loan Mortgage Corporation medium term notes	10,176	2.0177	Aaa/AAA	Moody's/S&P
Federal National Mortgage Association medium term notes	5,152	2.1446	Aaa/AAA	Moody's/S&P
Federal Home Loan Banks	16,514	1.9511	Aaa/AAA	Moody's/S&P
Total U.S. government agencies and instrumentalities	31,842			
Corporate obligations:				
Wells Fargo note	2,688	0.5861	Aa1/AA+	Moody's/S&P
Associates Corp National Association	2,610	0.1694	Aa3/AA-	Moody's/S&P
Procter & Gamble Company	1,293	0.2917	Aa3/AA-	Moody's/S&P
Total corporate obligations	6,591			
Total fair value of investments	103,368			
Cash and cash equivalents:				
U.S. Treasury bills	1,860	0.0111	Aaa/AAA	Moody's/S&P
Total cash and cash equivalents	1,860			
Money market:			N/A	N/A
Fidelity Institutional Government Portfolio Class II	970			
Total money market	970			
Total fair value of investments, including cash deposits	\$ 106,198			
Portfolio weighted modified duration		1.9002		

* The credit rating of this investment is unrated.

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<u>Investment type</u>	<u>August 31, 2007</u>			
	<u>Fair value</u>	<u>Weighted average maturity (years)</u>	<u>Credit rating</u>	<u>Rating agency</u>
Guaranteed investment contracts	\$ 49,504	13.5000	*	*
U.S. government obligations:				
U.S. Treasury notes	7,294	1.6153	Aaa/AAA	Moody's/S&P
Total U.S. government obligations	<u>7,294</u>			
U.S. government agencies and instrumentalities:				
Federal National Mortgage Corporation debentures	6,973	2.0417	Aaa/AAA	Moody's/S&P
Federal Farm Credit Bank bonds	4,680	1.3717	Aaa/AAA	Moody's/S&P
Federal Home Loan Mortgage Corporation bonds	10,396	1.9650	Aaa/AAA	Moody's/S&P
Federal Home Loan Mortgage Corporation debentures	8,810	1.8329	Aaa/AAA	Moody's/S&P
Federal National Mortgage Association notes	5,861	2.3328	Aaa/AAA	Moody's/S&P
Federal Home Loan Mortgage Corporation notes	6,358	1.3568	Aaa/AAA	Moody's/S&P
Total U.S. government agencies and instrumentalities	<u>43,078</u>			
Corporate obligations:				
Procter & Gamble note	1,265	1.2917	Aa3/AA-	Moody's/S&P
U.S. Bank National Association	1,105	0.8750	Aa2/AA	Moody's/S&P
Total corporate obligations	<u>2,370</u>			
Total fair value of investments	<u>102,246</u>			
Money market:				
Fidelity Institutional Government Portfolio Class II	192	N/A	N/A	
Total money market	<u>192</u>			
Total fair value of investments, including cash deposits	<u>\$ 102,438</u>			
Portfolio weighted modified duration		1.7806		

* The credit rating of this investment is unrated.

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

August 31, 2008				
Investment type	Fair value	Weighted average maturity (years)	Credit rating	Rating agency
Money market:				
First American Treasury Obligations Fund	\$ 2,383	N/A	N/A	N/A
Total money market	2,383			
Total fair value of investments, including cash deposits	\$ 2,383			
August 31, 2007				
Investment type	Fair value	Weighted average maturity (years)	Credit rating	Rating agency
Money market:				
First American Treasury Obligations Fund	\$ 1,924	N/A	N/A	N/A
Total money market	1,924			
Total fair value of investments, including cash deposits	\$ 1,924			

(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 interest rate risk. Investments shall be diversified as to maturities, and as to kind of investment to eliminate 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.

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(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: (1) bonds or notes of the U.S. government; (2) U.S. Treasury obligations, including STRIPs; 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) U.S. agency obligations rated Aaa/AAA by Moody's Investor Services or Standard & Poor's; (4) collateralized certificates of deposit; (5) bankers acceptances, Eurodollars deposits, and Euro certificates of deposit that are collateralized; (6) commercial paper rated MIG1 or A1+ by Moody's Investor Services and Standard & Poor's, respectively; (7) general obligation bonds of corporations rated AA or better by Moody's Investor Services or Standard & Poor's, with a maturity of two years or less (except the Sinking Fund); (8) collateralized mortgage obligations and pass-through securities rated AA or better by Moody's Investor Services or Standard & Poor's or collateralized with securities that meet the Company's own investment criteria, with a maturity of two years or less (except the Sinking Fund); (9) money market mutual funds, as defined by the Securities and Exchange Commission; (10) repurchase agreements collateralized either through actual delivery of eligible collateral or through segregation of collateral by a depository that is holding the counterparty's securities, provided such collateral meets the Company's own investment criteria; and (11) obligations of the Commonwealth of Pennsylvania (the Commonwealth) or any municipality or other political subdivision of the Commonwealth, registered or otherwise as to principal and interest, with a maturity of two years or less (except the Sinking Fund).

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

(e) Custodial Credit Risk

The Company has selected custodian banks that are members of the Federal Reserve System to hold its investments. Delivery of the applicable investment documents (e.g., contracts, securities, and safekeeping receipts) 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.

(f) Concentration of Credit Risk

More than 5.0% of the Company's investments are in the First American Government Obligations Fund Class Z, U.S. Treasury notes, Morgan Stanley Prime Portfolio Institutional Class Fund, Federal Home Loan Banks, Federal Home Loan Mortgage Corporation medium term notes and the GIC with Financial Security Assurance Inc. (FSA) Capital Markets Services, LLC. These investments represent 6.32% and 7.65%, 9.91%, 11.79%, 19.30% and 21.90%, respectively, of the Company's total investments.

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(4) Deferred Costs

In compliance with orders issued by the PGC, the cost of projects that produce benefits over an extended period is deferred. Such costs are being amortized to expense over a period matching their useful lives, which range from two to ten years. There is no return on the asset being charged to the customers. During FY 2008, there were costs of \$157,000 incurred for rate case expenses and \$437,000 incurred for the PUC's management audit that will be amortized over a four-year period and a seven-year period, respectively. The unamortized costs included in other assets and deferred debits were \$607,000 and \$324,000 as of August 31, 2008 and 2007, respectively. The unamortized costs included in other current assets and deferred debits were \$210,000 and \$397,000 as of August 31, 2008 and 2007, 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. As a result of settlements during FY 2008 by the Company's insurance carriers associated with environmental remediation costs, the Company received \$1,100,000. Environmental remediation costs of approximately \$652,000 in FY 2008 were offset by these insurance settlements, and the remainder was deferred. The Company estimates additional expenditures to be approximately \$21,600,000 as discussed in note 12.

(5) Deferred Compensation Plan

The Company offers its employees a deferred compensation plan (the Plan) created in accordance with Internal Revenue Code Section 457. The Plan, available to all Company employees with six months of service, permits them to defer a portion of their salary until future years. The Company provides an annual 10.0% matching contribution up to \$500 that immediately vests to the employee. The Company contributed \$361,000 and \$365,000 for the years ended August 31, 2008 and 2007, respectively.

(6) Notes Payable

Pursuant to the provisions of certain ordinances and resolutions of the City, the Company may sell short-term notes in a principal amount that, together with interest, may not exceed \$200,000,000 outstanding at any one time. These notes are intended to provide additional working capital. They are supported by an irrevocable letter of credit and a subordinated security interest in the Company's revenues.

A new Series E of the tax-exempt commercial paper program was instituted on January 18, 2006, concurrently with the expiration of Series D. Under the new credit agreement, the commitment amount was increased from \$100,000,000 to \$150,000,000. The credit agreement was further amended and restated as of May 22, 2007 to reflect a new term and rate structure. The expiration of the credit agreement was extended to May 29, 2010.

The notes outstanding at August 31, 2008 had a weighted average interest rate of 1.63% and remaining weighted average time to maturity of 61 days. The principal amount outstanding at August 31, 2008 and 2007 was \$90,000,000 and \$51,600,000, respectively.

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Commercial paper activity for the years ended August 31, 2008 and 2007 was as follows (thousands of dollars):

	Year ended August 31, 2008			
	Beginning balance	Additions	Deletions	Ending balance
Commercial paper	\$ 51,600	87,900	49,500	90,000
	Year ended August 31, 2007			
	Beginning balance	Additions	Deletions	Ending balance
Commercial paper	\$ 55,000	94,900	98,300	51,600

See note 8(e) for detail of the Note Payable – City Loan.

(7) GCR Tariff Reconciliation

During the fiscal years ended August 31, 2008, 2007, and 2006, the Company's actual gas costs were below its billed gas costs by approximately \$30,503,000, \$24,904,000, and \$8,466,000, respectively.

Natural Gas Pipeline Supplier Refund

The Company received refunds including interest in FY 2008 in the amount of \$10,660,000 related to Federal Energy Regulatory Commission (FERC)/Pipeline Rate Cases. This amount was utilized as a reduction in the cost of gas for reconciliation purposes in the calculation of the GCR for FY 2008.

The Company received refunds including interest in FY 2007 in the amount of \$648,000 related to FERC/Pipeline Rate Cases. This amount was utilized as a reduction in the cost of gas for reconciliation purposes in the calculation of the GCR for FY 2007.

(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, 2008 and 2007 (thousands of dollars):

	August 31, 2008			August 31, 2007		
	Current portion	Long-term	Total	Current portion	Long-term	Total
Revenue bonds	\$ 73,941	1,103,828	1,177,769	41,830	1,176,368	1,218,198
Unamortized discount	(482)	(4,469)	(4,951)	(511)	(4,951)	(5,462)
Unamortized premium	2,571	27,804	30,375	2,676	30,375	33,051
Total revenue bonds	76,030	1,127,163	1,203,193	43,995	1,201,792	1,245,787
Note Payable – City Loan	—	—	—	43,000	—	43,000
Total	\$ 76,030	1,127,163	1,203,193	86,995	1,201,792	1,288,787

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The following is a summary of activity related to revenue bonds and other liabilities and deferred credits and the respective balances for the fiscal years ended August 31, 2008 and 2007 (thousands of dollars):

	Year ended August 31, 2008			
	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>
Revenue bonds	\$ 1,218,198	—	(40,429)	1,177,769
Other liabilities and deferred credits:				
Forward rate agreement	\$ 8,431	—	(624)	7,807
Claims and judgments	3,111	2,966	—	6,077
Environmental clean-up	10,013	7,677	—	17,690
Other postemployment benefits	26,421	25,834	—	52,255
Total other liabilities and deferred credits	\$ 47,976	36,477	(624)	83,829
	Year ended August 31, 2007			
	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>
Revenue bonds	\$ 1,055,038	246,655	(83,495)	1,218,198
Other liabilities and deferred credits:				
Forward rate agreement	\$ 9,056	—	(625)	8,431
Claims and judgments	3,899	—	(788)	3,111
Environmental clean-up	9,074	939	—	10,013
Other postemployment benefits	—	26,421	—	26,421
Total other liabilities and deferred credits	\$ 22,029	27,360	(1,413)	47,976

Liability amounts due within one year are reflected in the other current liabilities and deferred credits line of the balance sheet.

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Principal maturities and scheduled interest payments for revenue bonds are as follows (thousands of dollars):

	Revenue bonds			
	Principal	Interest	Net swap amount	Total
Fiscal year ending August 31:				
2009*	\$ 44,625	53,233	(5,717)	92,141
2010	46,365	50,965	(5,682)	91,648
2011	46,977	48,677	(5,648)	90,006
2012**	41,787	46,915	(5,611)	83,091
2013	45,055	45,269	(5,573)	84,751
2014 – 2018	229,865	192,562	(25,374)	397,053
2019 – 2023	242,520	137,093	(19,042)	360,571
2024 – 2028	244,915	81,657	(9,787)	316,785
2029 – 2033	140,565	35,093	(976)	174,682
2034 – 2038	95,095	8,175	—	103,270
Total	<u>\$ 1,177,769</u>	<u>699,639</u>	<u>(83,410)</u>	<u>1,793,998</u>

* This does not include \$29,317,000 of Sixth Series Bonds that is included in current liabilities due to the scheduled expiration of the Standby Bond Purchase Agreement as described in note 15. This amount is included in the years in which principal matures according to the original maturity schedule.

Future debt service is calculated using rates in effect at August 31, 2008 for variable rate bonds. The net swap payment amounts were calculated by subtracting the future variable rate interest payments subject to swap agreements from the synthetic fixed-rate amount intended to be achieved by the swap amount.

** Tax Exempt Capital Accumulator (TECA) accretions for the 11 "C" Series in the amount of \$4,643,000 are not included in the principal amount in FY 2012.

(a) Bond Issuances

2007 Ordinances

On March 21, 2007, the Mayor signed two bills into law authorizing the City to issue revenue bonds. The first bill signed by the Mayor constituted the Nineteenth Supplemental Ordinance to the General Gas Works Revenue Bond Ordinance of 1975 (the 1975 General Ordinance). This ordinance authorizes the City to issue revenue bonds for the following purposes: (a) the current refunding of a portion of the outstanding City of Philadelphia, Pennsylvania Gas Works Revenue Bonds, Fifteenth Series (1975 Refunded Bonds); (b) paying the costs of issuing the Nineteenth Series Bonds; and (c) paying any other Project Costs (as defined in the Act).

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The second bill signed by the Mayor constituted the Eight Supplemental Ordinance to the General Gas Works Revenue Bond Ordinance of 1998 (the 1998 General Ordinance). This ordinance authorizes the City to issue revenue bonds for the following purposes: (a) providing funding for the capital projects included in the capital program of the Company as from time to time included in the capital budgets of the Company, as approved by City Council; (b) advance refunding of the 1998 Refunded Bonds, which were issued under the 1998 General Ordinance; (c) paying the costs of issuing the Seventh Series Bonds and the required deposits to the 1998 Ordinance Sinking Fund Reserve; and (d) paying any other Project Costs (as defined in the Act).

1998 Ordinance Seventh Series Bonds

On May 15, 2007, the Company issued \$230,900,000 of Seventh Series Bonds for the purpose of providing funds for the financing of the capital projects included in the capital program of the Company, and for the purpose of redeeming and refunding, on a current basis, a portion of the outstanding Second Series B, Third Series and Fourth Series Bonds. The refunded par amounts of the Second Series B, Third Series and Fourth Series Bonds were: \$7,500,000, \$3,145,000, and \$20,005,000, respectively. The Seventh Series Bonds contained new money debt issued in the amount of \$200,000,000. This new debt was issued under the 1998 Ordinance. The interest rate on the \$137,720,000 of Serial Bonds ranged from 4.0% to 5.0%. The interest rate on the \$93,180,000 of Term Bonds was 5.0%. The bonds, consisting of Serial Bonds and Term Bonds, have maturity dates through 2037.

1975 Ordinance Nineteenth Series Bonds

On May 15, 2007, the Company issued \$14,450,000 of Nineteenth Series Bonds for the purpose of redeeming and refunding, on a current basis, the outstanding Fifteenth Series Bonds previously issued under the 1975 Ordinance. This new debt was issued under the 1975 Ordinance. The interest rate on the Serial Bonds was 5.0%. The bonds, consisting of Serial Bonds, have maturity dates through 2023.

2006 Ordinances

On December 22, 2005, the Mayor signed an ordinance into law authorizing the City to issue revenue bonds for the purpose of (a) refunding all or a portion of the following Series of Gas Works Revenue Bonds (the 1998 General Ordinance): First Series B, Second Series A, Third Series, Fourth Series, and Fifth Series; (b) paying the costs of issuing the bonds and making any required deposits to the Sinking Fund Reserve; and (c) paying any other Project Costs, which may include, without limitation, the repayment to any fund of the City or to accounts of the Company of amounts advanced for Project Costs.

1998 Ordinance Sixth Series Bonds

On January 26, 2006, the Company issued \$313,390,000 of Sixth Series Bonds, maturing at various dates through 2031, for the purpose of redeeming and refunding, on a current basis, all of the First Series B and a portion of the outstanding Second Series A, Third Series, and Fourth Series City of Philadelphia, Pennsylvania, Gas Works Revenue Bonds previously issued under the 1998 Ordinance. The refunded par amounts of the First Series B, Second Series A, Third Series, and Fourth

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Series Bonds were: \$103,550,000, \$79,355,000, \$99,915,000, and \$2,295,000, respectively. As of August 31, 2007, there were no Fifth Series Bonds refunded. The \$313,390,000 of Serial Bonds have a variable rate set through a weekly reset mode and are paid monthly and are secured with a Standby Bond Purchase Agreement, which expires January 26, 2009. As discussed in note 15, substantially all of the Sixth Series Bonds are held by banks under the Standby Bond Purchase Agreement at December 18, 2008.

The Bonds were issued on a parity with other Senior 1998 Ordinance Bonds issued under the 1998 General Ordinance, but are subordinated in right of payment and security to all bonds issued and outstanding under the General Gas Works Revenue Bond Ordinance of 1975, approved on May 30, 1975, Bill No. 1871, as amended and supplemented from time to time (the 1975 General Ordinance and together with the 1998 General Ordinance). The Bonds were also issued on parity with the Obligations of the City to make periodic payments due under a Qualified Swap being entered into between the City and the counterparty in connection with the issuance of the bonds.

(b) 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. The Company has satisfied the debt coverage requirements in FY 2008 and FY 2007.

Also provided by both general ordinances is the establishment of a sinking fund into which deposits are made sufficient to meet all principal and interest requirements of the bonds as they become due. Both general ordinances also provide that sinking fund reserves be maintained as part of the Sinking Fund, which have previously been funded from the proceeds of each series of bonds in an amount equal to the maximum annual debt service requirement on the bonds of each respective General Ordinance in any fiscal year.

Monies in the Sinking Fund reserves are to be applied to the payment of debt service if, for any reason, other monies in the Sinking Fund 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 monies in the Sinking Fund.

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 is reported as long-term debt.

(c) Interest Rate Swap Agreement

Objective - In January 2006, the City entered into a swap to synthetically refund all or a portion of several series of outstanding bonds. The swap structure was used as a means to increase the City's savings, when compared with fixed-rate bonds at the time of issuance. The intention of the swap was to create a synthetic fixed rate structure.

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Terms – The swap, executed with the counterparty, commenced on January 26, 2006 and will mature on August 1, 2031. Under the swap, the City pays a fixed rate of 3.6745% and receives a variable rate computed as the lesser of (i) the actual bond rate and (ii) the SIFMA Municipal Swap Index until September 1, 2011 on which date the variable interest rate received will switch to 70% of one month LIBOR until maturity. The rates are based on an amortizing notional schedule (with an initial notional amount of \$313,390,000). As of August 31, 2008, rates were as follows:

	<u>Terms</u>	<u>Rates</u>
Interest Rate Swap		
Fixed payment to counterparty under Swap	Fixed	3.6745%
Variable payment from counterparty under Swap	SIFMA	(1.8400)
Net interest rate swap payments		1.8345
Variable rate bond coupon payments	Weekly resets	2.0400
Synthetic interest rate on bonds		3.8745

As of August 31, 2008, the swap had a notional amount of \$311,615,000 and the associated variable rate bond had a \$311,615,000 principal amount. The bonds and the related swap agreement mature on August 1, 2031.

Fair value – As of August 31, 2008, the swap had a negative fair value of \$14,285,000. This means that the Company would have to pay this amount to terminate the swap. Subsequently, the negative fair value has increased as discussed in note 15.

Risks - As of August 31, 2008, the City is not exposed to credit risk because the swap had a negative fair value. Should interest rates change and the fair value of the swap become positive, the City would be exposed to credit risk in the amount of the swap's fair value. The swap includes an additional termination event based on credit ratings. The swap may be terminated if the ratings 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 swap.

A termination event may also occur if the rating on the Company's Bonds falls below Baa2 or BBB (Moody's/S&P). However, because the City's swap payments are insured by FSA, as long as FSA is rated at or above A2 or A (Moody's/S&P), the termination event based on the City's ratings is stayed. As of December 18, 2008, neither the Company's nor FSA's credit ratings have fallen below these levels.

The City is subject to traditional basis risk should the relationship between SIFMA and the bonds change; if SIFMA resets at a rate below the variable rate bond coupon payments, the synthetic interest rate on the bonds will increase. In addition, after September 1, 2011, the City would be exposed to (i) basis risk, as reflected by the relationship between the rate payable on the bonds and 70% of one month LIBOR received on the swap, and (ii) tax risk, a form of basis risk, where the City

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is exposed to a potential additional interest cost in the event that changes in the federal tax system or in marginal tax rates cause the rate paid on the outstanding bonds to be greater than the 70% of one month LIBOR received on the swap.

(d) Forward Rate Agreement and Guaranteed Investment Contracts

On August 23, 2002, the City entered into GICs in connection with a portion of its 1975 and 1998 Ordinance Sinking Fund Reserves for the Company. At settlement, approximately 65.0% of the Sinking Fund Reserves, from the two ordinances, totaling \$61,396,000 were invested in the GICs. In exchange for this investment, the Company received an up-front payment of \$21,800,000 in lieu of receiving interest payments over the life of the GICs. The life of the Forward Rate Agreement is 18½ years, with 12½ years remaining at August 31, 2008.

The GICs are recorded at fair value in the Sinking Fund and had fair values of \$48,129,000 and \$49,504,000 at August 31, 2008 and 2007, respectively.

The Company also paid \$1,650,000 to terminate an existing Forward Rate Agreement as part of this transaction. Of the remaining net proceeds of \$20,150,000, \$8,596,000 was allocated to the 1975 Sinking Fund Reserve and \$11,554,000 was allocated to the 1998 Sinking Fund Reserve. For debt service coverage purposes, the \$20,150,000 was considered "project revenues" in FY 2002. For financial statement purposes, the \$8,596,000 was recorded as revenue in FY 2002 in the category of interest and other income. This amount is nonrefundable and was granted to the Company by the City.

Under the 1998 Ordinance, the Company is entitled to the earnings on the portion of the Sinking Fund allocated to bonds issued under the 1998 Ordinance. Therefore, the \$11,554,000 received under the 1998 ordinance was deferred and is being amortized on a straight-line basis over the life of the agreement. The unamortized balance of the proceeds was \$7,807,000 and \$8,431,000 at August 31, 2008 and 2007, respectively.

(e) Note Payable – City Loan

On November 15, 2000, the Mayor signed an ordinance authorizing the City to advance in whole or in part, up to \$45,000,000 to the Company, to provide liquidity in the winter of 2000-2001. The loan from the City carried no interest. The loan repayment period was extended to August 2008.

The loan from the City was subordinate to the Company's other repayment obligations on its revenue bonds and commercial paper program. The outstanding balance of the City loan was \$43,000,000 at August 31, 2007. The remaining balance of the City loan was remitted to the City in payments of \$20,500,000 and \$22,500,000 in December 2007 and August 2008, respectively.

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(9) Defeased Debt

Defeased debt of the Company (bonds issued by the Company payable from the proceeds of irrevocably pledged assets) at August 31, 2008 was as follows:

	<u>Latest date maturing to</u>	<u>Interest rate</u>	<u>Bonds outstanding</u>
7th Series	3/15/13	6.00% \$	10,675,000
12th Series B	5/15/20	7.00	47,910,000
2nd Series	7/1/29	5.00	84,640,000
3rd Series	8/1/31	5.50	99,445,000
4th Series	8/1/32	5.25	20,005,000

The Company issued \$230,900,000 of Seventh Series Bonds during FY 2007. The proceeds of \$30,900,000 from the sale were utilized to refund a portion of the Second Series B, Third Series, and Fourth Series Bonds, in the amounts of \$7,500,000, \$3,145,000, and \$20,005,000, respectively. The refunding of this existing debt resulted in an accounting loss of \$2,218,000. This loss is being deferred and amortized as interest expense over the life of the new bonds. The refunding generated a present value savings of \$2,146,000.

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.

The assets pledged, primarily noncallable U.S. government securities, had a market value of \$278,271,000 at August 31, 2008, bearing interest on face value from 4.30% to 5.89%.

(10) Pension Costs

(a) Plan Description

The Company sponsors a public employee retirement system (PERS), a single-employer defined-benefit plan, to provide pension benefits for all of its employees, whose annual covered payroll (which was substantially equal to total payroll) was \$105,596,000 and \$106,018,000 at August 31, 2008 and 2007, respectively.

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At September 1, 2007, the beginning of the plan year of the last actuarial valuation, the Pension Plan membership consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving them	\$ 2,151
Current employees:	
Vested	1,395
Nonvested	270
Total current employees	1,665
Total membership	\$ 3,816

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% of the highest annual earnings during the last 10 years of credited service, or
- 2% 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.

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

Covered employees are not required to contribute to the Pension Plan. The Company is required by statute to contribute the amounts necessary to fund the Pension Plan. Benefit and contribution provisions are established by City ordinance and may be amended only as allowed by City ordinance.

The City issues a publicly available financial report that includes financial statements and required supplementary information for the Pension Plan. The report may be obtained by writing to the Director of Finance of the City.

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(b) Annual Pension Cost, Contributions Required, and Contributions Made

Fiscal year:	<u>Normal cost</u>	<u>Amortization of the underfunded balance</u>	<u>Contributions</u>
2008	\$ 8,085,000	6,173,000	14,258,000
2007	7,693,000	7,524,000	15,217,000
2006	7,617,000	9,946,000	17,563,000

Withdrawals from pension assets of \$18,564,000 and \$16,776,000 in FY 2008 and FY 2007, respectively, were utilized to meet beneficiary payment obligations.

The Company's annual pension cost is equal to its annual required contribution (ARC). The ARCs were determined based on an actuarial study, or updates thereto, using the projected unit credit method. Significant actuarial assumptions used for the above valuation include a rate of return on the investment of present and future assets of 8.25% per year compounded annually; projected salary increases of 3.0% of the salary at the beginning of the next three years, then 4.25% of the salary at the beginning of the fourth and subsequent year; and retirements that are assumed to occur prior to age 62, at a rate of 10.0% at ages 55 to 61 and 100% at age 62. The assumptions did not include postretirement benefit increases. These actuarial assumptions are consistent with the prior fiscal year.

The actuarial asset value is equal to the value of the fund assets as reported by the City with no adjustments. The unfunded actuarial accrued liability is being amortized over 10 years.

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. Level percentages of payroll employer contribution rates are determined using the Projected Unit Credit actuarial funding method. The Pension Plan had an actuarial value of assets of \$416,183,000 and an actuarial accrued liability of \$482,380,000 resulting in a funded ratio of 86.28% based on a biennial actuarial valuation of the pension fund as of September 1, 2007. The resulting unfunded actuarial accrued liability of \$66,197,000 was 62.69% of covered payroll of \$105,596,000.

(c) Historical Trend Information (Unaudited)

Historical trend information reflecting funding progress and contributions made by the Company is presented in the supplemental schedule of pension funding progress (unaudited).

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(11) Other Postemployment Benefits

(a) Plan Description

The Company sponsors a single employer defined benefit healthcare plan and provides postemployment healthcare and life insurance benefits to approximately 1,920 and 1,935 participating retirees and their beneficiaries and dependents for FY 2008 and FY 2007, respectively, in accordance with their retiree medical program. The Company also provides such benefits to approximately 1,699 and 1,720 active employees and their dependents for FY 2008 and FY 2007, respectively, by charging the annual insurance premiums to expense. The annual covered payroll (which was substantially equal to total payroll) was \$105,596,000 and \$106,018,000 at August 31, 2008 and 2007, respectively.

The Company pays 100.0% of premiums for basic medical, hospitalization, and prescription drugs incurred by retirees and their dependents. The Company also pays a portion of the premium for life insurance for each eligible retiree. 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 amounted to \$34,226,000 and \$36,111,000 in FY 2008 and FY 2007, respectively, of which approximately 48.1% and 52.0%, respectively, represents payments on behalf of retired employees and their dependents. Employees and retirees contributed \$1,477,000 and \$1,470,000 in FY 2008 and FY 2007, respectively, towards their healthcare. These contributions represent the additional cost of healthcare plans chosen by employees and retirees above the basic plan offered by the Company. Total premiums for group life insurance were \$2,103,000 and \$2,080,000 in FY 2008 and FY 2007, respectively. The amount attributed to retirees was approximately 71.0% and 76.3% in FY 2008 and FY 2007, respectively. The contribution requirements of nonunion plan members are established by management and may be amended. The contribution requirements for union plan members are subject to collective bargaining.

The Plan does not issue a stand-alone report and therefore the Company has included the schedule of employer contributions as a supplemental schedule (unaudited).

(b) Actuarial Valuation and Assumptions

The Company engaged an actuarial consulting firm to provide an actuarial valuation of the Company's OPEB obligations as of August 31, 2007. The actuarial valuations involve estimates of the value of reported amounts and the assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision, as actual results are compared to past expectations, and new estimates are made about the future. The calculations were based on the types of benefits provided under the terms of the substantive plan at the time of the valuation.

The projected unit cost method was utilized in the valuation to develop the actuarial accrued liability and normal cost. Under the projected unit cost method, the present value of benefits is allocated uniformly over the employee's expected working lifetime. The actuarial accrued liability is that portion of the present value of projected benefits, which has been accrued during the employee's working lifetime from hire to valuation date. The normal cost represents the amount charged for

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services earned during the current reporting period. The normal cost is calculated by dividing the present value of projected benefits for an employee by the total service.

The valuation was prepared utilizing certain assumptions, including the following:

- Economic assumptions – the discount rate and healthcare cost trend rates

The report utilized a 5.0% discount rate for purposes of developing the liabilities and ARC on the basis that the Plan would not be funded. This rate is based on the investment return expected on the Company's general investments, because the Company has not funded the Plan for FY 2008.

Year:	Healthcare Cost Trend Rates		
	Medical	Prescription	Dental
1	10.0%	10.0%	4.5%
2	9.0	9.0	4.5
3	8.0	8.0	4.5
4	7.0	7.0	4.5
5	6.0	6.0	4.5
6	5.0	5.0	4.5
7	4.5	4.5	4.5
8 and beyond	4.5	4.5	4.5

- Benefit assumptions – the initial per capita cost rates for medical coverage, and the face amount of Company-paid life insurance
- Demographic assumptions – including the probabilities of retiring, dying, terminating (without a benefit), becoming disabled, recovery from disability, election (participation rates), and coverage levels

(c) Annual Postemployment Benefit Cost, Contributions Required, and Contributions Made

The ARC for FY 2008 is estimated to be \$44,114,000 which is also the annual OPEB cost. The amount paid by the Company for retiree benefits in FY 2008 was \$18,280,000, consisting of \$16,788,000 of healthcare expenses and \$1,492,000 of life insurance expenses. The difference between the ARC and the expenses paid resulted in an increase in the OPEB liability of \$25,834,000. This amount has been recorded in other liabilities and deferred credits and has been expensed in FY 2008.

As of August 31, 2008, the actuarial accrued liability for benefits was \$591,599,000, all of which was unfunded and the ratio of the unfunded actuarial accrued liability to the covered payroll was 560.3%. Historical trend information reflecting funding progress and contributions made by the Company is presented in the Schedule of Other Postemployment Benefits Funding Progress (unaudited).

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(d) Other Coverage Information

Also, the Company has entered into several one-year contracts to provide healthcare for both active and retired employees that are experience rated, and premiums are adjusted annually; in addition, the Company has in place approximately \$161,320,000 of group life insurance coverage for both active and retired employees, which is retrospectively rated on a monthly basis. The Company also has in place approximately \$120,807,000 of accidental death and dismemberment insurance coverage for active employees.

(12) Pollution Remediation

Total pollution remediation obligations at August 31, 2008 are \$21,600,000, which reflect the implementation of GASB 49 as described in note 1(t). The Company's prior year liability was \$13,349,000 as measured prior to the implementation of the effective cash flow method under GASB 49.

(13) 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 \$250,000,000, subject to a \$500,000 per accident deductible at the Richmond and Passyunk Plants and a \$100,000 deductible per accident 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 boiler and machinery, blanket crime, and other forms of property insurance.

The Company maintained \$210,000,000 in liability (including terrorism) coverage, insuring against the risk of damage or injury to the public with a per occurrence self insured retention of \$500,000; however, effective September 1, 2007, the self insured retention was increased to \$1,000,000.

The Company maintains statutory limits for Workers' Compensation (including terrorism) with a \$500,000 per occurrence self insured retention.

The Company maintains a \$10,000,000 Public Officials Liability (Directors and Officers Liability) policy with a \$500,000 retention.

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

	<u>Beginning of year reserve</u>	<u>Current year claims and adjustments</u>	<u>Claims settled</u>	<u>End of year reserve</u>	<u>Current liability amount</u>
Fiscal year ended August 31:					
2008	\$ 8,468	7,757	(2,691)	13,534	7,456
2007	8,059	3,367	(2,958)	8,468	5,357
2006	8,510	2,808	(3,259)	8,059	4,159

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(14) Commitments and Contingencies

Commitments for major construction and maintenance contracts were approximately \$8,727,000 as of August 31, 2008.

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

Fiscal year ending August 31:		
2009	\$	440
2010		79
2011		42
2012		6

Rent expense for the fiscal years ended August 31, 2008 and 2007 amounted to \$910,000 and \$932,000, respectively.

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 \$5,100,000 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, 2008 through March 31, 2009.

The Company's FY 2009 Capital Budget was approved by City Council in the amount of \$71,956,000. Within this approval, funding is provided to continue the implementation of an 18-mile Cast Iron Main Replacement Program. Main replacement cost for this program in FY 2009 is expected to be \$15,606,000. The total six-year cost of the Cast Iron Main Replacement Program is forecasted to be approximately \$99,256,000.

The FY 2009 Capital Budget also includes \$2,486,000 for the purchase of replacement Automatic Meter Reading (AMR) units. The total six-year cost of this program to replace AMR units is approximately \$7,889,000.

(15) Subsequent Events

(a) Commercial Paper

As discussed in note 6, \$90,000,000 of commercial paper was outstanding at August 31, 2008. Subsequent to year-end, all outstanding commercial paper matured, and additional commercial paper was issued. As of December 18, 2008, \$148,000,000 of commercial paper was outstanding which matures on February 12, February 13 and March 12, 2009.

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(b) Emergency Rate Relief

As discussed in note 1(d), in November 2008 the Company filed for an extraordinary or emergency base rate increase of approximately \$60,000,000 or 5.2% and simultaneously requested an \$85,000,000 or 7.4% decrease in the GCR for a net 2.2% overall rate decrease of \$25,000,000. On December 18, 2008, the PUC issued its decision approving a base rate increase of \$60,000,000 or 5.2% and a decrease in the GCR of \$107,000,000 for a net decrease in rates of \$47,000,000 or 4.2%. These rates are effective as of January 1, 2009.

(c) Sixth Series Bonds

As discussed in note 8(b), as of December 18, 2008, \$271,370,000 of the Sixth Series Bonds are held by the providers of the Standby Bond Purchase Agreement as bank bonds. The providers of the Standby Bond Purchase Agreement continue, on a weekly basis, to remarket the bonds in accordance with the bond authorization. The Standby Bond Purchase Agreement expires on January 26, 2009. If the Standby Bond Purchase Agreement is not renewed, and no substitute liquidity facility is provided, any bank bonds held at that time will be amortized in ten payments payable the first business day of July and the first business day of December for the next five years. The Company has therefore recorded as current debt at August 31, 2008 one tenth of the outstanding Sixth Series Bonds as of August 31, including \$1,900,000 due to mature in 2009 under the original amortization schedule and an additional \$29,300,000 for a total of \$31,200,000.

(d) Swap – Sixth Series Bonds

As discussed in note 8(c), the City entered into a swap related to the Sixth Series Bonds. The fair value of the interest rate swap as of December 18, 2008 was negative \$72,600,000. This means that the Company would have to pay this amount to terminate the swap. Per the swap agreement, the refunding or defeasance of the Sixth Series Bonds, in whole or in part, without the prior written consent of both the counterparty and the insurer, may constitute an event of termination unless certain conditions are met.

Additionally, note 8 identifies a termination risk related to the interest rate swap agreement if the Company's bond rating falls below Baa2 or BBB (Moody's/S&P). Because the City's swap payments are insured by FSA as long as FSA is rated at or above A2 or A (Moody's/S&P) the termination event based on the City's rating is stayed. Neither the Company's credit rating nor FSA's credit rating has declined below the levels required in the agreement as of December 18, 2008.

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Required Supplementary Information (Unaudited)
Schedule of Pension Funding Progress
(Thousands of dollars)

Actuarial valuation date	(a) Actuarial value of assets	(b) Actuarial accrued liability (AAL)	(b)-(a) Unfunded (overfunded) AAL (UAAL (OAAL))	(a/b) Funded ratio	Covered payroll	UAAL (OAAL) as a percent of covered payroll
September 1, 2003*	\$356,000	\$427,006	\$71,006	83.37%	\$101,200	70.16%
September 1, 2004**	366,783	436,255	69,472	84.08	102,500	67.78
September 1, 2005+	383,517	450,866	67,349	85.06	102,544	65.68
September 1, 2006++	411,886	474,250	62,364	86.85	106,018	58.82
September 1, 2007+++	416,183	482,380	66,197	86.28	105,596	62.69

* The required supplementary information is based on a biennial actuarial valuation of the pension fund for the plan year September 1, 2003 through August 31, 2004.

** The required supplementary information is based on a biennial actuarial valuation of the pension fund as updated for the plan year September 1, 2004 through August 31, 2005.

+ The required supplementary information is based on a biennial actuarial valuation of the pension fund for the plan year September 1, 2005 through August 31, 2006.

++ The required supplementary information is based on a biennial actuarial valuation of the pension fund as updated for the plan year September 1, 2006 through August 31, 2007.

+++ The required supplementary information is based on a biennial actuarial valuation of the pension fund for the plan year September 1, 2007 through August 31, 2008.

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 dollars)

<u>Actuarial valuation date</u>	<u>(a) Actuarial value of assets</u>	<u>(b) Actuarial accrued liability (AAL)</u>	<u>(b)-(a) Unfunded (overfunded) AAL (UAAL [OAAL])</u>	<u>(a/b) Funded ratio</u>	<u>Covered payroll</u>	<u>UAAL (OAAL) as a percent of covered payroll</u>
August 31, 2007	—	\$573,734	\$573,734	—	\$106,018	541.17%
August 31, 2008	—	591,599	591,599	—	105,596	560.25

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 Employer Contributions
 (Thousands of dollars)

Year-end	Annual required contribution	Percentage contributed
August 31, 2007	\$ 45,237	41.60%
August 31, 2008	44,114	41.44

See accompanying independent auditors' report.

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Supplemental Statements of Net Assets (City Format)
August 31, 2008 and 2007
(Thousands of dollars)

	<u>2008</u>	<u>2007</u>
Assets:		
Cash on deposit and on hold	\$ 49,332	51,692
Equity in pooled cash and investments	—	—
Equity in treasurer's account	—	—
Investments	—	—
Internal balances	—	—
Amounts held by fiscal agent	6	6
Notes receivable	—	48
Taxes receivable	—	—
Accounts receivable – net	99,304	88,570
Interest and dividends receivable	—	—
Due from other governments	—	—
Restricted assets	219,788	277,139
Inventories	187,539	147,770
Unamortized loss and discount	52,852	58,818
Other assets	63,699	55,982
Property, plant, and equipment	1,732,562	1,681,313
Accumulated depreciation	(670,467)	(640,940)
Total assets	<u>\$ 1,734,615</u>	<u>1,720,398</u>
Liabilities:		
Notes payable	\$ 90,000	94,600
Vouchers and accounts payable	67,508	60,615
Salaries and wages payable	3,430	2,797
Accrued expenses	107,484	67,425
Funds held in escrow	—	—
Due to other governments	—	—
Deferred revenue	31,641	20,411
Current portion of long-term obligations	73,942	41,830
Noncurrent portion of long-term obligations	1,103,827	1,176,368
Unamortized gain and premium	30,375	33,051
Total liabilities	<u>\$ 1,508,207</u>	<u>1,497,097</u>
Net assets:		
Invested in capital assets, net of related debt	\$ (4,466)	(5,690)
Restricted for:		
Capital projects	—	—
Debt service	108,581	105,005
Community development projects	—	—
Behavioral health programs	—	—
Intergovernmental financing	—	—
Emergency phone system	—	—
Rate stabilization	—	—
Unrestricted	122,293	123,986
Total net assets	<u>\$ 226,408</u>	<u>223,301</u>

See accompanying independent auditors' report.

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Supplemental Statements of Activities (City Format)
Years ended August 31, 2008 and 2007
(Thousands of dollars)

		August 31, 2008				
		Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Total
Gas services	\$	(740,819)	840,035	25,324*	—	124,540
Interest on debt		(56,075)	—	—	—	(56,075)
Unallocated depreciation		(39,524)	—	—	—	(39,524)
Other postemployment benefits		(25,834)	—	—	—	(25,834)
Total	\$	<u>(862,252)</u>	<u>840,035</u>	<u>25,324*</u>	<u>—</u>	<u>3,107</u>

* Includes \$15,732 of interest and other income and \$9,592 of other operating revenues.

		August 31, 2007				
		Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Total
Gas services	\$	(773,581)	849,503	22,921*	—	98,843
Interest on debt		(52,146)	—	—	—	(52,146)
Unallocated depreciation		(36,380)	—	—	—	(36,380)
Other postemployment benefits		(26,421)	—	—	—	(26,421)
Total	\$	<u>(888,528)</u>	<u>849,503</u>	<u>22,921*</u>	<u>—</u>	<u>(16,104)</u>

* Includes \$13,073 of interest and other income and \$9,848 of other operating revenues.

See accompanying independent auditors' report.

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

Supplemental Statements of Revenues, Expenses, and Changes in Fund Net Assets (City Format)

Years ended August 31, 2008 and 2007

(Thousands of dollars)

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Charges for goods and services	\$ 831,428	840,105
Sales of land and improvements	—	—
Rentals and concessions	—	—
Miscellaneous operating revenues	18,199	19,246
Total operating revenues	<u>849,627</u>	<u>859,351</u>
Operating expenses:		
Personal services	73,351	74,054
Purchase of services	75,640	76,299
Material and supplies	6,216	4,290
Employee benefits	41,488	41,863
Indemnities and taxes	—	—
Depreciation and amortization	42,868	39,708
Cost of goods sold	511,976	539,300
Other	—	—
Total operating expenses	<u>751,539</u>	<u>775,514</u>
Operating income	<u>98,088</u>	<u>83,837</u>
Nonoperating revenues (expenses):		
Operating grants	—	—
Passenger facility charges	—	—
Other income	1,834	1,262
Interest income	13,897	11,811
Debt service – interest	(56,075)	(52,146)
Other expenses	(54,637)	(60,868)
Total nonoperating expenses	<u>(94,981)</u>	<u>(99,941)</u>
Income (loss) before transfers	3,107	(16,104)
Transfer in	18,000	18,000
Transfer out	(18,000)	(18,000)
Capital contributions	—	—
Change in net assets	3,107	(16,104)
Net assets – beginning of year	<u>223,301</u>	<u>239,405</u>
Net assets – end of year	<u>\$ 226,408</u>	<u>223,301</u>

See accompanying independent auditors' report.

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

Supplemental Schedule of Interfund Transfers

Year ended August 31, 2008

(Thousands of dollars)

Due to the City, September 1, 2007	\$	3,000
Accrued distributions		18,000
Payments to the City		<u>(18,000)</u>
Due to the City, August 31, 2008	\$	<u><u>3,000</u></u>

See accompanying independent auditors' report.

APPENDIX B

INDEPENDENT CONSULTANT'S ENGINEERING REPORT DATED MAY 4, 2009

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APPENDIX B

**INDEPENDENT CONSULTANT'S
ENGINEERING REPORT**

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**Independent Consultant's
Engineering Report**

**City of Philadelphia, Pennsylvania
Gas Works Revenue Bonds
Consisting of:**

**Gas Works Revenue Bonds
\$435,150,000¹ Eighth Series
\$150,000,000¹ Ninth Series
(1998 General Ordinance)
Philadelphia Gas Works
Philadelphia, Pennsylvania**



BLACK & VEATCH
Building a **world** of difference.

¹ Preliminary, subject to change

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May 4, 2009

Mr. Rob Dubow
Director of Finance
City of Philadelphia
13th Floor, Municipal Services Building
1401 John F. Kennedy Boulevard
Philadelphia, PA 19102

Dear Sir:

In accordance with our agreement with the Philadelphia Gas Works (PGW) through the Philadelphia Facilities Management Corporation, the management entity for PGW, we submit herewith our independent consulting engineer's report (the "Report") to be included as an appendix to the official statement or official statements ("Official Statement") prepared by PGW in connection with the City's issuance of \$435,150,000 Gas Works Revenue Bonds, Eighth Series (the "Eighth Series Bonds") and \$150,000,000 Gas Works Revenue Bonds, Ninth Series (the "Ninth Series Bonds"). The Eighth Series Bonds will be issued in one or more series with the proceeds used to achieve the current refunding of PGW's outstanding Sixth Series Bonds; upon the issuance of the Eighth Series Bonds, the Sixth Series Bonds will be fully redeemed and will no longer be outstanding. The Ninth Series Bonds will be issued to finance various elements of PGW's on-going capital improvement program.

You may use this submittal in furnishing your report as required by Section 8 of the First Class City Revenue Bond Act, Section 4.03(a) of the General Gas Works Revenue Bond Ordinance of 1998, and Section 4.03(a) of the General Gas Works Revenue Bond Ordinance of 1975. The purpose of this Report is to present the findings of our evaluation of PGW's gas works system (the "System") and to set forth information concerning financial factors relating to the Eighth and Ninth Series Bonds. This Report is based on our analysis of the records and capital improvement programs of PGW, discussions with key PGW personnel, physical inspections of predominately above-ground facilities conducted in March 2009 and such other investigations as we have deemed necessary.

The evaluation of the System, which includes a discussion of organization, management, and staffing; system service area; supply facilities; distribution facilities; and the Capital Improvement Program (the "CIP") for fiscal years 2009 through 2014, is presented in the first part of the Report. The second part of the Report contains financial feasibility information including analyses of gas rates and rate methodology; projection of future operation and maintenance expenses; CIP financing plans; projection of revenue requirements as a determinant of future revenues; and assessing the ability of PGW to satisfy the covenants in the City Ordinances (the 1975 General Ordinance and 1998 General Ordinance) authorizing the issuance of the Prior Bonds and the Future Bonds. "Prior Bonds" are defined as the outstanding bonds issued under the General Gas Works Revenue Bond Ordinance of 1975 (the "1975 General Ordinance") and the General Gas Works Revenue Bond Ordinance of 1998 (the "1998 General Ordinance"). "Future Bonds" are defined as the Eighth and Ninth Series Bonds that will be issued under the City Ordinances. Together, the Prior and Future Bonds are collectively referred to as the "Bonds". A listing of our principal assumptions and opinions developed as a result of our studies is presented at the end of the Report.

Subject to the limitations set forth herein, this Report was prepared for PGW by Black & Veatch and is based on information not within the control of Black & Veatch. In conducting our studies, we reviewed the books, records, agreements, capital improvement programs, and customers, sales and financial projections of PGW and investigated such physical properties of PGW as we deemed necessary to express our opinion of PGW's operating results and projections. While we consider such books, records, documents, and projections to be reliable, Black & Veatch has not verified the accuracy of these documents.

Black & Veatch is one of the oldest, largest and most diversified engineering, procurement, and construction companies in the United States. Black & Veatch operates and maintains a global network of regional, marketing, and project offices. Founded in 1915, Black & Veatch employs over 9,500 people performing financial, economic, and engineering studies and design and construction of facilities for clients in government and industry in the fields of energy, water, wastewater, and telecommunications. Black & Veatch has extensive experience in the design and analysis of the operation and financing of electric, natural gas, water, and wastewater systems serving communities ranging in size from small cities to large metropolitan systems of the magnitude of the System.

In this Report, where standards or requirements are indicated as being applicable, being fulfilled, or to be attained, such standards or requirements are those promulgated by the Pennsylvania Public Utilities Commission (the "PUC") and other Federal, State, and local agencies, in accordance with the provisions of Federal laws and the laws of the Commonwealth of Pennsylvania governing the storage, delivery, and sale of natural gas. Capitalized terms not otherwise defined herein have the same meanings as ascribed to them in the Official Statement or the 1998 General Ordinance. References made herein to specific years are for the fiscal years of PGW ending August 31, unless otherwise noted.

The Report includes our assessment of the condition of PGW's physical plant including PGW's existing storage and distribution facilities, based upon site inspections during March 2009 of certain PGW facilities as deemed appropriate. We also reviewed and evaluated existing and planned natural gas transportation and supply contracts with respect to volumes of natural gas to be delivered. The general physical condition of the System's facilities has been evaluated using three rating categories - good, adequate, and poor - as described below.

- *Good:* The facility is in condition to provide reliable operation in accordance with design parameters and requires only routine maintenance.
- *Adequate:* The facility is operating at or near design levels, however, non-routine renovation, upgrading, and repairs are needed for continued reliable operation. Significant expenditures for these improvements may be required.
- *Poor:* The facility cannot be operated within design parameters. Major renovations are required to restore the facility to reliable operating condition. Major expenditures for these improvements may be required.

The ratings assigned in this Report are the result of physical inspections of individual above-ground facilities at existing sites conducted in March 2009.

An evaluation of a gas storage and distribution system of the magnitude and complexity of PGW's requires an assessment of each of the System's various components. The evaluation described in this Report is based on estimates of the degree of improvement that has been or will be provided by the projects in the current CIP and their impact in meeting service requirements.

The projections set forth in this Report are “forward-looking statements.” In formulating these projections, Black & Veatch has made certain assumptions with respect to conditions, events, and circumstances that may occur in the future. The methodologies utilized by Black & Veatch in performing these analyses follow generally accepted practices for such projections. Such assumptions and methodologies are summarized in this Report and are reasonable and appropriate for the purpose for which they are used. While Black & Veatch believes the assumptions are reasonable and appropriate and the projection methodology valid, actual results may differ materially from those projected, as influenced by conditions, events, and circumstances that may actually occur that are unknown at this time and/or which are beyond the control of Black & Veatch. Such factors may include PGW’s ability to execute the capital improvement plan as scheduled and within budget, regional climate and weather conditions affecting the demand for gas, and adverse legislative, regulatory or legal decisions (including environmental laws and regulations) affecting PGW’s ability to operate the System.

Based on these analyses and the assumptions set forth or referred to in this Report, we offer the following opinions to indicate PGW’s conformance with specific requirements which must be met for the issuance of the Future Bonds as provided in the 1975 General Ordinance and the 1998 General Ordinance:

1. PGW is a competently managed and operated gas distribution utility. PGW and the System are organized, operated, and maintained at a level equal to, or in excess of, regulatory requirements and generally accepted industry practices. The System is in good operating condition.
2. Based upon Black & Veatch's evaluation of financial projections and certain assumptions with respect to the System which Black & Veatch believes to be reasonable, and on the basis of actual and estimated future annual financial operations of the System (including the projects to be established with the proceeds of the Future Bonds), the System will yield Project Revenues (which are pledged under the 1975 General Ordinance and the 1998 General Ordinance) over the amortization periods of the Bonds issued under the 1975 General Ordinance and the 1998 General Ordinance which will be sufficient to (a) meet all expenses of operation, maintenance, repair and replacement of the System, (b) meet all reserve or special funds required to be established under the 1975 General Ordinance and the 1998 General Ordinance, (c) meet the principal of and interest on all Bonds (including the Future Bonds) issued under such Ordinances, as the same shall become due and payable, and (d) provide such surplus requirements as are contained in the respective rate covenants of the 1975 General Ordinance and the 1998 General Ordinance. The Project Revenues forming the basis of this opinion comply with the requirements of the definition of Project Revenues contained in Section 2 of the Act.
3. The Project Revenues and Gas Works Revenues which are pledged as security for the Bonds issued under the 1975 General Ordinance and the 1998 General Ordinance, respectively, are currently, and are projected to be, sufficient to comply with the Rate Covenants set forth in Section 4.03(b) of the 1975 General Ordinance and Section 4.03(b) of the 1998 General Ordinance.
4. The capital improvements proposed during the projection period, September 1, 2009, through August 31, 2014, should, along with continued good operation and maintenance practices, enable PGW to maintain the System in good operating condition. Review of present management practices indicates that good operation and maintenance is likely to continue.

5. Contracted PGW gas supplies plus (a) spot market purchases, (b) anticipated additional contracted supplies plus supplemental gas capacities, as well as, (c) the pipeline transport capacity to move these supplies to PGW, appear adequate to meet PGW's projected demand on a day of maximum demand (a "design peak day"), in an hour of maximum demand (a "design peak hour"), and during a year of maximum demand (a "design peak year").

The following are significant changes or events that have occurred since the issuance of our prior Report dated January 26, 2007 ("2007 Report"), and are addressed more fully in the text of this Report:

1. PGW paid off the City Loan of \$45 million in 2008 as assumed in the 2007 Report.
2. PGW received a \$25 million permanent rate increase out of the \$100 million requested effective September 20, 2007, and a \$60 million extraordinary rate increase effective January 1, 2009, that is assumed to be permanent in this Report.
3. The 2007 Report assumed that internally generated funds would be sufficient (based on a \$100 million rate increase) to defer the need for new bond proceeds for capital improvements beyond 2012. This Report assumes that PGW will issue Ninth Series Bonds in 2010 in the amount of \$150 million.
4. PGW's five-year average collection factor has improved to 95.7 percent (2004-2008) from 93.6 percent (2002-2006).
5. Long-term debt service will increase by approximately \$20 million over the 2010-2014 period.
6. PGW's fiscal year 2009 estimated capital expenditures of \$50.5 million represent an 18.3 percent decrease from 2008 levels reflecting a management decision to implement a contingency plan to reduce spending. This action was necessary given the dislocation in the financial markets. Spending for the forecast period beyond 2009 assumes that capital spending will resume at previously budgeted levels.
7. PGW did not install the Phase 2 LNG facilities as originally budgeted for 2008 and 2009. PGW has determined that it is capable of meeting its near term LNG liquefaction needs with the Phase 1 LNG facilities already in service.

Very truly yours,

BLACK & VEATCH CORPORATION



Thomas J. Sullivan
Director
Enterprise Management Solutions Division

Enclosure

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Listing of Acronyms

AFUDC	Allowance for Funds Used During Construction
AIMS	Advanced Intelligence Mobile Solution
AMR	Automatic Meter Reading Program
BCCS	Billing Collections and Customer Service
Bcf	Billion cubic feet
BMA	Bond Market Association
CDS	Comprehensive Delivery Service
CIP	Capital Improvement Program
CNG	Compressed Natural Gas
CRI	Collections Renewal Initiative
CRP	Customer Responsibility Program
CWP	Conservation Works Program
dt or Dth	Dekatherms
FERC	Federal Energy Regulatory Commission
FOI	Field Operations Initiative
FPL	Federal Poverty Level
FT	Firm Transportation
FY	Fiscal year beginning September 1 through August 31
GCR	Gas Cost Rate
GSS	General Storage Service
GTS	Gas Transportation Service
HDD	Heating Degree-Day
IRC	Interruptible Revenue Credit
LIHEAP	Low Income Home Energy Assistance Program

Mcf	Thousand Cubic Feet
MEI	Management Efficiency Investigation
NGS	Natural Gas Supplier
PFMC	Philadelphia Facilities Management Corporation
PGC	Philadelphia Gas Commission
PGW	Philadelphia Gas Works
PHA	Philadelphia Housing Authority
PSFT	Peaking Service Firm Transportation
Psig	Pounds per Square Inch Gauge
PUC	Pennsylvania Public Utilities Commission
SS	Storage Service
UESF	Utility Emergency Services Fund
UWUA	Utility Workers Union of America
WNA	Weather Normalization Adjustment
WSS	Washington Storage Service

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Introduction

The Philadelphia Gas Works ("PGW") is a gas distribution utility owned by the City of Philadelphia, Pennsylvania (the "City"). The utility acquires, stores, distributes, and sells gas to residents and other customers within the City.

Under the terms of certain of the current revenue bond covenants, PGW is obligated to charge and collect rents, rates and charges to maintain net revenues at or above certain specified levels in excess of annual debt service requirements. In addition, prior to the issuance of bonds under the General Gas Works Revenue Bond Ordinance of 1975 ("1975 Ordinance") or the General Gas Works Revenue Bond Ordinance of 1998 ("1998 Ordinance"), a financial report from the City's Chief Fiscal Officer, which may be given in reliance on an engineering report, is required.

Purpose

The purpose of this Independent Consultant's Engineering Report ("Report") is to summarize findings of engineering studies performed by Black & Veatch Corporation ("Black & Veatch") related to the gas system of the Philadelphia Gas Works and to set forth information concerning the financial factors relating to the issuance of the \$435,150,000 Gas Works Revenue Bonds, Eighth Series (the "Eighth Series Bonds") and \$150,000,000 Gas Works Revenue Bonds, Ninth Series (the "Ninth Series Bonds").

The Eighth Series Bonds will be issued in one or more series with the proceeds used to achieve the current refunding of PGW's Sixth Series Bonds; upon the issuance of the Eighth Series Bonds, the Sixth Series Bonds will be fully redeemed and will no longer be outstanding. The Ninth Series Bonds will be issued to finance various elements of PGW's on-going capital improvement program.

"Prior Bonds" are defined as the outstanding bonds issued under the 1975 Ordinance and the 1998 Ordinance. "Future Bonds" are defined as the Eighth and Ninth Series Bonds that will be issued under the City Ordinances. Together, the Prior and Future Bonds are collectively referred to as the "Bonds".

Scope

This Report addresses the organization and management, regulation, physical condition, adequacy of system capacity, operation and maintenance practices, and staffing levels of PGW's systems. It provides a review of the proposed capital improvement program ("CIP") for fiscal years 2009 through 2014 and includes the results of engineering studies regarding the financial requirements of the System. Evaluation of the projected financing of future operating and capital improvement needs is based upon a review of historical operating and financial data and projected capital program and operating budget information provided by PGW. Projections of revenues and revenue requirements are presented for the fiscal years 2009 through 2014. The financial feasibility of the issuance of the Future Bonds should be evaluated recognizing the results of these analyses and PGW's projected compliance with applicable revenue bond covenants.

PGW representatives and others have provided certain historical data and other information presented in this Report. Black & Veatch has not conducted verification tests of this information. As is normal in conducting the analysis and preparing projections, Black & Veatch has made certain assumptions with respect to conditions, events, and circumstances that may occur in the future. The methodologies utilized by Black & Veatch in performing these analyses follow generally accepted practices for such projections. Such assumptions and methodologies are summarized in this Report and are reasonable and appropriate for the purpose for which they are used. While Black & Veatch believes the assumptions are reasonable and the projection methodology valid, actual results may differ materially from those projected, as influenced by conditions, events, and circumstances that may actually occur.

Such factors may include PGW's ability to execute the CIP as scheduled and within budget, regional climate and weather conditions affecting the demand for gas, and adverse legislative, regulatory or legal decisions (including environmental laws and regulations) affecting PGW's ability to operate the System.

Black & Veatch Qualifications

Black & Veatch is one of the largest and most experienced engineering companies in the United States specializing in utility engineering. Our experience includes the planning, design, operation analysis, and construction of gas, electric, water, and wastewater systems. In addition, the firm has extensive experience in assisting utilities with management and financial aspects of their operations. The company has been engaged in several thousand projects with a range of clients that include utilities owned by municipalities ranging in size from small communities to large metropolitan regions, investor-owned utilities, industrial and commercial businesses, local and state agencies, and the United States Government. Over the past five years, Black & Veatch has been involved in assisting clients with the issuance of over \$10 billion in utility revenue bonds. Black & Veatch performed the Independent Consultant's Engineering Report ("2001 Report") for PGW's (1998 General Ordinance) Third Series Bonds issued in 2001, the Independent Consultant's Engineering Report ("2002 Report") for PGW's (1998 General Ordinance) Fourth Series issued in 2002, the Gas Works Revenue Refunding Bonds, Seventeenth Series issued in 2003, the Independent Consultant's Engineering Report ("2004 Report") for PGW's (1998 General Ordinance) Fifth Series A-1 and A-2 issued in 2004, and the Independent Consultant's Engineering Report ("2006 Report") for PGW's (1998 General Ordinance) Sixth Series issued in 2006, and the Independent Consultant's Engineering Report ("2007 Report") for PGW's (1998 General Ordinance) Seventh Series Bonds issued in 2007. Since 1972, the City of Philadelphia's Water Department also has engaged Black & Veatch for various consulting services. These consulting services have included engineering evaluation reports for all Water and Wastewater System Revenue Bonds sold by the City since 1974 and various projects involving the development of water and wastewater rates.

Experienced personnel from Black & Veatch have performed the physical evaluation of PGW's gas supply and distribution systems. In performing our engineering assessment of PGW, Black & Veatch reviewed the current condition and operation and maintenance of the gas supply and distribution systems. We conducted inspections of PGW's major facilities in March 2009, including PGW's city gate stations and liquefied natural gas facilities. We also interviewed key members of PGW's management team in March 2009 regarding operations and maintenance issues and practices.

The financial feasibility review has been performed by personnel assigned to the Enterprise Management Solutions Division of Black & Veatch, which provides services in such areas as utility rates, utility property valuation, depreciation rate studies, financial analysis and planning, non-audit accounting, management and operations analysis, and the preparation of independent engineering reports for official statements.

Organization and Management

The Philadelphia Gas Works (“PGW”) is owned by the City of Philadelphia and is responsible for the acquisition, storage, and distribution of gas within the limits of the City. PGW is accounted for as a component unit of the City. As described in greater detail herein (*See The PGW Gas System*), PGW is the largest municipally-owned gas utility in the nation.

PGW’s operations are managed by the Philadelphia Facilities Management Corporation (“PFMC”), a not-for-profit corporation whose Board is appointed by the Mayor. PFMC’s responsibilities are set forth in a Management Agreement between the City and PFMC, which delegates responsibility for PGW’s operation to an executive management team provided by PFMC. Under the Management Agreement, those responsibilities that are not specifically granted to PFMC fall under the domain of the Philadelphia Gas Commission (“PGC”), except to the extent preempted by the Pennsylvania Public Utility Commission (“PUC”).

Prior to the passage of the Pennsylvania Natural Gas Choice and Competition Act (“Gas Choice Act”)², rates charged by PGW were regulated exclusively by the PGC because PGW was not a “public utility” within the meaning of the Pennsylvania Public Utility Code, as it was defined prior to the passage of the Gas Choice Act. On June 22, 1999, the Pennsylvania General Assembly passed the Gas Choice Act which amends the Public Utility Code by providing for the implementation of choice of suppliers of natural gas for retail customers of gas distribution companies. In addition, the Gas Choice Act provides that PGW is subject to regulation by the PUC, effective July 1, 2000, and that choice among natural gas suppliers will be provided to PGW’s customers.

On March 31, 2003, the PUC approved PGW’s restructuring plan, which among other things, provides for an unbundled tariff permitting customer choice of the commodity supplier. On September 1, 2003, PGW began operating under its Restructuring Compliance Tariff. PGW’s 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.

City of Philadelphia

The City of Philadelphia was founded in 1682 and merged with the County of Philadelphia in 1854. There are two principal governmental entities in Philadelphia: (1) the City, which performs ordinary municipal functions as well as traditional county functions; and (2) the School District, which has boundaries coterminous with the City and has responsibility for all public primary and secondary education. The court system in Philadelphia, consisting of Common Pleas, Municipal, and Traffic Courts, is part of the Commonwealth of Pennsylvania (the “Commonwealth”) Judicial System. Although the Commonwealth pays judges and top level administrators, the City pays all other court costs, with partial reimbursement from the Commonwealth.

The City is governed primarily under the Home Rule Charter³, which provides for the election, organization, powers, and duties of the legislative branch (the “City Council”); the powers and duties of the executive and administrative branches; and the City’s fiscal and budgetary matters, contracts, procurement, property, and records.

² Act of June 22, 1999, P.L. 122, No. 21, §3 (66 Pa. C.S.A. §2201 et seq.).

³ Philadelphia Home Rule Charter, 351 Pa. Code §1.1-100 et seq., adopted pursuant to authorization of the First Class City Home Rule Act approved April 21, 1949, P.L. 665, §1 et seq. (53 P.S. §13101 et seq.).

Philadelphia Gas Works

In March 1835, a City ordinance was passed authorizing private ownership and operation of a public gas utility under trustee management. This ordinance also contained an option clause permitting the City to take ownership of the gas utility properties by issuing City bonds to the private stockholders. This option initiating City ownership of gas utility properties to ultimately form PGW was exercised March 1, 1841. The City has owned the gas system continuously since that date. Manufactured gas production commenced February 8, 1836, and service was inaugurated February 10, 1836, to 46 gas lamps along Second Street.

During its more than 170 years of existence, the operation and management of PGW has evolved to its present configuration through a variety of arrangements. Initially the private owners managed it. In 1841, a Board of Trustees assumed management of PGW in accordance with an enabling City ordinance. This arrangement continued through April 1887, when the City, under the Director of Public Works, assumed direct management and operation of PGW. Serious financial and operating problems led to a change in this arrangement on November 12, 1897. At that time, the City, unable to sell PGW, contracted with the United Gas Improvement Company ("UGI"), now UGI Corporation, for the operation and management of PGW under authority granted by the Home Rule Charter. Operation and management by UGI continued through December 31, 1972.

On December 5, 1972, the City caused the incorporation of the Philadelphia Facilities Management Corporation as a not-for-profit Pennsylvania corporation for the specific purpose of operating PGW. PFMC currently manages PGW in accordance with the original agreement with the City dated December 29, 1972, effective January 1, 1973, as subsequently amended (the "Management Agreement"). The relationship between the City, PGC, PFMC, and PGW as originally detailed in the Management Agreement is summarized below. As described later in this Report, as of July 1, 2000, the Gas Choice Act confers the responsibility of regulating PGW's rates and services to the PUC. (*See Pennsylvania Public Utility Commission and Regulation*).

<u>Organization</u>	<u>Function</u>
City of Philadelphia	Owns PGW property and establishes legislation for the functioning of PGW. City Council approves the capital budget.
Philadelphia Gas Commission	Responsibilities include: approval of personnel provided by PFMC, review of gas supply contracts for approval by City Council, approval of PGW's operating budget, review of PGW's capital budgets, and regulation of rates ⁴ .
PFMC	Provides executive management and directs operation of PGW facilities.
PGW	Manages construction, operation and maintenance of the gas system on a day-to-day basis.

⁴ As of July 1, 2000, the PUC became responsible for regulating rates pursuant to the Gas Choice Act.

The Management Agreement states that for the operation of PGW, PFMC shall provide:

- A Chief Executive Officer,
- A Chief Operating Officer,
- A Chief Financial Officer, and
- Other personnel as deemed appropriate by PFMC.

All PFMC personnel are subject to the approval of the PGC. The PGC consists of five members: the City Controller, two Mayoral appointees, and two City Council appointees. The PGC has the general responsibility to oversee operation of PGW by PFMC and retains all powers not specifically granted to PFMC. In addition, the Management Agreement specifies certain functions of the PGC, mainly:

- Approval of PFMC personnel
- Review and make recommendations regarding gas supply contracts for City Council approval
- Approval of PGW's annual operating budget
- Review and make recommendations regarding PGW capital budgets for City Council approval,
- Approval of short-term loans
- Review and approval of all PGW real estate acquisitions, sales, or leases for submittal to City Council for approval by ordinance, and power to establish procurement standards and to fix and regulate rates and charges⁵ for supplying gas to customers other than the City and the Board of Education, which will annually produce revenues sufficient to:
 - Pay all operating and maintenance expenses of PGW and the interest and amortization expense of its debt
 - Maintain debt coverage ratios
 - Pay \$18,000,000 to the City each year
 - Provide such other funds as may be approved by the PGC and City Council for debt reduction or capital additions

In the 1990s, PGW experienced a number of changes in its management organization. PFMC set up an interim management structure for PGW in December 1994 through January 1996 and again in October 1998 through March 2000. In February 2001, the PUC issued an order adopting a settlement with PGW in Docket No. R-00005654 whereby the PUC and the City agreed on a timetable and process to replace its interim management with permanent management. Permanent management was set in place with the appointment of Thomas Knudsen as President and CEO in June 2002. Mr. Knudsen's appointment was formally approved by the PGC in December 2002. PGW's permanent management organization is shown in Figure 1. (*See also Rates and Tariffs, Regulation*).

In preparing this Report, Black & Veatch interviewed key PGW officers⁶ and a number of its managers. The interviews were supplemented with reviews of PGW's policies, practices, procedures, and field observations of employees at various facilities performing their daily activities. Based on these interviews, reviews, and observations, it is our opinion that PGW is suitably organized, managed, and operated by qualified personnel.

⁵ Ibid.

⁶ For the purpose of this report, PGW officers and management include individuals provided by PFMC.

As of March 2009, PGW employed 1,721 people. Presently, approximately 71 percent of PGW's employees are represented by the Gas Works Employees' Union Local 686 ("Local 686"). Local 686 transferred affiliation from the Service Employees International Union ("SEIU") to the Utility Workers Union of America ("UWUA") in 2003. On October 17, 2006, a new two-year Collective Bargaining Agreement was ratified by the Gas Works Employees' Union, Local 686, Utility Workers' Union of America. The two-year extension went into effect on May 15, 2008 and will be valid through May 15, 2010. The Agreement includes incremental wage increases of 2.5 percent in 2008 and 3.5 percent in 2009.

The following are brief biographical descriptions of the current PFMC/PGW Senior Officers:

Thomas E. Knudsen, President and Chief Executive Officer. Mr. Knudsen joined PGW as Interim Chief Financial Officer in March 2000. He served in that capacity until July 2001 when he was appointed Interim President and Chief Executive Officer. Mr. Knudsen was appointed to his present position by PFMC in June 2002. Prior to joining PGW, Mr. Knudsen was the founding partner of The Woodside Group, a management consulting firm located in Stamford, Connecticut specializing in utility economics and regulation. For over 25 years, Mr. Knudsen advised industrial, commercial and residential customers and groups, as well as regulatory commissions, regarding appropriate utility operations, budgeting, pricing and rate design issues. Mr. Knudsen's involvement with PGW dates from 1986, having served as a consultant to the Public Advocate in all rate and budget proceedings of PGW before the Gas Commission from 1986 until 2000. His prior experience includes management consulting with Touche Ross & Co. (now Deloitte & Touche), as Assistant to the Finance Administrator of the City of New York and the United States Navy Supply Corp. Mr. Knudsen received his Masters of Business Administration degree in Finance from Columbia University in 1968 and a Bachelor of Arts degree in Economics from Northwestern University in 1964. He also serves on the Energy Association of Pennsylvania's Board of Directors and has recently been reappointed to the American Gas Association's Board of Directors.

Craig E. White, Executive Vice President and Acting Chief Operating Officer. Mr. White was appointed Acting Chief Operating Officer in July 2001. He is responsible for Field Operations, Customer Service, Sales and Marketing, Corporate Preparedness, Information Services, and Gas Management issues. His previous positions at PGW include: Senior Vice President, Marketing and Supply Services; Vice President, Marketing and New Business Development; Manager, Gas Planning & Federal Regulatory Affairs; Administrator, Federal Regulatory Affairs; Federal Regulatory Specialist; Planning Analyst; Demand Analyst; and Accounting Specialist. Mr. White received his Bachelor of Science degree in Business Administration from Kutztown University in Kutztown, Pennsylvania, and Master of Business Administration degree in Financial Management from Drexel University. Mr. White has been a member of PGW's management team since January 1980. He also serves on the following: American Public Gas Association's Board, the American Gas Association's Leadership Council and the Energy Association of Pennsylvania's Executive Gas Board.

Joseph R. Bogdonavage, Senior Vice President – Finance. Mr. Bogdonavage was appointed Senior Vice President, Finance in November 2000. His responsibilities include the oversight of PGW's Operating & Capital Budget, Accounting & Reporting, and Treasury functions. Mr. Bogdonavage has over 36 years of diverse experience in the finance area of PGW. He previously held the positions of Director, Budget & Financial Forecasting; Manager, Budget & Financial Forecasting; Supervisor, Budget & Financial Forecasting; Accounting Assistant Supervisor; and Budget Analyst. Mr. Bogdonavage is a member of the American Gas Association's Financial and Administrative Committee and the Energy Association of Pennsylvania's Finance Committee. Mr. Bogdonavage received his Bachelor of Business Administration in Accounting in 1972 from Temple University.

Randall J. Gvory, Senior Vice President – Operations & Customer Affairs. Mr. Gyory was appointed Senior Vice President of Operations and Customer Affairs in August 2007. His responsibilities include overseeing the Distribution and Field Services Operations, Call Center Operations, Credit and Collections, Regulatory Compliance, Account Management, Bill Processing, Universal Service Programs, Customer Service Center Operations, and Billing System Operations and Support. Prior to his current position, Mr. Gyory served as Vice President of Customer Affairs. He also managed PGW's Program Management Office and led a team of functional and business analysts in correcting and improving the billing system software issues associated with the transition from their legacy billing system to a client server system. In his twenty-nine years of experience at PGW, Mr. Gyory has spent the majority of his career in the Distribution Department where he held several positions in Maintenance, Construction and Engineering. Mr. Gyory received a Bachelor of Science degree in civil engineering from the University of Pittsburgh.

Thomas L. Kuczynski, Senior Vice President – Office of Business Transformation & Information Services. Mr. Kuczynski was appointed Senior Vice President of Business Transformation and Information Services in August 2007. Mr. Kuczynski rejoined PGW in February 2004 as Vice President - Information Services & CIO. He has over 30 years of experience in Information Technology including 18 years of prior experience at PGW. In his present position, Mr. Kuczynski is responsible for all aspects of the Office of Business Transformation and Information Services. He previously held the position of Director of Technology Strategic Planning for PG&E's National Energy Group ("NEG"). In this role, he was responsible for new technology research and development, strategy and architecture, business continuity planning, disaster recovery and security. Prior to joining NEG, Mr. Kuczynski spent one year at Delmarva Power where he provided IT Strategic Planning Services to the Energy Supply Group. Before Delmarva, Mr. Kuczynski spent 18 years at PGW where he led development efforts for PGW's customer information system, credit and collection, automated meter reading and distribution leak tracking. In 1993 Mr. Kuczynski was recognized by the American Gas Association with the Distribution Achievement Award for his efforts in designing and building PGW's first mobile field service system. Mr. Kuczynski is a graduate of La Salle College in Philadelphia, and the Executive MBA program at University of Maryland University College.

Abby L. Pozefsky, Esq., Senior Vice President – Administration and General Counsel. Ms. Pozefsky was appointed Senior Vice President and General Counsel in July 1998, and Senior Vice President, Administration and General Counsel in 2005. She manages the departments of Human Resources and Organizational Development, Risk Management and Technical Compliance as well as Legal. Ms. Pozefsky previously held the position of Chief Deputy City Solicitor of Regulatory Affairs for the City of Philadelphia Law Department, where she was also General Counsel for the Philadelphia Water Department and Airport. Having been licensed in four states, Ms. Pozefsky practiced law with a private law firm, a community legal services organization, and a state attorney general's office, and has taught on a university level. Ms. Pozefsky received her Bachelor of Arts degree from the University of Pennsylvania cum laude and a Juris Doctor degree from New York University Law School.

Cristina Coltro, Vice President – Customer Affairs. Ms. Coltro was appointed Vice President of Customer Affairs in 2007. Her responsibilities include overseeing the Call Center Operations, Credit and Collections, Regulatory Compliance, Commercial Resource Center, Account Management, Bill Processing, and Customer Service Center Operations. Prior to her current position, Ms. Coltro served as the Director of Regulatory Compliance, responsible for the Universal Services Programs, Customer Review Unit, Dispute Resolution Unit, Program Management Office and Training Department. Ms. Coltro received her Bachelor of Science degree in Economics from Hunter College, New York, and a Master of Science degree in Energy and Environmental Management and Policy from the University of Pennsylvania. She also serves on the Utility Emergency Service Funds (UESF) Board of Directors, and is a member of the Energy Association of Pennsylvania and the American Gas Association Customer Services committees.

Raquel N. Guzman, Esq., Vice President – Legal and Associate General Counsel. Ms. Guzman was appointed Vice President - Legal in August 2005 and Associate General Counsel in 2003. She, together with the General Counsel and Assistant General Counsel, is responsible for PGW's Legal Department. Prior to joining PGW's legal staff, Ms. Guzman was a Deputy City Solicitor for Regulatory Affairs for the City of Philadelphia and also practiced at a major Philadelphia law firm in its real estate department. She holds a Juris Doctor degree from the University of Pennsylvania Law School and an undergraduate degree from Harvard College.

Michael W. Handwerk, Vice President – Technical Compliance. Mr. Handwerk was appointed Vice President of Technical Services in September 2005. In this capacity, he is responsible for services to Operations involving regulatory compliance, chemical laboratory analyses and environmental related activities, as well as development and implementation of operational changes and best practices. Mr. Handwerk's previous position was Director, Operations Compliance & Technical Services. He has been with PGW since 1979. Mr. Handwerk is a member of the American Gas Association's Operations Safety Regulatory Action Committee (OSRAC) and the American Public Gas Association's Operations Committee. He is also a member of the Energy Association of Pennsylvania's Gas Transmission and Distribution Committee, and the American Chemical Society. Mr. Handwerk has a B.S. degree in Chemistry from Elizabethtown College, a B.A. degree in Corporate Management from Ursinus College, and a M.B.A. in Financial Management from St. Joseph University.

Steven P. Hershey, Vice President – Regulatory & External Affairs. Mr. Hershey joined PGW as Vice President, Community Initiatives in January 2004 and was appointed Vice President – Regulatory & External Affairs in January 2006. In his current position, Mr. Hershey's primary responsibility is working with the President and CEO and senior management regarding certain regulatory and stakeholder matters and developing initiatives to enhance PGW's regulatory and legislative goals as well as improving PGW's relationship with various stakeholders, including customers. Prior to joining PGW, Mr. Hershey was a partner in the law firm of Eckert, Seamans, Cherin & Mellott, LLC of Philadelphia, Pennsylvania. He represented clients in matters involving energy, telecommunications, and utility policy, implementation of competition, rate setting, conservation, customer service and economics. Prior to becoming a partner at Eckert, Seamans, Cherin & Mellott, LLC, Mr. Hershey was a Supervising Attorney for Community Legal Services of Philadelphia, Pennsylvania. While at CLS, Mr. Hershey served as Lead Attorney for the Public Advocate, representing the interests of residential customers of Philadelphia utilities from 1985 to 1998. Mr. Hershey's involvement with PGW dates back to approximately 1977 when he began representing PGW's residential customers. Mr. Hershey has more than 30 years of experience in the utility and energy field, including the practice of law. Mr. Hershey holds a B.A. degree from Hamilton College and a Juris Doctor degree from Georgetown University Law Center.

Paul A. Mondimore, Vice President – Field Operations. Mr. Mondimore was appointed Vice President, Field Operations in October 2002. He is responsible for PGW's Distribution and Field Services Departments. He previously held many positions at PGW in the Distribution Department since commencing employment in June 1981 including: Director, Distribution Department; Project Manager, Mobile Dispatch Project; General Supervisor; and Supervisor. Mr. Mondimore received his Bachelor of Science degree in Civil Engineering from Drexel University. He has been a member of the American Gas Association, AGA Best Practices Group and the Energy Association of Pennsylvania.

Douglas A. Moser, Vice President – Gas Management. Mr. Moser was appointed Vice President, Gas Management in October 2002. He is responsible for PGW's Gas Processing; Gas Supply, Transportation & Control; Gas Planning, Rates & Federal Regulatory; and Engineering & Facilities Departments. Since commencing employment in September, 1979 at PGW he has held the following positions: Senior Project Manager in the Strategic Planning Department; Manager – Gas Control and Manager – Gas Acquisition in the Gas Supply Department and Engineering Assistant; Production Engineer, Supervisor – Gas Conditioning, and Operations Engineer in the Gas Processing Department. Mr. Moser received his Bachelor of Science degree in Chemical Engineering from

Pennsylvania State University and his Master in Business Administration degree from Widener University.

Jo Ann Muniz, Vice President – Supply Chain. Ms. Muniz was appointed Vice President of Supply Chain in August 2007. She is responsible for PGW's Fleet Operations, Procurement and Materials Management Departments. Since commencing employment in July 1980 as an Engineering Assistant in Gas Supply, she has held many positions at PGW including: Fleet Engineer in Fleet Operations; Staff Engineer in the Engineering Department; Internships in Field Services and Customer Affairs; Co-Project Manager of the Work Management and Mobile Project Team; Project Manager of Customer Service Training and Process Development; Director, Procurement and Contract Services and Director, Fleet Operations and Materials Management. She most recently held the position of Director, Support Services. She serves as Chair of the Energy Association of Pennsylvania's Materials and Procurement Management Committee. She holds a B.S. in Mechanical Engineering from Temple University and a M.S. in Electrical Engineering from Pennsylvania State University.

William C. Muntzer, Vice President – Human Resources. Mr. Muntzer was appointed Vice President, Human Resources in August 2008. Mr. Muntzer oversees the administration function of Human Resources and Labor Relations. He has approximately 27 years experience of utility management in Philadelphia, Pennsylvania. Areas of responsibility include project management, local, state and federal regulatory work, advocacy, information technology, planning, rate design, marketing and utility operations. Mr. Muntzer also has experience in the manufacturing sector: responsibilities included inventory control, planning, production scheduling and shipping. Recent accomplishments include several major utility initiatives including the implementation of the Pennsylvania Gas Choice Initiative, replacement of a city wide dispatching system for over 400 field employees and the refurbishment of a large meter testing facility, oversight of a Management Audit conducted on behalf of the Pennsylvania Public Utility Commission. Mr. Muntzer earned his undergraduate and graduate degrees at LaSalle University's Business School.

Joseph A. Smith, Vice President – Marketing & Sales. Mr. Smith was appointed Vice President, Marketing & Sales in May 2005. Mr. Smith oversees the operations of Major Accounts, Sales and Customer Support and Business Development/Technical Support. He previously held the position of Director, Major Accounts; Manager, Major Accounts as well as other positions within the Marketing Department. In addition, he has held several positions in PGW's Field Operations Department. Mr. Smith received his Bachelors Degree in Business Administration in 2004. Mr. Smith has served as the President of the Association of Energy Engineers (AEE), in which he now serves as a Board member. He is currently a member of the American Public Gas Association's Marketing Committee and the American Society of Heating, Refrigeration and Air Conditioning Engineers (ASHRAE).

John P. Straub, Vice President – Corporate Preparedness. Mr. Straub was appointed Vice President of Corporate Preparedness (formerly known as Labor, Safety and Preparedness) in April 2003. He is responsible for matters including Safety, Security, Policies & Procedures, Business Continuity & Disaster Planning, and Occupational Health & Safety. Mr. Straub previously held the position of Vice President – Human Resources Department. Before coming to PGW in January 1999, Mr. Straub headed the Special Litigation Group for the City of Philadelphia's Law Department where he was responsible for the management and supervision of all employment law related matters and litigation involving the City of Philadelphia. Mr. Straub also previously worked as an Assistant District Attorney for the Philadelphia District Attorney's office. He holds a Juris Doctor degree from Temple University School of Law and is a graduate of Villanova University.

Lorraine S. Webb, Vice President – Organizational Development. Ms. Webb was appointed Vice President of Organizational Development in May 2005. She is responsible for Staffing, Performance Management, Succession Planning, EEO, Affirmative Action, Training and Development and the Leadership Development program. Ms. Webb previously held the position of Director of Strategic

Planning and prior to that Director of Human Resources for PGW. Before joining PGW, Ms. Webb held various positions in the field of human resources. Previous positions included Manager of Human Resources, Affirmative Action Officer for Ciba Geigy (now Novartis), as well as Senior Career Transition Counselor for the Ayers Group of New York. Ms. Webb holds a B.A. degree from State University of New York-Binghamton. She is a member of SHRM.

Eloise N. Young, Vice President – Information Services & Chief Information Officer. Ms.

Young was appointed Chief Information Officer of the Philadelphia Gas Works in August 2007. As CIO, Ms. Young is responsible for delivering information technology capabilities to PGW. Prior to this appointment, Ms. Young served in a number of positions in PGW's Information Services Department including Director of Technical Strategy and Support, Manager of Systems Services, System Administrator in both the Unix and CICS environments, DBA, and applications developer. Ms. Young received a Bachelors of Science degree in Information Technology from the University of Phoenix in 2003.

Joseph F. Golden, Jr., Controller. Mr. Golden was appointed Controller in March 2001. He is responsible for the treasury and accounting functions at PGW. Prior titles held by Mr. Golden at PGW include: Treasurer; Manager - Treasury Department; Senior Staff Accountant; and Staff Accountant. Mr. Golden started his career with PGW in August of 1986. Mr. Golden has prior work experience in public accounting, treasury accounting and cash management, and manufacturing. Mr. Golden holds a Bachelor of Science degree in Accounting from Villanova University, a Master of Business Administration degree from Drexel University, and a Juris Doctor degree, cum laude, from Temple University School of Law.

Philadelphia Gas Commission

The Philadelphia Home Rule Charter contains provisions for the establishment of the PGC with powers and duties as set forth in ordinances and contracts. The Management Agreement grants PGC certain specified powers and duties and all other powers not specifically granted to PFMC. The powers and duties granted to PGC include approval of personnel provided by PFMC, review of gas supply contracts for approval by City Council, approval of changes in tests and standards of gas quality and pressure, approval of PGW's operating budget, review of PGW's capital budgets and recommendations thereon to City Council, approval of certain loans (but not the issuance of Bonds), access to and review of all books, records and accounts of PGW, prescription of insurance requirements, promulgation of standards for procurement and disposal of material, supplies and services and approval of all real property acquisitions for further approval of City Council.

Pennsylvania Public Utility Commission

The PUC regulates the rates and supervises the service of Pennsylvania's public utilities, including electricity, water, natural gas, and telephone. Under current law, all rate regulation authority for PGW is held by the PUC, pursuant to the Gas Choice Act. The Gas Choice Act contains provisions which are designed to (i) preserve the tax-exempt status of Approved Bonds, defined in the Gas Choice Act as bonds or other obligations issued by the City for PGW, including the Future Bonds, (ii) preserve the ability of the City to comply with its covenants, including the City's covenants with respect to the imposition and collection of rates and charges to the holders of Approved Bonds, including the Future Bonds, and (iii) require rates to be set for PGW utilizing the ratemaking methodology and requirements that were applicable to PGW's natural gas distribution operation prior to the assumption of jurisdiction by the PUC. The Gas Choice Act provides, among other things:

- Commencing July 1, 2000, PGW is subject to regulation by the PUC and, except as otherwise provided in the Gas Choice Act, the provisions of the Public Utility Code apply to PGW as if it were a public utility. The PUC, instead of the PGC, sets rates for PGW's customers.

- Notwithstanding customer choice in gas suppliers, PGW's gas distribution business will remain a regulated monopoly.
- In setting rates and notwithstanding any other provision of the Public Utility Code, the PUC must permit the City to impose, charge and collect rates or charges as necessary to permit the City to comply with its covenants to the holders of any Approved Bonds, as defined in the Gas Choice Act. All Bonds issued by the City on behalf of PGW under the Act, including the Future Bonds, are Approved Bonds.
- The PUC is obligated to use PGW's ratemaking methodology and requirements until all Approved Bonds are refunded or defeased.
- The PUC is barred from requiring the City or PGW to take any action (or omit taking any actions) under the Public Utility Code if such action or omission would have the effect of causing the interest on any bonds issued by the City on behalf of PGW, including the Future Bonds, to be includable in the gross income of the holders of such bonds for Federal income tax purposes.
- On March 31, 2003, the PUC approved PGW's restructuring plan (Docket No. M-00021612), which implements customer choice and permits licensed natural gas suppliers to deliver gas to customers in Philadelphia using PGW's distribution system.
- On September 1, 2003, PGW began operating under its Restructuring Compliance Tariff.
- The Gas Choice Act permits, but does not require, the PUC to approve a senior citizen discount. On September 30, 2004, the PUC denied PGW's request to continue the senior discount program for post-September 1, 2003, applicants. Since September 1, 2003, the program is not available to new participants. (*See Senior Citizen Discount Program*).
- The PUC is required to provide for a management audit of all employees, records, equipment, contracts, assets, liabilities, appropriations, and obligations of PGW prior to the commencement of the restructuring proceeding. (*See Rates and Tariffs, Regulation*).
- Effective June 30, 2000, the provisions of the Home Rule Charter with respect to the powers and duties of the PGC are abrogated to the extent inconsistent with the Gas Choice Act.
- The City cannot be required to take any action under the Public Utility Code if the effect of the action is to cause a variation in the City's financial plan approved by the Pennsylvania Intergovernmental Cooperation Authority.
- The City's executive or legislative powers to "legislate or otherwise determine the powers, functions, budgets, activities and mission of PGW" are not abrogated or limited.

This Report assumes rate regulation will be administered by the PUC to comply with the City's bond covenants, as required by the Gas Choice Act.

The PGW Gas System

Philadelphia Gas Works began gas production in February 1836 and has since continuously provided the City of Philadelphia with service. Today, PGW is the largest municipally owned gas utility in the nation, maintaining a distribution system of approximately 3,024 miles of gas mains and 466,814 service lines. In addition to this extensive distribution system, PGW operates facilities for the liquefaction, storage, and vaporization of natural gas to supplement gas supply taken directly from interstate pipeline and storage companies.

Population and Service Area

PGW Gas System presently serves the limits of the City of Philadelphia with a customer base of approximately 500,000 accounts. This service area is shown in Figure 2. The service area consists of an urban area of 129 square miles located in southeast Pennsylvania along the Delaware River. Philadelphia is the largest incorporated area within the Delaware Valley region. According to the 2000 United States Census, Philadelphia has a population of approximately 1,500,000 inhabitants, a decrease of about 4 percent since 1990.⁷

Supply Facilities

The principal PGW natural gas supply facilities include nine city gate stations owned in large part by the interstate pipeline companies serving PGW and two liquefied natural gas (“LNG”) plants, Richmond and Passyunk, owned by the City. The supply facilities also include a gas control center, a deactivated propane/air plant, and two gas holders, one of which has been removed from service.

City Gate Stations

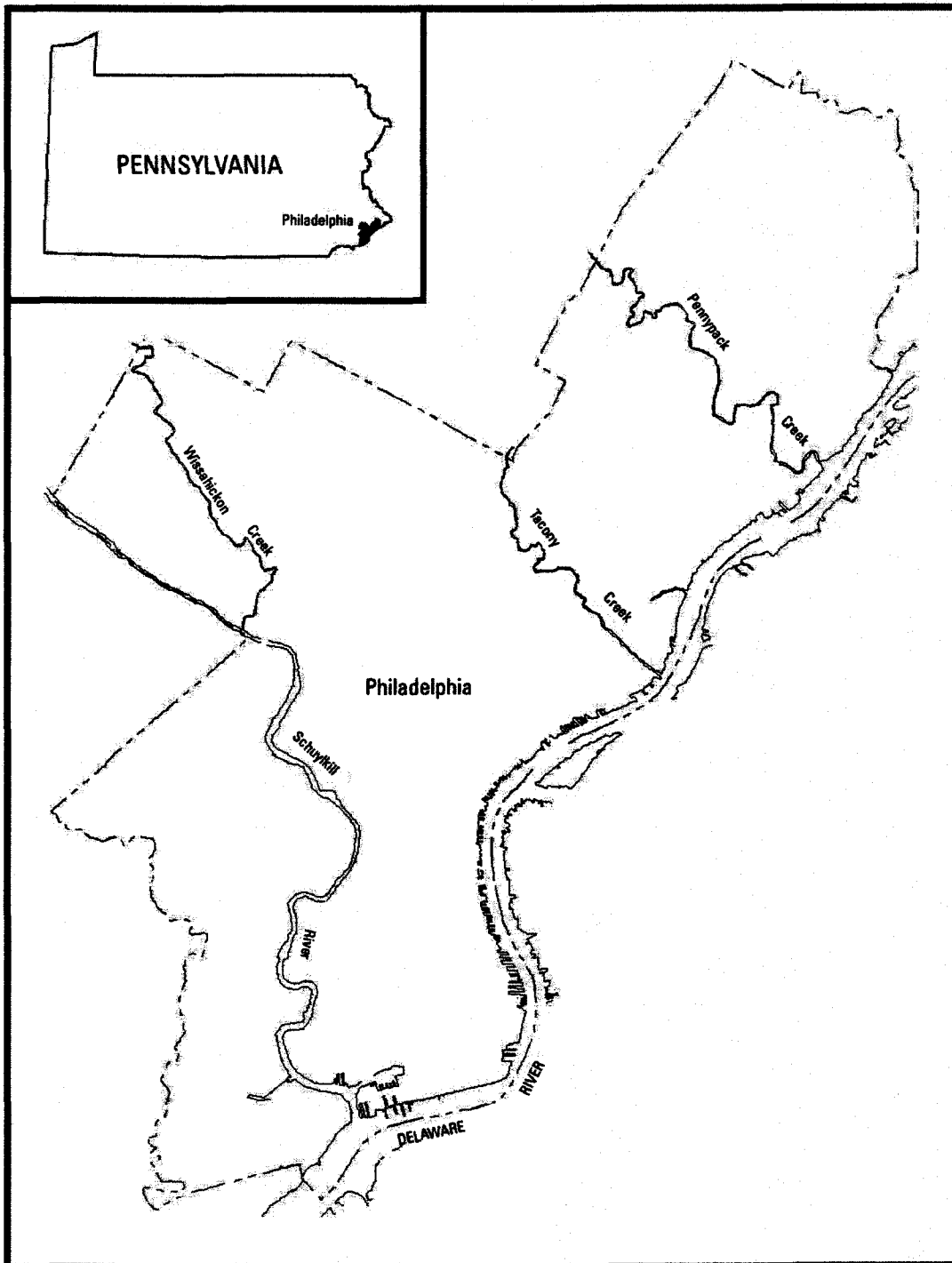
Natural gas is received through nine city gate stations from two pipeline transmission companies – Spectra Energy (“Spectra”) and Transcontinental Gas Pipe Line Corporation (“Transco-Williams”). The two pipeline companies own most of the facilities and land at eight of the nine city gate stations. The pressure delivered to PGW’s distribution system is controlled at each of the city gate stations. Eight city gate stations are equipped with gas heaters.

Gas Control Center

The gas control center is located at 800 W. Montgomery Avenue, with a backup at the Richmond Plant. The center monitors and controls gas flow and pressure from the nine city gate stations to the high-pressure distribution system. The gas control dispatchers also provide direction to the LNG production plant operators concerning startup, shutdown and gas flow output from the LNG facilities. Operations are facilitated through the use of a computer system that includes a backup unit and an auxiliary power supply.

⁷ The City of Philadelphia and Philadelphia County are coextensive. *United States Census Bureau, Census 2000 Redistricting Data (P.L. 94-171) Summary File, Table PL1 and 1990 Census.*

Figure 2
Philadelphia Gas Works Service Area



LNG Facilities

There are two LNG facilities – the Passyunk Plant and the Richmond Plant. The smaller LNG storage and vaporization facility at the Passyunk Plant receives its liquefied gas supply from the larger Richmond Plant via cryogenic trailer trucks. The Passyunk LNG facility consists of one LNG storage tank of 3,066,000 gallons gross capacity (i.e., the equivalent of 253,300 thousand cubic feet [“Mcf”] of natural gas) and two LNG vaporizers, each having a capacity of 45,000 Mcf per day resulting in 45,000 Mcf per day planned capacity and 45,000 Mcf per day reserve.

The Richmond LNG plant is one of the largest liquefaction facilities in the United States and also includes storage and vaporization facilities. A new liquefaction facility was completed and tested in March 2005, which replaced the original modified liquefaction facility which was subsequently mothballed. The new facility utilizes an open expander loop technology. It has a daily liquefaction capacity of 16,000 to 18,000 Mcf per day. This technology utilizes energy from the high transmission delivery pressure of the interstate pipeline system throughput to run the expander/compressors, significantly reducing fuel requirements. In addition, these facilities have the capability to liquefy natural gas year round providing greater operational flexibility. Further, this technology utilizes significantly fewer components than the older modified cascade facility and should result in lower operation and maintenance costs. The maximum capacity of the liquefaction facilities of 18,000 Mcf per day will not be available at all times during the summer months because the demand on the PGW system is not sufficient to create the throughput necessary to run at this capacity.

The vaporization and storage facilities at the Richmond Plant are not affected by the new liquefaction facilities. The two storage tanks at the Richmond Plant have a combined gross capacity of 48,970,000 gallons of LNG (4,045,800 Mcf). Regasification of the liquid natural gas is accomplished with six vaporizers having a total output of 411,000 Mcf per day plus 100,000 Mcf per day in reserve. The Richmond Plant also has facilities to receive LNG from and deliver LNG to cryogenic trailer trucks.

Gas Holder Storage Facilities

The Richmond Plant has a low pressure gas holder. The Richmond holder has an operating capacity of 1,000 Mcf. It was installed in the manufactured gas era and is in working order. It is used to enhance operational flexibility of the LNG Plant. The Passyunk holder has been removed from service.

Distribution Facilities

The principal gas distribution facilities consist of approximately 3,024 miles of main, 466,814 service lines, 208 regulator stations, approximately 563,287 meters (of which approximately 519,890 are active) and miscellaneous valves, instruments, and other appurtenances. PGW operates five different operating pressure systems; each system is connected to the other by control regulators. The high-pressure systems operate at approximately 110, 60, and 35 pounds per square inch gauge (psig); the intermediate pressure system operates at 5 psig; and the low-pressure system operates between 6 and 9 inches of water column (approximately 0.25 pounds per square inch). The majority of customers are served from the low-pressure system.

Approximately 53 percent (by length) of the gas mains are cast iron, 33 percent are steel, 4 percent are ductile iron, and 10 percent are plastic. Of the steel mains, approximately 49 percent are wrapped, coated, and cathodically protected. Approximately 35 percent of the service lines are steel (of which 13 percent are cathodically protected) and 64 percent are plastic.

Other Facilities

PGW has its executive and operating offices located at 800 West Montgomery Avenue, which is a 150,000 square foot office building constructed in 1988. The former general office building, located at 1800 N. 9th Street, still houses administrative operations, in addition to distribution and field service dispatch centers, gas control dispatching, operating stations, a post office, duplicating center, radio repair shop, training facilities, parking facilities, telecommunications, and warehousing, as well as information systems center and a metal fabrication shop. Additional facilities include six district offices, the Tioga station for distribution crews, two LNG plants, and three operating stations for field service crews. There are also five other warehousing facilities, a meter shop, and an automotive maintenance and repair facility. The automotive maintenance and repair facility is responsible for the upkeep of PGW's fleet of approximately 694 vehicles, 100 portable compressors, and 42 trailers. PGW also maintains three minor automobile repair facilities, bulk fuel dispensing equipment, and materials and supplies.

Condition of Facilities

In March 2009, Black & Veatch conducted site inspections of certain PGW facilities as deemed appropriate. During the inspections, Black & Veatch used three evaluation criteria based on observation to evaluate the condition of each facility. These criteria are described below:

- *Good*: The facility is in condition to provide reliable operation in accordance with design parameters and requires only routine maintenance.
- *Adequate*: The facility is operating at or near design levels, however, non-routine renovation, upgrading, and repairs are needed to ensure continued reliable operation. Significant expenditures for these improvements may be required.
- *Poor*: The facility cannot be operated within design parameters. Major renovations are required to restore the facility and assure reliable operation. Major expenditures for these improvements may be required.

Construction Sites

Inspections at construction sites included the observation of crews, vehicles, power-operated equipment, tools, safety procedures for the crew and public, construction standards, and general quality of work performed.

System maps were also examined and compared to existing facilities. This comparison showed the maps to have adequate detail to describe the system at the site. The maps contain the year the natural gas main was placed in service, size and material used, operating pressure, location of valves and bends, and where repairs have been performed.

Meter Settings

Meter setting observations include materials and equipment. Observed meter settings conformed to accepted industry standards, accessibility, and safety and security measures.

Field and District Offices

Field and district office sites, including related facilities, such as vehicle and equipment fueling stations, garage and vehicle maintenance supply, structures, driveways, parking, material and equipment storage areas and security features, were observed. Three of the six district offices are leased to PGW. Inspections of these leased sites were focused primarily on materials and equipment typically provided by PGW.

Personnel

During the inspection period, Black & Veatch conducted interviews and was assisted by PGW staff who are experienced, qualified, well trained, and knowledgeable in their assigned tasks. In addition to details of the operations, they were knowledgeable in details of routine and preventative maintenance procedures PGW has in place.

The following is a list of key areas discussed in conducting inspections and in the collection of system data:

Construction	System Losses & Meter Maintenance Programs
Corrosion Engineering	Leak Surveys
Field Offices	Operations
District Offices	SCADA System
Treasury	Meter Settings
District Regulators	City Gates and LNG Plants
Field Services	Accounts Receivable
Gas Supply	

Facility Inspections

The following facilities were inspected in March 2009:

Supply Facilities	Distribution Facilities
<i>Liquefied Natural Gas Facilities</i> Richmond & Passyunk Plants	<i>Meter Setting</i> Commercial 5230 Chestnut (in West District Office) 1337 West Erie Ave. (in North District Office)
<i>City Gate Stations</i> 034 Ashmead Penrose Richmond Somerton 060	Industrial/Commercial University Village (Temple), intersection of 10th and Montgomery <i>Construction Sites</i> 150 Gay St. - Replace cast iron main with 4" PE and renew services. Baldwin St., Wilde to Silverwood - Block renewal of cast iron with 4" PE and transfer services.
Other Facilities	
<i>Field Offices/On-Site Facilities</i> Montgomery Porter Tioga Castor Belfield <i>SCADA Control Room</i> PGW - 1800 N. 9th St.	<i>District Offices</i> Center City - Leased Frankford - Leased Germantown - Leased North - Owned South - Owned West - Owned

Conclusions

All observed facilities, vehicles, equipment and warehouse stock appeared to be reasonably maintained and in good operating condition. During the inspections, Black & Veatch identified only minor items not in good operating condition as would be expected during the normal course of operation. These items were either in the process of being repaired or were essentially retired in place. Employees appeared to be knowledgeable of their job requirements and well trained.

PGW's highest operating priority is response to emergencies and the maintenance of a safe gas distribution system. PGW maintains maps and other records of the distribution system in good order and has comprehensive written construction, operating and maintenance standards and procedures. Its personnel appeared well trained in the operation and maintenance of the gas distribution system. PGW is routinely actively involved in entering its facility records (Corrosion, Service and Leak Records) into computer databases, thus facilitating and improving the accuracy of accessing information. PGW has continued to monitor its security measures at its major facilities, including the two LNG facilities, the city gate stations, and the headquarters building complex, as a result of September 11, 2001, terrorist attacks. PGW has added concrete barriers around critical facilities at Richmond and perimeter fencing around both Passyunk and Richmond Plants.

Based on the physical inspections and interviews conducted in March 2009, it is our opinion that PGW operates and maintains its system prudently and in accordance with current regulatory standards and generally accepted industry practices.

PGW Gas Supply

PGW manages its gas supply through a mix of flowing supplies, off-system underground storage, and City-owned and PGW-operated LNG facilities. PGW utilizes this mix to meet its obligation to serve customers' demand on the coldest day (peak day) as well as customers' annual requirements. PGW's gas distribution facilities are directly connected to Spectra through four city gate stations and to Transco-Williams through five city gate stations. All gas purchased by PGW is transported to the city gates through either one of these pipelines. During predominantly off-peak periods, a portion of the purchased gas supply is stored in off-system underground storage facilities connected to these two pipelines or in PGW's LNG facilities. Through the effective use of off-system storage and LNG, PGW is able to more efficiently utilize its transportation contracts with Spectra and Transco-Williams.

Supply Services

PGW purchases gas through a combination of term contracts and spot market purchases. Natural gas supplies are purchased under a portfolio approach intended to secure the lowest price consistent with reliability of supply. Consideration is given to maintaining a diversity of sources and types of supply. During the 2009 fiscal year, purchased gas and transportation costs are estimated to account for approximately 70 percent of the total gas supply expenses of \$616 million and approximately 44 percent of total revenues of \$994 million. The cost of gas supply is a function of the prices paid and the quantity purchased, both of which are variable. While this price component can be managed by PGW to some extent through the timing of purchases, the prices paid are largely determined in a very competitive and a sometimes volatile marketplace. While the total annual volumes purchased are highly dependent on temperatures during the heating season and are beyond the utility's direct control, PGW can manage the timing of purchases and hence prices to a limited degree, by utilizing off-system and LNG storage.

Transportation and Storage Services

All of PGW's gas purchases are ultimately transported from the sources of supply to the city gates through either Spectra or Transco-Williams facilities. Injections and withdrawals of gas from off-system storage also rely on these two pipelines. Table 1 summarizes the existing transportation agreements between PGW and the two pipelines. As shown in this table, PGW's currently available pipeline capacity is almost equally divided between the two pipelines. Of PGW's total contract pipeline capacity of 446,929 Mcf per day, Spectra accounts for 227,277 Mcf per day, or 51 percent, and Transco-Williams accounts for 219,652 Mcf per day, or 49 percent. The initial terms of the major contracts for the Spectra transportation service (CDS and FT) expire prior to the 2010-11 winter period and the initial term of the major contract for the Transco-Williams transportation service (FT) expires after the 2011-12 winter period. These contracts will then renew on an automatic year-to-year basis. PGW's current long-term plan assumes that the material contracts may also be renewed as longer term contracts.

Due to the highly seasonal nature of PGW's load (demand), the efficiency of pipeline transportation service can be increased significantly through the use of storage services. During periods when PGW's load is less than contracted transportation service, PGW may utilize the available capacity to deliver gas to off-system storage facilities or liquefy gas and store it in its LNG facilities. The ability to store gas off-system and in LNG facilities provides three significant benefits. First, less capacity needs to be reserved on interstate pipelines to serve higher seasonal loads to the extent that gas can be stored in off-system storage and local LNG facilities. Second, less volumes need to be actually purchased during the generally higher cost winter period to the extent that gas can be purchased during the lower cost non-winter period, stored and then redelivered from storage during the winter. Third, market area storage provides increased security of supply.

Table 1
Gas Supply, Transportation, and Storage Contracts

Contract	Contract Expiration ^(b)	2009 - 2014			
		Transportation ^(c)		Storage ^(d)	
		dt/day	Mcf/day	dt/day	Mcf/day
Transco-Williams					
FT	03/31/12	165,212	160,400		
PSFT	07/31/11	1,967	1,910		
S-2	04/15/10	5,191	5,040	5,191	5,040
GSS	03/31/13	53,871	52,302	53,871	52,302
WSS ^{(a)(e)}	03/31/10			39,246	38,103
Subtotal		226,241	219,652	98,308	95,445
Spectra					
CDS	10/31/10	75,000	72,816		
FT1 - 800233R	10/31/10	23,822	23,128		
FT1 - 800514R	10/31/10	18,000	17,476		
FT1 - 800515R	10/31/10	18,000	17,476		
Dominion/GSS/FTS7 ^(e)	03/31/11	6,815	6,616	6,815	6,616
Dominion/GSS/FTS8 ^(e)	03/31/11	22,495	21,840	22,495	21,840
Equitable/FTS2	03/31/10	4,998	4,852	4,998	4,852
SS1A		44,118	42,833	44,118	42,833
SS1B		20,847	20,240	20,847	20,240
Subtotal		234,095	227,277	99,273	96,381
Total		460,336	446,929	197,581	191,826

(a) Transportation included in FT.

(b) Contracts are assumed renewed based on evergreen clauses beyond their expiration date.

(c) Reference: SDS 6, Page 4 of 4, In the Matter of Proposed Operating Budget, Supporting Documentation - Gas Costs and Purchasing Plans, Volume 1, June 2008.

(d) Reference: SDS 6, Pages 1-2 of 4, In the Matter of Proposed Operating Budget, Supporting Documentation - Gas Costs and Purchasing Plans, Volume 1, June 2008.

(e) Volumes reflect 87.5% contract limitation on maximum monthly storage withdrawal.

As shown in Table 1, PGW's currently available off-system storage capacity is almost equally divided between facilities connected to Spectra and Transco-Williams. Of PGW's total contract storage deliverability of 191,826 Mcf per day, services provided on Spectra account for 96,381 Mcf per day, or 50.2 percent, and Transco-Williams accounts for 95,445 Mcf per day, or 49.8 percent. All of this deliverability requires transportation to PGW via the respective transportation services obtained from Spectra and Transco-Williams. This storage deliverability is used primarily to reduce contract demand for long haul transportation services and to reduce the quantity of gas that needs to be purchased during the typically higher cost winter period to meet winter peak demand.

During the 2009 fiscal year, storage costs are estimated to account for approximately 30 percent of the total gas supply expenses of \$616 million. The prices paid for these services are determined by long-term contracts and tariff rates regulated by the Federal Energy Regulatory Commission (“FERC”). Generally, these components of gas supply cost represent the purchase of capacity, are relatively fixed, and do not vary directly with the volumes of gas purchased.

LNG Facilities

The City owns and PGW operates two LNG facilities, the Richmond Plant and the Passyunk Plant. The LNG facilities are primarily used to ensure availability of supply needed to serve peak day demand. The LNG facilities provide capacity that would otherwise be needed from flowing gas and off-system storage (i.e., pipeline and storage capacity) to meet peak day demands. The LNG facilities also allow for a nominal reduction in purchases during the higher cost winter period. Based upon current pipeline and storage charges, which have remained relatively constant over the past five years, PGW estimates that utilizing the existing LNG facilities in lieu of additional pipeline and storage capacity saves approximately \$75 million per year.

Gas is liquefied, stored, and vaporized at the Richmond Plant, and stored and vaporized at the Passyunk Plant. Total liquefaction (converting natural gas to liquid state for storage) capacity at the Richmond Plant existing facilities is approximately 29,000 Mcf per day. The Richmond Plant can store approximately 49 million gallons of LNG (4.05 million Mcf natural gas equivalent) and the Passyunk Plant can store approximately 3 million gallons of LNG (250,000 Mcf natural gas equivalent). The LNG stored at the Passyunk Plant is liquefied at the Richmond Plant and then transported by cryogenic trailer trucks to the Passyunk Plant. Total vaporization (converting the liquid LNG to gas) capacity at the Richmond Plant with two vaporizers, is 411,000 Mcf per day and 100,000 Mcf per day in reserve, and the capacity at the Passyunk Plant with two vaporizers, is 45,000 Mcf per day and 45,000 Mcf per day in reserve. The highest daily vaporization rate from the LNG facilities of approximately 360,000 Mcf occurred in January 1994 when PGW recorded its maximum system sendout.

Supply and Demand Balance

Table 2 summarizes the supply mix that was used to meet historical peak day demand from fiscal years 2003 through 2008, and the supply mix that would enable PGW to meet future demand assuming design conditions over the 2009 through 2014 fiscal years. A design day on PGW’s system is based on the highest actual historical peak day experienced by PGW. This occurred on January 19, 1994, with a peak day total demand (sendout) of 752,707 Mcf. The average temperature on that day was 2°F. For design purposes, PGW projects total demand based on a 65 heating degree-day (“HDD”) which translates to an average temperature of 0°F. During the past seven years, pipeline deliveries (flowing gas plus underground storage) have met between 70 and 92 percent of actual peak day demand. These figures are relatively high due to significantly warmer than normal winters. During the projection period, approximately 61 percent of peak day demand under design conditions would be met from pipeline supply with the remaining 39 percent met from LNG. PGW must maintain these capacity levels because it is considered the supplier of last resort if the customer’s supplier is unable to deliver natural gas. However, PGW will assign proportionate shares of pipeline and LNG capacity and cost to transportation customers. Table 2 shows that PGW has sufficient capacity to meet demand requirements.

Table 3 summarizes the supply mix that is projected to meet annual requirements during normal and design years from 2009 through 2014. PGW defines a normal year as one containing 4,464 HDD. This normal year is based on a 30-year average. PGW defines a design year as one containing 5,280 HDD. A design year is based on the temperatures experienced during the 1977-1978 winter, which was the coldest recorded winter in the last 60 years.

**Table 2
Peak Day Supply and Demand**

Description	Fiscal Year Ending August 31,											
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Actual^(b)												
Heating Degree-Days	49	52	50	44	51	42	50					
Demand - Mcf	616,928	620,413	591,133	490,923	589,588	533,349	574,126					
Supply - Mcf												
Pipeline/Storage	445,948	434,420	455,735	450,912	438,350	423,165	448,737					
LNG	170,980	185,993	135,398	40,011	151,238	110,184	125,389					
Total	616,928	620,413	591,133	490,923	589,588	533,349	574,126					
Projected - Design												
Heating Degree-Days ^(c)								65	65	65	65	65
Demand - Mcf ^(c)								730,200	732,400	734,700	736,900	739,100
Supply - Mcf												
Pipeline/Storage ^(d)								446,928	446,928	446,928	446,928	446,928
LNG (net)								283,272	285,472	287,772	289,972	292,172
Total								730,200	732,400	734,700	736,900	739,100

(a) Assumes no unbundling of services.

(b) For 2003-2008, SDS 7, In the Matter of Proposed Operating Budget, Supporting Documentation - Gas Costs and Purchasing Plans, Volume 1, June 2008.

(c) SDS 6, Page 3 of 4, In the Matter of Proposed Operating Budget, Supporting Documentation - Gas Costs and Purchasing Plans, Volume 1, June 2008.

(d) SDS 6, Page 4 of 4, In the Matter of Proposed Operating Budget, Supporting Documentation - Gas Costs and Purchasing Plans, Volume 1, June 2008.

**Table 3
Annual Supply and Demand**

Line No.	Description	2009 dt	2010 dt	2011 dt	2012 dt	2013 dt	2014 dt
Normal Year - 4,464 Heating Degree-days							
Requirements - Sales							
1	Firm Service	55,890,971	55,522,998	55,264,657	55,199,141	55,059,965	55,025,839
2	Boiler and Power Plant Service	1,166,299	1,059,351	1,039,865	1,066,953	1,120,296	1,192,292
3	Load Balancing Service	325,933	368,611	436,219	473,153	576,820	665,755
4	Cogeneration Service	12,413	10,441	8,907	7,724	6,751	5,991
5	Gas Transportation Service	2,629,445	3,061,464	3,377,420	3,614,135	3,790,729	3,928,583
6	Natural Gas Vehicle Service	0	0	0	0	0	0
7	Trigen	0	0	0	0	0	0
8	Grays Ferry	0	0	0	0	0	0
9	Subtotal Sales	60,025,061	60,022,865	60,127,068	60,361,106	60,554,561	60,818,460
10	Plant Use	176,603	261,198	295,053	297,220	296,251	299,025
11	Transport Fuel	3,238,388	3,221,370	3,194,790	3,217,070	3,215,836	3,244,084
12	Storage Fuel	473,276	484,491	494,730	495,098	492,859	494,262
13	Storage Return	16,058,448	16,752,999	17,038,215	17,151,713	17,135,261	17,151,888
14	Liquefaction	1,638,103	1,845,644	1,596,253	1,682,003	1,638,103	1,879,681
15	Total Demand	81,609,879	82,588,567	82,746,109	83,204,210	83,332,871	83,887,400
Supply							
16	Spectra	22,799,478	21,782,876	21,681,378	22,001,853	22,071,435	22,538,735
17	Transco-Williams	40,986,085	41,091,373	41,125,000	41,506,953	41,540,773	41,589,311
18	Pipeline Subtotal	63,785,563	62,874,249	62,806,378	63,508,806	63,612,208	64,128,046
19	Spectra	8,218,101	9,036,004	9,090,463	9,047,478	9,001,286	8,948,027
20	Transco-Williams	7,817,596	8,821,533	9,023,448	8,836,924	8,868,111	8,866,209
21	Storage Subtotal	16,035,697	17,857,537	18,113,911	17,884,402	17,869,397	17,814,236
22	LNG	1,788,619	1,856,781	1,825,820	1,811,002	1,851,266	1,945,118
23	Total Supply	81,609,879	82,588,567	82,746,109	83,204,210	83,332,871	83,887,400
Design Year - 5,280 Heating Degree-days							
Requirements - Sales							
24	Firm Service	63,605,914	63,202,204	62,910,272	62,832,372	62,679,864	62,640,881
25	Boiler and Power Plant Service	1,355,609	1,228,501	1,203,327	1,232,267	1,292,019	1,373,476
26	Load Balancing Service	361,828	410,832	485,298	523,020	645,146	752,424
27	Cogeneration Service	12,413	10,441	8,907	7,724	6,751	5,991
28	Gas Transportation Service	2,948,364	3,431,399	3,784,067	4,047,119	4,243,745	4,396,954
29	Natural Gas Vehicle Service	0	0	0	0	0	0
30	Trigen	0	0	0	0	0	0
31	Grays Ferry	0	0	0	0	0	0
32	Subtotal Sales	68,284,128	68,283,377	68,391,871	68,642,502	68,867,525	69,169,726
33	Plant Use	178,716	269,640	303,110	305,837	305,023	307,942
34	Transport Fuel	3,608,087	3,737,462	3,715,424	3,738,512	3,727,933	3,741,603
35	Storage Fuel	452,390	403,945	416,438	418,063	418,361	418,906
36	Storage Return	16,154,529	14,554,056	14,925,010	15,098,102	15,122,464	15,078,996
37	Liquefaction	1,806,446	1,845,644	1,521,328	1,682,003	1,638,103	1,879,681
38	Total Demand	90,484,296	89,094,124	89,273,181	89,885,019	90,079,409	90,596,854
Supply							
39	Spectra	28,233,665	27,373,244	27,253,211	27,549,335	27,581,771	27,846,229
40	Transco-Williams	44,002,289	43,523,754	43,753,257	44,111,301	44,048,526	44,057,836
41	Pipeline Subtotal	72,235,954	70,896,998	71,006,468	71,660,636	71,630,297	71,904,065
42	Spectra	6,634,753	7,312,648	7,289,567	7,323,040	7,342,655	7,370,905
43	Transco-Williams	8,681,031	7,901,999	8,063,926	7,941,287	8,085,608	8,187,912
44	Storage Subtotal	15,315,784	15,214,647	15,353,493	15,264,327	15,428,263	15,558,817
45	LNG	2,932,558	2,982,479	2,913,220	2,960,056	3,020,849	3,133,972
46	Total Supply	90,484,296	89,094,124	89,273,181	89,885,019	90,079,409	90,596,854

Reference: SDS 4A and SDS 4B. In the Matter of Proposed Operating Budget, Supporting Documentation - Gas Costs and Purchasing Plans, Volume 1, June 2008.

Even though 100 percent of PGW's supply is originally transported through one of the two interstate pipelines, the supply components shown in Table 3 are based on the source of gas when ultimately delivered to the end user. As shown, approximately 64 percent of PGW's total gas pipeline supply during a normal year flows through the Transco-Williams pipeline system. On a projected normal annual basis, approximately 98 percent of volume is delivered to end users through the interstate pipeline systems (80 percent flowing gas¹⁷ and 20 percent off-system storage), and 2 percent is delivered from the LNG facilities.

¹⁷ Flowing gas represents gas that is purchased at the same time as delivered to customers.

Capital Improvement Program

PGW uses a formal process of evaluating capital needs and funding programs to meet those needs. This annual capital planning process is used to formally review the Capital Improvement Program (“CIP”) and incorporates revisions into the 2009 budget and five-year capital program projection using certain specific economic parameters to prepare the capital requirement estimate that forms the basis for departmental budgets. In addition to satisfying the annual peak load requirement, departmental budgets and projections are based on meeting PGW’s design hour and design day projections as prepared by the Gas Management Department.¹⁸ Under the terms of the Management Agreement, PGW submits the annual CIP to the Director of Finance and the PGC for their review and recommendation to City Council for the budget’s approval.

In keeping with PGW’s philosophy of maintaining a safe and reliable gas distribution system, all capital projects are assigned a priority. The highest priority projects (Priority 1 and Priority 2) relate to expenditures required for maintaining the safety and reliability of PGW’s system. Priority 3 expenditures relate to facility relocations that are based on City, State, and Federal mandated projects. Priority 4 expenditures relate to projects that will result in additional revenues from load growth, and the lowest priority projects (Priority 5) are those expenditures associated with improving operational efficiencies and/or discretionary items.

Table 4 presents a summary of PGW’s historical and forecasted capital improvement program expenditures. Capital expenditures for the major departments are shown in the Table. Capital expenditures for all departments other than Gas Processing, Distribution, Field Services, and Transportation, are grouped together under the miscellaneous category “Other Departments”. It should be noted that the projected expenditures for 2009 reflect a management decision to implement a contingency spending plan that would reduce spending. This action was necessary given the dislocation in the financial markets. Spending for the forecast period, beyond 2009, assumes that capital spending will resume at the previously budgeted level. However, matching future capital expenditures with the ability to fund these expenditures is a dynamic process which is constantly being reviewed.

Proposed capital expenditures over the five-year projection period, 2010 through 2014, total \$381 million. For fiscal year 2009, PGW’s estimated capital expenditure of \$50.5 million (net of salvage, contributions, and reimbursement) represents an 18.3 percent decrease from the 2008 capital expenditures. The majority of the 2009 capital expenditures, \$34.5 million or 68 percent, is committed to Distribution Department projects. Field Services and Other Departments have planned expenditures of about \$4.6 million and \$5.5 million, respectively, in fiscal year 2009. Gas Processing and Transportation have planned expenditures of about \$2.7 million and \$3.2 million, respectively, in fiscal 2009. Over the five-year forecasted period, Distribution Department projects have planned expenditures of \$272 million, which represents 71 percent of the total capital spending. The majority of the Distribution Department capital projects involve the replacement of gas services and ongoing and required main replacements for intermediate and low-pressure mains of small diameter (8 inches or less). Funding is also provided for main rehabilitation activities and to support the addition of new load.

Based on our inspections of existing facilities in March 2009 and under normal operating conditions, the proposed capital expenditures should be sufficient to maintain the system in good condition.

¹⁸ Operating department budgets are based on assessing capital requirements for maintaining a safe and reliable system calculated for a design day of 0°F average temperature, a -5°F design hour, and a normal annual weather pattern resulting in 4,464 annual heating degree-days for 2009 and 4,412 annual heating degree-days for 2010 through 2014.

A listing of projects approved for the fiscal year 2009, by major department, is shown in Table 5. This table also shows the priority assigned to each project. In addition to the budgeted \$45.2 million as shown in Table 5 for 2009, PGW anticipated completing \$5.2 million of capital improvements carried over from prior fiscal years.

Gas Processing

As shown in Table 4, the estimated capital spending for the Gas Processing Department is \$2.7 million in fiscal year 2009. These capital expenditures are for normal additions and replacements necessary to maintain the safety and reliability of the LNG facilities.

Distribution

The ongoing cast iron main replacement capital program involves the removal of 18 miles of cast iron mains annually. The scope of this program is consistent with the recommendations made by Navigant Consulting Inc. (“Navigant”) in a February 2000 report entitled “Philadelphia Gas Works Mains Replacement Study” and the more recent recommendations of Advantica in its 2008 report. Cast iron pipe was generally used by natural gas utilities many decades ago and was quite common for low-pressure gas mains such as PGW’s. While this pipe has performed well, as it ages the pipe is prone to cracking and the joints to separating, thereby resulting in leaks. Over the last 20 years or so, natural gas utilities have been systematically replacing cast iron mains generally with plastic for low-pressure systems and sometimes wrapped and cathodically protected steel for higher pressure systems. A one percent annual replacement program is typical for gas distribution utilities, like PGW, with greater than 500 miles of cast iron mains. The Distribution Department has also coordinated its main replacement with the Customer Accounting Department to ensure that as the mains are replaced, shutoff valves are added in areas with significant risk of non-payment.

The estimated capital spending for fiscal year 2009 for the Distribution Department is \$34.5 million, which is about \$13.3 million lower than 2008 capital expenditures. Given the projected 2009 spending reduction described above, PGW’s ongoing annual cast iron mains replacement program is expected to decrease to approximately 6 miles in 2009. However, over the 2001-2008 period, PGW averaged approximately 19.5 miles of cast iron main replacement. Therefore, the average over the 2001-2009 period will equal approximately 18 miles. In the forecast period, PGW plans to resume undertaking its annual cast iron main replacement program at the 18 mile level. This change, combined with similar reductions in small service replacements for 2009, total a decrease of \$11 million in spending between 2008 and 2009 budgets. However, estimated expenditures for the Distribution Department increase to \$51.7 million for 2010 with increases of roughly \$1 million every year through 2014. These projected expenditures include the 18 miles per year cast iron pipe replacement schedule. The planned capital project spending for the Distribution Department follows a recurring pattern that generally requires equal capital outlays each year.

The largest department expenditure relates to the prudent replacement of small diameter (1.25 inches or less) services, which are necessary as a result of the distribution mains replacements. This ongoing multi-year project is budgeted at \$11.9 million for fiscal year 2009.

Table 4
Historical and Proposed Capital Improvement Program Expenditures
(Thousands of Dollars)

Category	Fiscal Year Ending August 31, ^(a)													Total
	Actual					Estimate ^(c)			Projected					
	2003	2004	2005	2006	2007	2008	2009 ^(d)	2010	2011	2012	2013	2014	2010 - 2014	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Gas Processing	5,618	9,843	5,008	3,615	3,332	2,515	2,685	4,992	3,642	4,651	5,333	3,147	21,765	
Distribution	43,631	40,096	43,572	44,583	48,549	47,748	34,478	51,684	53,473	54,319	55,653	56,965	272,094	
Field Services	5,694	3,266	5,288	5,221	6,621	5,813	4,617	4,654	9,044	5,210	5,023	5,097	29,028	
Transportation	1,003	2,649	2,918	2,269	3,080	2,128	3,211	2,383	3,824	2,079	3,340	3,953	15,579	
Other Departments ^(b)	6,280	4,062	10,124	5,625	8,436	3,538	5,468	8,407	10,415	19,349	2,394	2,308	42,873	
Subtotal	62,227	59,916	66,910	61,313	70,018	61,742	50,459	72,120	80,398	85,608	71,743	71,470	381,339	

(a) All figures are net of Salvage, Reimbursements, and Contributions.

(b) Includes Approved and Budgeted Program for Field Operations, Building Services, Customer Affairs, and Information Services.

(c) Includes carryover of \$5.2 million in capital improvements from prior years.

(d) PGW's FY2009 estimated capital expenditure of \$50.5 million represents an 18.3% decrease from its 2008 level and reflects a management decision to implement a contingency plan that reduces spending.

Table 5
New Capital Projects for FY2009
(Thousands of Dollars)

Category	Priority 1	Priority 2	Priority 3	Priority 4	Priority 5	Total
	Safety	Reliability	Enforced	New Rev	Efficiency	
	\$	\$	\$	\$	\$	\$
Gas Processing						
Upgrade O-34 M&R Outlet Piping	0	402	0	0	0	402
Replace Plantscape Distributed Control System	0	203	0	0	0	203
LNG Tank Piping Modification	0	629	0	0	0	629
Security Upgrades - Passyunk	303	0	0	0	0	303
Emergency Command Center - Richmond	0	251	0	0	0	251
Miscellaneous Additions	165	0	0	0	0	165
Miscellaneous Replacements	269	0	0	0	0	269
Total Gas Processing	737	1,485	0	0	0	2,222
Distribution						
Prudent Main Replacements	3,088	0	0	0	0	3,088
High Pressure Main Valves Replacements	0	0	0	0	0	0
Joint Clamping and Encapsulation	5,024	0	0	0	0	5,024
Small Service Replacements	11,890	0	0	0	0	11,890
Large Service Replacements	804	0	0	0	0	804
Small Service Installations	0	0	0	4,581	0	4,581
Large Service Installations	0	0	0	2,860	0	2,860
Customer Metering & Regulator Installation	0	0	0	0	0	0
Replace Pressure Regulating/Corrosion Control Facilities	0	0	0	0	0	0
Purchase Tools, Equipment	0	0	0	0	52	52
Replace Tools, Equipment	0	0	0	0	0	0
Enforced Relocations For System Pressure	3,289	0	0	0	0	3,289
Local Mains to Supply New Houses/Increased Capacity	0	0	0	2,890	0	2,890
Total Distribution	24,095	0	0	10,331	52	34,478
Field Services						
Regulator Purchases	0	0	0	0	0	0
Service Regulators Purchases and Installations	0	0	0	26	0	26
Meter Installations	0	0	0	887	0	887
Training Equipment Replacements	0	57	0	0	0	57
Meters Purchases for Automatic Meter Reading	1,536	0	0	0	0	1,536
AMR Replacements	0	0	0	0	2,111	2,111
BPS Metscan & LBS Metreteck	0	0	0	0	0	0
Instrumentation Purchases and Installations	0	0	0	0	0	0
Total Field Services	1,536	57	0	913	2,111	4,617
Transportation						
Conditional Funding for Vehicle Replacements	0	1,117	0	0	0	1,117
Shop Equipment Replacements	0	0	0	0	0	0
Mobile Equipment Replacements	0	318	0	0	0	318
Total Transportation	0	1,435	0	0	0	1,435
Other Departments						
	1,300	1,169	0	0	0	2,469
Total FY 2009 Projects	27,668	4,146	0	11,244	2,163	45,221
Carryover from Years Prior to FY 2009^(a)	621	4,617	0	0	0	5,238
Total FY 2009 Expenditures (Net)	28,289	8,763	0	11,244	2,163	50,459

(a) The projects listed in the Table 5 are planned fiscal year 2009 capital improvements. In addition to the budgeted \$45.2 million, PGW will also be completing \$5.2 million of capital improvements carried over from prior years.

Field Services

The estimated capital spending for fiscal year 2009 for the Field Services Department is \$4.6 million. Over the past decade, PGW has embarked on an aggressive program to retrofit customer meters with electronic devices to maximize the effectiveness of its automated meter reading system (“AMR”). That program is nominally 100 percent complete. PGW continues to realize benefits from the implementation of the automated meter reading system, including fewer estimated readings, increased reading accuracy, reduction in meter reading personnel and reduced customer complaints. While replacing meters and AMR devices, PGW is testing its meters to comply with PUC requirements.

Transportation

The Transportation Department estimated capital expenditures are \$3.2 million for fiscal year 2009. The majority of the estimated capital expenditures for this department not carried over from prior years are associated with mobile equipment replacements (22 percent), and vehicle replacements (78 percent). There is no significant proposed capital spending for shop equipment additions and replacements. The majority of the vehicle replacements are targeted to support critical field operations activities.

Other Departments

The “Other Departments” category includes estimated capital expenditures for Building Services, Information Services, and Customer Affairs. For fiscal year 2009, the combined spending of these departments is \$5.5 million.

PGW continues to invest in its Field Operations Initiative (“FOI”), which is the cornerstone of how PGW will comply with PUC requirements, as well as achieve the benefits of integrating PGW’s Distribution and Field Services Departments. Future improvements to support mobile and work management functions will be implemented under the AIMS Business Transformation Initiative.

Rates and Tariffs

The following sections present a discussion of existing rate programs and some of the ongoing issues facing PGW due to the changes in legislation and regulation and the impact on rates and rate-making methodology.

Regulation

Prior to July 1, 2000, PGW's rates were regulated by the PGC. PGW's last base rate increase under PGC regulation was in December 1991. Commencing on July 1, 2000, PGW became regulated by the PUC. Although the PGC continues to approve PGW's operating budget, the PUC has the authority to approve the rates charged by PGW.¹⁰

On November 14, 2008, PGW filed with the PUC for extraordinary base rate relief of \$60 million for calendar year 2009. On December 19, 2008, the PUC issued an order granting PGW's request, effective January 1, 2009. Prior to November 2008 rate filing, PGW has filed for four separate permanent base rate increases totaling \$225 million since it became regulated under the PUC in 2000. The PUC has granted \$94.6 million of the \$225 million, or 42 percent. PGW has also filed with the PUC on several occasions regarding revisions to its gas cost rate ("GCR"). The PUC has approved all of the GCRs filed by PGW. In our opinion, PGW has requested and received timely changes in its GCR.

In August 2000, PGW filed for interim base rate relief of \$52 million (annually) with the PUC. In its order dated November 22, 2000, the PUC granted \$11 million of this interim increase but attached certain conditions precedent to the increase that were not acceptable to PGW. PGW and the City filed an appeal of the PUC Order with the Commonwealth Court. On February 22, 2001, the PUC issued an order adopting a settlement of the appeal between the PUC Law Bureau, PGW, and the City that included the following:

1. PGW would be allowed to increase rates to provide an additional \$11 million in base rate revenues by August 31, 2001.
2. PGW would be permitted to recover an additional \$7 million through its GCR to account for higher than anticipated bad debt expense. PGW would be allowed to reserve any over collection of GCR up to \$25 million.
3. PGW agreed to implement all of the recommendations of the PUC Management Audit (the "Audit") or explain why it believes it cannot or should not.
4. The PUC acknowledged that it is obligated to establish rates that permit PGW to meet all of its Bond Ordinance covenants.
5. The PUC and the City agreed on a timetable and process to replace interim management with permanent management.

The appeal was withdrawn following the February 22, 2001 Order approving the settlement. PGW implemented rates consistent with the order on March 1, 2001.

On January 5, 2001, PGW filed for a \$65 million permanent increase in base rates. This was the first permanent base rate filing PGW submitted to the PUC for approval. On October 12, 2001, the PUC granted PGW the authority to raise base rates by \$22.6 million, which together with the prior, interim increase, totaled \$33.6 million.

¹⁰ Generally, the PUC is required to rule on an application for base rate relief within nine months of the utility's application.

On February 25, 2002, PGW filed for a \$60 million increase in base rates and the power to implement a weather normalization clause (Docket No. R-00017034). As part of the request for base rate relief, PGW submitted a petition for Extraordinary Rate Relief seeking to have \$44 million of the total requested \$60 million to be approved as extraordinary rates effective in mid-April 2002 to meet the immediate need to maintain its investment grade rating. The remaining \$16 million was necessary to provide financing to pay down loans, upgrade plant security, and expand gas leak detection capabilities.

On April 11, 2002, the PUC granted PGW a \$36 million extraordinary base rate increase in order for PGW to maintain its overall liquidity and access to capital markets. The increase took effect April 16, 2002. The increase was permanently approved on August 8, 2002. The PUC also permitted PGW to implement its proposed Weather Normalization Adjustment (“WNA”) clause. The WNA is discussed more fully in the section on “*Existing Rates – Weather Normalization Adjustment*”.

PGW filed a restructuring plan with the PUC on July 1, 2002, which was approved by the PUC on March 31, 2003. The restructuring plan, among other things, provides for an unbundled tariff permitting customer choice of the commodity supplier by September 1, 2003. PGW’s Restructuring Compliance Tariff Rates are designed to maintain revenue neutrality and the Tariff Rules and Regulations are designed to comport with the PUC requirements.

On December 22, 2006, PGW filed for a \$100 million increase in base rates. PGW sought the rate increase primarily to cover the increase in non-gas operating expenses and interest expense since its 2002 rate case, provide sufficient funds available for debt service to meet its rate covenants under the 1975 General Ordinance and the 1998 General Ordinance and ensure, that in the long term, PGW has adequate liquidity when needed through internally generated funds without having to continually resort to borrowing funds externally for capital improvements. On September 13, 2007, the PUC granted PGW a \$25 million increase in base rates, effective September 20, 2007. PGW appealed the PUC’s Order to Commonwealth Court, where it was affirmed by an opinion and order issued on February 4, 2009. PGW is planning to file a petition for allowance of appeal of the Commonwealth Court decision with the Pennsylvania Supreme Court.

On November 14, 2008, PGW filed for extraordinary base rate relief of \$60 million, effective January 1, 2009. The request was granted December 18, 2008. PGW filed the request primarily to improve its long-term cost structure, to provide lower financing costs in the future and to provide more reliable service. In granting the extraordinary relief, the PUC required PGW to file a base rate case no later than December 31, 2009. The Office of Small Business Advocate (OSBA) filed a petition for reconsideration of the PUC’s extraordinary rate order, challenging the allocation of the rate increase. The Commission dismissed the petition on March 26, 2009. The Commission imposed several conditions on PGW’s receipt of extraordinary rate relief, all of which PGW has accepted: PGW was required to: 1) File its Business Transformation Initiative -Full Plan with the Commission for review, followed up by annual reports on its implementation and savings; 2) provide monthly reports of financial and operational performance, and the results of cost containment efforts; 3) submit a performance-based incentive compensation plan for all management employees for comment by the Commission; 4) submit, ninety (90) days in advance of negotiating its next employee collective bargaining agreement, a plan for improving performance and implementing efficiencies for hourly employees; 5) convene a collaborative process to explore options for transitioning default service supply customers to alternative suppliers; 6) take appropriate steps to seek repeal of the City of Philadelphia ordinance mandating the annual \$18 million payment to the City.

The PUC conducted a management audit of PGW’s operations, via a third party consultant, from October 2007 through September 2008. A final report regarding audit findings was submitted to the PUC in December 2008. The audit included a total of 93 recommendations for improvement. PGW submitted its implementation plan regarding audit recommendations to the PUC on January 22, 2009. PGW accepted 88, partially accepted 3, and rejected 2 of the PUC’s follow-up recommendations. On

February 5, 2009, the PUC released PGW's Implementation Plan and the PUC's Management Efficiency Investigation ("MEI") of PGW to the public. The PUC directed PGW to proceed with the January 22, 2009 Implementation Plan. PGW's implementation actions may be reviewed by the PUC at a later date to determine if PGW has effectively implemented the recommendations.

Existing Rates

The current tariff sets forth the rules and regulations for gas service and the rates PGW is allowed to charge for various types of service. Changes to this tariff must be approved by the PUC. Currently, PGW primarily provides service under three broad classifications: firm, interruptible, and transportation service. Table 6 summarizes PGW's existing rates and applicable surcharges. PGW's rates are presented as unbundled and include a customer charge, distribution charge, and gas cost rate (GCR). The distribution charge includes a delivery charge, as well as any applicable surcharges. The GCR is not applicable to certain firm service customers who transport gas through a qualified natural gas supplier ("NGS").

Firm Service

PGW provides firm service under three rate schedules: General Service, Municipal Service, and Philadelphia Housing Authority ("PHA") Service. The vast majority of PGW's customers are served under the General Service Rate. During the 2009 fiscal year, over 99 percent of PGW's customers are estimated to be served under this rate and these customers account for 97 percent of sales volumes (and 70 percent of total throughput). This rate is available to any residential, commercial, or industrial customer pursuant to the applicable rate provision. Monthly customer charges differ depending on whether the customer is classified as residential, commercial, or industrial customer. A different commodity rate applies to residential customers versus commercial and industrial customers. The General Service Rate contains special provisions for separately metered summer air conditioning and compressed natural gas ("CNG") vehicle service. Residential senior citizens may have previously qualified for a discount under this rate. (*See Senior Citizen Discount Program*). The commodity rate is subject to adjustment under the GCR clause.

Table 7 presents a comparison of a typical peak winter month's residential gas bill for PGW and the other principal gas distribution utilities in Pennsylvania. Based on rates, surcharges, and costs of gas currently in effect, PGW's typical winter month residential bill is approximately \$59.18 higher than the group average of \$293.84. One of PGW's surcharges, Universal Service and Energy Conservation surcharge, includes the recovery of costs related to the Customer Responsibility Program, the Conservation Works Program, and the Senior Citizen Discount Program. We understand costs of comparable programs at other utilities in Pennsylvania are significantly lower in comparison because the cost of other utilities' social programs is not as high as these costs are in Philadelphia. PGW's Universal and Energy Conservation surcharge is currently \$2.4262 per Mcf. For the typical peak winter month's residential bill for 20 Mcf of consumption, the Universal Service Charge amounts to \$48.52 of the \$353.02.

Interruptible Service

PGW provides interruptible sales service under several rate schedules. Virtually all interruptible sales service is under the Boiler and Power Plant Service ("BPS") or Load Balancing Service ("LBS"). The BPS rates are set within a range, based on the estimated cost of gas and on published No. 2 fuel oil prices in Philadelphia. The LBS service is priced similarly, except that No. 6 fuel oil is used rather than No. 2 fuel oil. Because this service is interruptible, customers taking BPS or LBS service must be able to use an alternate energy source. The rates are competitive. If alternate fuel (No. 2 or No. 6 fuel oil) is less expensive than the equivalent price that PGW offers in any given month, the customer may use the alternate fuel rather than burn natural gas.

**Table 6
Existing Tariff Rates**

Tariff	Effective	Existing Tariff Charges ^(a)
Firm Service		
General Service - Rate GS		
Customer Charge - \$/meter per month		
Residential and Public Housing Customers	3/1/09	12.00
Commercial and Municipal Customers	3/1/09	18.00
Industrial Customers	3/1/09	50.00
Gas Cost Rate (GCR) - \$/Mcf		
Residential and Public Housing Customers	3/1/09	8.4192
Commercial and Municipal Customers	3/1/09	8.4192
Industrial Customers	3/1/09	8.4192
Distribution Charge - \$/Mcf ^(b)		
Delivery Charge		
Residential	3/1/09	6.1840
Public Housing Customers	3/1/09	5.2817
Commercial and Municipal Customers	3/1/09	5.2449
Industrial Customers	3/1/09	5.2465
Surcharges		
Universal Service and Energy Conservation	3/1/09	2.4262
Restructuring and Consumer Education	9/1/08	0.0218
Total Commodity Charge - \$/Mcf		
Residential and Public Housing Customers		17.0512
Commercial and Municipal Customers		16.1121
Industrial Customers		16.1137
Municipal Service - Rate MS		
Customer Charge - \$/meter per month	3/1/09	18.00
Gas Cost Rate (GCR) - \$/Mcf	3/1/09	8.4192
Distribution Charge - \$/Mcf ^(b)		
Delivery Charge	3/1/09	3.8178
Surcharges		
Universal Service and Energy Conservation	3/1/09	2.4262
Restructuring and Consumer Education	9/1/08	0.0218
Total Commodity Charge - \$/Mcf		14.6850
Philadelphia Housing Authority Service - Rate PHA		
Customer Charge - \$/meter per month	3/1/09	18.00
Gas Cost Rate (GCR) - \$/Mcf	3/1/09	8.4192
Distribution Charge - \$/Mcf ^(b)		
Delivery Charge	3/1/09	5.1889
Surcharges		
Universal Service and Energy Conservation	3/1/09	2.4262
Restructuring and Consumer Education	9/1/08	0.0218
Total Commodity Charge - \$/Mcf		16.0561
Interruptible Service		
Boiler and Power Plant Service-Small Volume - Rate BPS-S		
Customer Charge - \$/meter per month		
Annual consumption less than 10,000 Mcf.	1/1/09	51.00
Annual consumption between 10,000 and 100,000 Mcf, inclusive.	1/1/09	108.00
Annual consumption greater than 100,000 Mcf.	1/1/09	150.00
Commodity Charge ^(c) - \$/Mcf		20.74
Boiler and Power Plant Service - Large Volume - Rate BPS-L		
Customer Charge - \$/meter per month		
Annual consumption less than 10,000 Mcf.	1/1/09	51.00
Annual consumption between 10,000 and 100,000 Mcf, inclusive.	1/1/09	108.00
Annual consumption greater than 100,000 Mcf.	1/1/09	150.00
Commodity Charge ^(c) - \$/Mcf		17.63
Boiler and Power Plant Service - Heavy Oil - Rate BPS-H		
Customer Charge - \$/meter per month		
Annual consumption less than 10,000 Mcf.	1/1/09	51.00
Annual consumption between 10,000 and 100,000 Mcf, inclusive.	1/1/09	108.00
Annual consumption greater than 100,000 Mcf.	1/1/09	150.00
Commodity Charge ^(c) - \$/Mcf		15.76

**Table 6 (Continued)
Existing and Proposed Tariff Rates**

Tariff	Effective	Existing Tariff Charges ^(a)		
Interruptible Service (Continued)				
Load Balancing Service - Extra-Large Volume - Rate LBS-XL				
Customer Charge - \$/meter per month	1/1/09	362.00		
Commodity Charge ^(c) - \$/Mcf		13.82		
Load Balancing Service - Large Volume - Rate LBS-L				
Customer Charge - \$/meter per month	1/1/09	254.00		
Commodity Charge ^(c) - \$/Mcf		13.86		
Load Balancing Service - Small Volume - Rate LBS-S				
Customer Charge - \$/meter per month	1/1/09	145.00		
Commodity Charge ^(c) - \$/Mcf		13.90		
Gas Transportation Service - Rate GTS				
Customer Charge - \$/meter per month	9/1/03	250.00		
Commodity Charge ^(d) - \$/Mcf		0.4029		
Cogeneration Service - Rate CG				
Customer Charge - \$/meter per month	1/1/09	362.00		
Commodity Charge ^(e) - \$/Mcf		11.95		
Developmental Natural Gas Vehicle Service, Firm Service - Rate NGVS				
Customer Charge - \$/meter per month	3/1/09	35.00		
Gas Cost Rate (GCR) - \$/Mcf	3/1/09	8.4192		
Distribution Charge - \$/Mcf ^(f)				
Delivery Charge	3/1/09	1.3212		
Surcharges				
Universal Service and Energy Conservation	3/1/09	2.4262		
Restructuring and Consumer Education	9/1/08	0.0218		
Total Commodity Charge - \$/Mcf		12.1884		
Developmental Natural Gas Vehicle Service, Interruptible Service - Rate NGVS				
Customer Charge - \$/meter per month	3/1/09	35.00		
Commodity Charge - \$/Mcf		13.50		
Transportation Service				
Daily Balancing Service - Rate DB				
Administrative Charge - \$/supply pool per month	9/1/03	150.00		
Plus charges and/or credits related to balancing and Operational Flow Orders (OFOs)				
Interruptible Transportation - Rate IT				
	1/1/09			
IT-A - Contracts for not less than 2,500 Dth, maintain standby non-natural gas energy.				
IT-B - Contracts for not less than 5,000 Dth, maintain standby non-natural gas energy.				
IT-C - Contracts for not less than 5,000 Dth, maintain Standby No. 4 oil.				
IT-D - Contracts for not less than 5,000 Dth, maintain Standby No. 5 or No. 6 oil.				
IT-E - Contracts for not less than 80,000 Dth, maintain standby non-natural gas energy.				
Customer Charge - \$/meter location per month		Transportation Charge - \$/Dth delivered		
IT-A	125.00	IT-A	1.81	maximum
IT-B	225.00	IT-B	0.87	maximum
IT-C	225.00	IT-C	0.68	maximum
IT-D	225.00	IT-D	0.61	maximum
IT-E	350.00	IT-E	0.58	maximum

(a) Reference: Philadelphia Gas Works, Gas Service Tariff, Pa P.U.C No 2.

(b) Sum of Delivery Charge and Surcharges.

(c) Competitively priced based on cost of alternative fuel. Based on March 2008-March 2009 average.

(d) Commodity charge includes Delivery Charge, Transportation charge, and Standby Service Charge, if applicable.

Source of commodity charge is PGW Gas Sales and Revenue Report - Month Ending February 2008.

(e) Commodity charge based on cost of gas purchased and delivered to PGW gate stations.

Table 7
Comparison of Residential Gas Bills – Pennsylvania Utilities
For Customers Using 20 Mcf per Month

Utility	Gas Cost Effective	Monthly Bill ^(a)
PECO Energy	3/1/2009	255.63
UGI Corporation	3/1/2009	266.24
National Fuel Gas	2/1/2009	270.59
Peoples Natural Gas	1/1/2009	275.27
UGI Penn Natural Gas (formerly PG Energy)	3/1/2009	279.65
Columbia Gas of Pennsylvania	1/1/2009	316.47
Equitable Gas	4/1/2009	333.89
Philadelphia Gas Works	3/1/2009	353.02

(a) Table assumes 1 cubic foot equals 1,000 Btu.

Transportation Service

PGW currently provides interruptible transportation service to 306 customers. This represents an increase from the 2007 Report (101 customers) and is attributable to the transfer of customers from Interruptible Sales service to Interruptible Transportation service. During the calendar year 2008, Grays Ferry Cogeneration Facility accounted for about 39 percent of the transportation throughput and about 9 percent of the transportation revenue. Service to this customer is provided through essentially dedicated facilities under a long-term negotiated contract. Under this contract, PGW receives approximately 8 cents per Mcf for each unit transported plus a service charge intended to cover PGW's cost of operating and maintaining the facilities required to serve this customer. The other customers are served under individually negotiated contracts. In some cases, transportation customers also take some service under the sales rate schedule for a portion of their load.

Although PGW has operated under its Restructuring Compliance Tariff with unbundled rates since September 1, 2003, many of PGW's customers continue to take fully bundled service from PGW. A fully bundled service is a service where the customer deals with one provider and pays for all services through a single charge. All of the separate services (gas supply, transportation, storage, and distribution) currently performed by PGW are packaged into one full-service rate.

Under PGW's restructured rates, customers have the option to continue taking the gas supply, transportation, and storage services from PGW or choose a third party supplier to provide these services. Whether the customer decides to have PGW provide these services or a third party, the customer continues to take and pay for distribution service from PGW. Under its current tariff, PGW assigns (with recall rights) portions of its transportation and storage (pipeline and LNG) capacity to the third party supplier such that PGW and customers who take a fully bundled service will not be adversely impacted by having to pay for capacity that would otherwise be stranded by customers who choose a third party supplier. PGW retains ownership to the transportation and storage capacity because PGW continues to be the supplier of last resort. If a third party supplier defaults or is no longer able to meet its commitments, PGW is able to recall the transportation and storage capacity and serve the customers who had opted for service from this third party supplier.

Under the unbundled rates, PGW's contribution margin from firm customers is not materially impacted by whether a customer chooses a third party supplier or elects to continue taking the fully

bundled service. In effect, the unbundled rates and services will make PGW indifferent as to which service a customer takes. Customers will continue to pay the distribution and customer charges no matter which service is taken, the GCR mechanism will keep PGW whole with regard to gas supply, transportation, and storage costs, and PGW's ability to assign capacity to the third party suppliers will not adversely impact customers who choose to take the fully bundled service.

It is projected that for fiscal year 2009, approximately 2.5 million Mcf of commercial, industrial and municipal firm load, or 4.5 percent of total firm load, is taking gas supply, transportation and storage services from a third party supplier. For purposes of this Report, it is assumed that this firm load will continue to grow annually, reaching 4.1 million Mcf, or approximately 7.3 percent of total firm load by 2014.

Gas Cost Rate

As previously discussed, all changes in gas supply related costs are passed through to customers through the gas cost rate ("GCR"). The specific components of PGW's current GCR are depicted in Figure 3. PGW's gas supply costs consist of purchased gas costs, transportation costs, and off-system storage costs. This cost is reduced by the cost directly paid by interruptible customers (specifically, load balancing service customers). Sales are made to these interruptible customers based on prices quoted monthly by PGW. The prices quoted are based on the average delivered price paid by PGW during the month with some consideration given to the customer's cost of alternative fuel oil. Natural gas service is competing against the price of alternative fuel; however, PGW only incurs gas supply cost attributable to these customers to the extent that sales are made (and gas is purchased to meet load). Total gas supply costs are also adjusted to reflect changes in the inventory cost of off-system and LNG storage and the cost of power purchased for the LNG facilities. The change in inventory cost is attributable to changes in volume as well as the price paid for the gas put into storage.

These costs are divided by the total sales volumes less the volumes attributable to direct billed interruptible customers to determine the unit cost of fuel, or sales service charge as depicted in Figure 3. Various adjustments are then made to the sales service charge. An additional adjustment is made for the net over or undercollection of natural gas during the previous fiscal year resulting from differences between values used to project the prior year's GCR and those actually experienced. The interest expense or credit on the over or under recovery is also applied to calculate the total adjustment. In addition, a credit for margin realized from interruptible sales ("IRC") is made. Each of these components comprises the GCR. The GCR is typically adjusted quarterly although PGW has the ability on thirty days notice to the PUC to change it monthly.

Prior to the restructuring, PGW recovered certain non-fuel expenses in addition to gas supply costs through the GCR. These included discounts given to low income customers through the Customer Responsibility Program and funds provided to weatherize the homes for low-income customers through the Conservation Works Program. These costs are now recovered through surcharges which are not included as part of the GCR. By recovering these costs through surcharges, customers cannot avoid these costs by not purchasing gas from PGW.

Surcharges

PGW's surcharges include a Restructuring and Consumer Education Surcharge and Universal Service and Energy Conservation Surcharge. These surcharges are depicted in Figure 4. Gas utilities in Pennsylvania can recover the costs of social programs through what are generally referred to as universal service charges. The Universal Service and Energy Conservation Surcharge provides for the recovery of discounts to customers on the Customer Responsibility Program ("CRP"), of discounts to customers receiving the Senior Citizen Discount, of the costs of the Conservation Works Program, and of past due arrearages forgiven to CRP customers entering CRP after September 1, 2003. The Universal Service

Charge is applicable to all PGW customers, excluding interruptible customers, who are delivered natural gas through PGW's distribution system. PGW automatically adjusts the surcharge quarterly in connection with its GCR filing.

The Restructuring and Consumer Education Surcharge separately tracks and recovers costs associated with the transition to customer choice and what are generally referred to as PUC Chapter 56 (customer service) and Chapter 59 (safety) costs. The restructuring costs include the recovery of Commission approved costs which PGW has or will incur to meet requirements of the Natural Gas Choice and Competition Act and applicable Commission regulations, orders, and other regulatory requirements. The additional costs associated with Chapter 56 primarily relate to more frequent reading of indoor meters. The additional costs associated with Chapter 59 primarily relate to more frequent meter testing and indoor leak surveys.

Weather Normalization Adjustment

As part of the settlement in PGW's 2002 rate case in Docket R-00017034, PGW received approval to implement a weather normalization adjustment ("WNA"). This marked the first time that the PUC authorized a WNA for a gas utility under its jurisdiction. The benefit of a WNA is that it essentially removes the single biggest risk to PGW of recovering its approved margin, warmer than normal weather during the winter season. PGW's approved commodity charges (exclusive of cost of gas) are derived using throughput (volumes) that are based on the assumption that weather will be normal. If conditions are warmer than normal, sales decline and in conjunction with that, margin revenues decline. Several warmer than normal winters, including one of the warmest winters in PGW's history, created the circumstances that led to PGW's need to file for extraordinary rate relief in 2002.

The WNA is designed to adjust the customers' bills upwards or downwards to reflect differences between actual heating degree-days and normal heating degree-days. The benefits of a WNA include the following:

- Stabilizes earnings
- Stabilizes cash flow during the winter heating season
- Reduces the need to file rate cases, thereby lowering costs
- Reduces the need for short term financing
- Stabilizes customers' bills

Fiscal year 2008 was the sixth year the WNA was in effect and heating degree-days ("HDD") during the winter period were 16.9 percent lower than normal (3,710 actual HDD versus 4,464 normal HDD). Therefore, heating customers were billed approximately \$12.2 million as a result of the warmer than normal weather. PGW's WNA applies to customers served under its General Service, Municipal Service, and PHA rate schedules and is calculated for each customer bill rendered between October 1 and May 31.

The type of WNA that PGW implemented is referred to as a Type 1 WNA. This type of WNA adjusts the customer's bill to reflect conditions during the billing cycle covering that bill. This contrasts with a Type 2 WNA that is calculated on a seasonal basis. The advantage of the Type 1 WNA is that the calculation of the customers' bills and PGW's revenue recovery are concurrent with the current billing cycle. The adjustment is calculated as the ratio of the normal HDD during the billing cycle divided by the actual HDD during the cycle. For example, assume a residential customer uses 10 Mcf during the period November 16 through December 15, the actual HDD during this period are 750, and the normal HDD during this period are 850. The customer's commodity charge (exclusive of gas cost) would be calculated as 10 Mcf times 850 HDD divided by 750 HDD times \$6.184 per Mcf which equals \$70.09. Without a

WNA, the customer's bill would have been \$61.84 (10 Mcf times \$6.184 per Mcf). The WNA only applies if the actual HDD deviate by more than 1 percent from the normal HDD during the billing cycle. Therefore, if the actual HDD during the cycle in the above example had been within the range of 842 to 859 HDD, no adjustment would be made to the bill.

The PUC determined that PGW's WNA would be put in place for an initial three-year period, which expired on August 9, 2005. PGW conducted a review of the costs and benefits of the WNA and determined that, although it refunded a net amount of \$9.3 million to its customers as of August 31, 2005, (as reported in PGW's "Report on Weather Normalization Clause" submitted to the PUC on May 4, 2006), the program eliminates the risk of under-recovering its approved margin in a warmer than normal season and therefore has proposed to continue the WNA without change. PGW presented its conclusions regarding the WNA to the PUC on May 4, 2006, with a request that the PUC acknowledge that the WNA should continue in place on a permanent basis. Because PGW's WNA tariff has no sunset provision, the WNA will continue in place unless the PUC issues an order directing that it be discontinued.

Five-Year Gas Demand-Side Management Plan

PGW filed a petition with the PUC for approval of a 5-year gas demand-side management plan ("DSM Plan" or "Plan") on March 26, 2009, and subsequently filed an amended petition on April 20, 2009. The Plan contains a proposed mechanism to recover the costs of program implementation and revenue loss directly attributable to program implementation. The goals of PGW's DSM Plan are to reduce customer bills, maximize customer value, contribute to the fulfillment of the City's Sustainability Plan and reduce PGW cash flow requirements. These goals will be accomplished by:

- Fielding a portfolio of programs that targets cost-effective gas efficiency savings among all PGW's firm heating customers
- Maximizing delivery efficiency to minimize costs and maximize coverage from the available budget
- Staging program implementation to permit orderly and sustainable expansion
- Treating customers in greatest economic need and with the most cost-effective opportunities first
- Supporting economic development in the City, both directly and indirectly
- Exploring opportunities to take advantage of efficiencies by partnering with other parties

The proposed DSM Plan includes expenditures of \$54 million for the period 2009 through 2013. Over the expected useful life of the measures to be installed under the plan, customers are expected to achieve cost savings of \$109 million in 2009 dollars by reducing usage by 1.3 trillion BTU. The Plan is expected to reach 85,000 customers and create between 600 and 1,000 jobs. As part of its filing, PGW is proposing an automatic adjustment charge mechanism to recover the costs of the program as well as revenues lost as a result of customers' conservation steps. PGW has asked the PUC to review the petition to approve the 5-year plan, as well as the cost recovery mechanism on an expedited basis.

Listed below are the major Plan programs. As used below, the term “retrofit” follows the common use of the term in this kind of program, meaning modification of an existing structure to improve energy efficiency.

1. Enhanced Low-Income Retrofit

Target Audience: Low-income Residential (CRP Participants)

Description: Measures similar to those installed under PGW’s low income weatherization program will be installed at no cost to the customer.

2. Comprehensive Residential Heating Retrofit

Target Audience: High-use Residential

Description: Non-low-income customers will be offered a range of measures with financial incentives which offer a 2 Year Simple Payback plus an extended payment plan, and a listing of Home Performance with ENERGY STAR™ Contractors.

3. Premium Gas Appliances and Heating Equipment

Target Audience: Residential and Small Commercial

Description: Special incentives will be offered to those who select Residential-sized, energy efficient gas appliances and heating equipment. This program targets the entire supply chain, providing incentives to cover 80 percent of incremental costs for high efficiency models.

4. Municipal Facilities Comprehensive Efficiency Retrofit

Target Audience: Municipal Facilities

Description: Measures to be offered include energy audits and possible extended repayment, and will integrate with other programs offered by other entities.

5. Commercial and Industrial Equipment Efficiency Upgrades

Target Audience: Commercial and industrial customers at time of installation/replacement

Description: The program proposes using the key intervention point when design decisions are being made for projects in an effort to avoid lost opportunities to provide broad support for retailers, engineers, and contractors, and incentives to cover 80 percent of incremental costs for higher efficiency.

6. High-Efficiency Construction

Target Audience: Residential and Commercial Construction

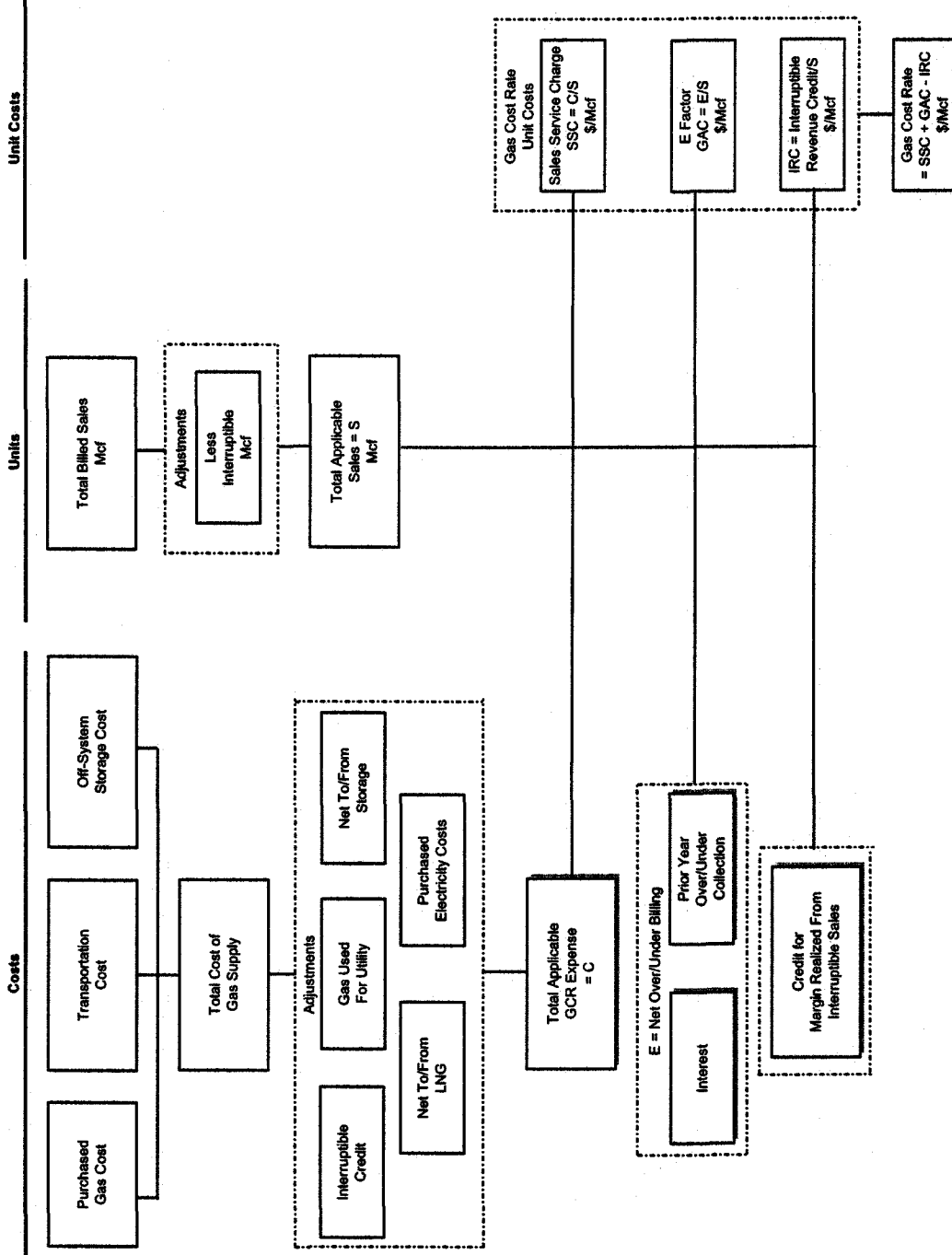
Description: Promote adoption of energy efficient design in all aspects of housing construction, including incentives to cover 80 percent of incremental costs (including design), and potential integration with other parties.

7. Commercial and Industrial Retrofit

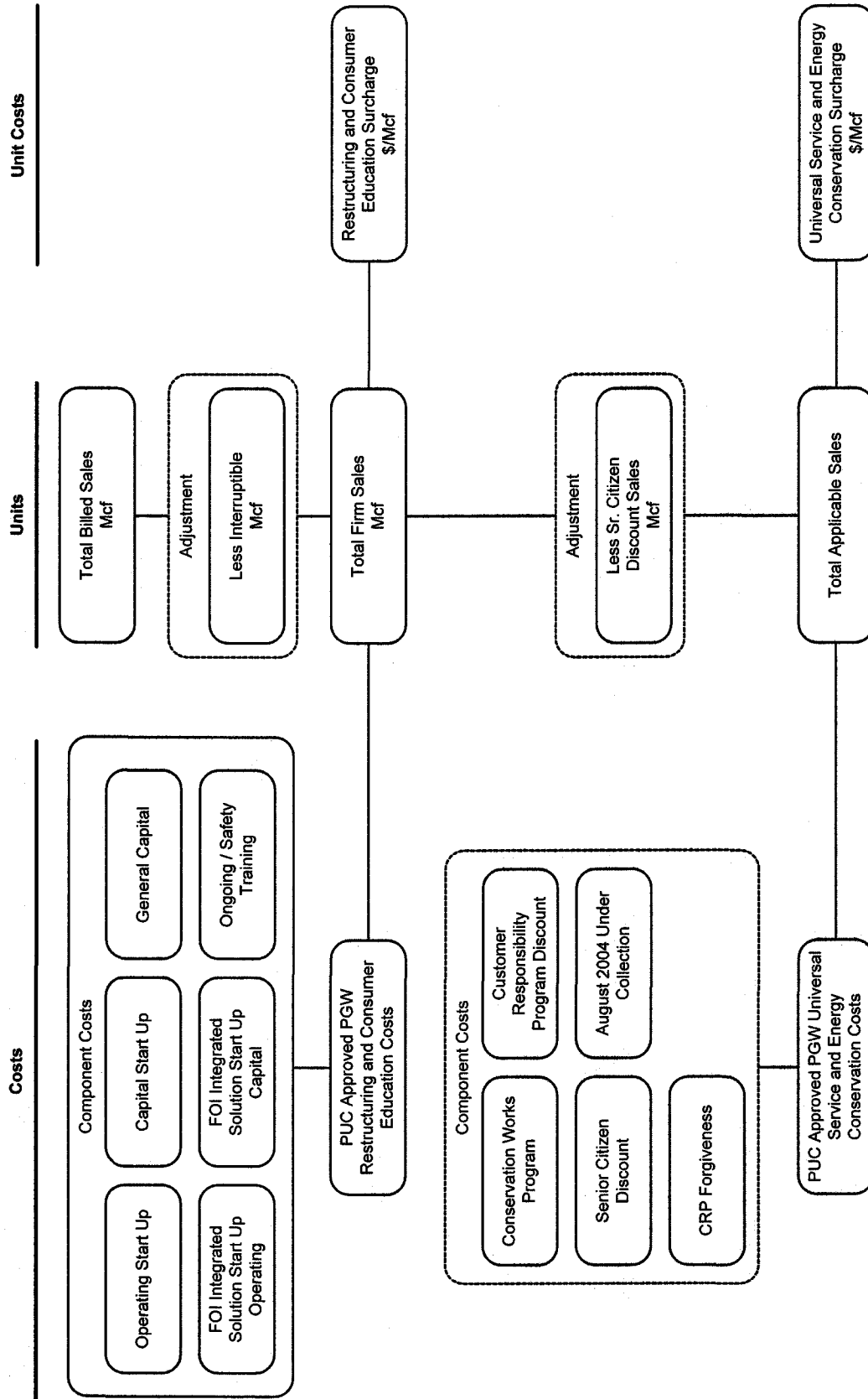
Target Audience: Commercial and Industrial Facilities

Description: Energy audits of existing facilities and customized incentives are among the measures proposed.

Figure 3
Components of PGW Gas Cost Rate



**Figure 4
Components of PGW Surcharges**



Customer Responsibility Program

In November 1993, the Philadelphia Gas Commission adopted a low-income program known as the Customer Responsibility Program (“CRP”). This program became effective in February 1994. The purpose of CRP is to increase the collection of revenues, provide an affordable payment plan for low-income customers, impress payment responsibility on the customer, reinforce the importance of conservation and increase grant assignment. The goal of the program is to increase cash flow to PGW and decrease accounts receivable.

CRP is open to any customer who is at or below 150 percent of the Federal poverty level (“FPL”). Monthly bills for CRP customers are based on income, so that they are affordable for low-income households. If a customer entering CRP has arrears, those arrears are forgiven at a rate of 1/36th per month. As part of their CRP agreement of fixed monthly bills and arrearage forgiveness, CRP customers are required to:

- accept conservation measures offered to them in the Conservation Works Program
- allow the installation of an Automatic Meter Reading device
- make a \$5 monthly co-payment toward their pre-program arrears, if they have any
- apply for LIHEAP, if eligible, and designate PGW as the grant recipient
- re-certify at least once per year, or when household size or income changes
- make payments on time and in full (CRP customers are considered in default when they are two full payments past due)

In September 2003, the CRP program was changed to conform to requirements of the PUC. This revised program is described below:

CRP is a customer assistance program that can help low-income residential customers who are at or below 150 percent of the poverty level to better afford their PGW bills and maintain their gas service. Participants receive a discount based on their gross household income. Applicants must apply by showing proof of income and social security cards for everyone in the household. There are three agreement types:

<u>PGW Annual Bill</u>	<u>Household Income</u>
8% of income	0-50% FPL
9% of income	51-100% FPL
10% of income	101-150% FPL

The minimum payment under a CRP agreement is \$25 per month. Customers with pre-program arrears must make a \$5 monthly co-payment toward the arrears, in addition to the CRP budget amount. They must also pay their bill on time to receive forgiveness of pre-program arrears.

Approximately 81,000 customers, or about 18 percent of PGW’s total residential customer base, are enrolled in CRP. The increase in participation level is due to intensive outreach efforts. The main costs associated with the CRP program are the discounts that customers receive (revenue shortfall) and their arrearage forgiveness.

The CRP revenue shortfall is currently recovered in the Universal Service Surcharge. In the past five fiscal years, these amounts were \$32.9 million in 2003, \$48.5 million in 2004, \$61.1 million in 2005, \$88.4 million for 2006, \$86.6 million for 2007, \$87.7 million for 2008, and an estimated \$96.0 million for 2009. The shortfall fluctuation can be primarily attributed to the higher cost of natural gas supply and increased participation levels.

PGW forgives 1/36th of CRP pre-program arrears each month, provided that all bills are paid on time and in full. Since September 2003, PGW forgave \$2.9 million in 2004, \$8.4 million in 2005, \$10.1 million in 2006, \$9.1 million in 2007, \$9 million in 2008, and will forgive an estimated \$8 million in 2009.

Conservation Works Program

The Conservation Works Program (“CWP”) is designed to provide cost-effective energy savings to PGW’s low-income customers who participate in CRP. CWP is intended to reduce the overall long-term costs of CRP.

CWP began in 1990 and was operated by the Energy Coordinating Agency of Philadelphia (“ECA”) for the first years of the program. In September 1996, the program was redesigned, a second weatherization contractor was added, and PGW became the program operator. Both contractors have pursued a lower cost program approach designed to install only the most cost-effective measures. Since redesign, the program has continued with an annual budget of approximately \$2 million. About 3,000 homes have been treated annually in recent years.

Generally, prior to implementation of the CWP, customer consumption levels are approximately 30 percent greater than that of the average residential customer. Most CRP customers live in row houses more than 100 years old and that are in poor condition. Abandoned and vacant neighboring properties are also factors inducing high-energy usage. Average gas usage among Philadelphia’s low-income population (qualifying customers) when calculated on the basis of square foot per degree-day is far above national levels.

The basic characteristics of the targeted CWP population are customers with household income at or below 150 percent of the FPL and gas usage levels that are higher than average.

The goals of the CWP program include:

- Reduce gas usage of low-income households in a cost-effective manner
- Lower gas bills and improve the payment practices of participating customers

CWP focuses on this population of low-income customers by addressing the main factors that influence their energy usage, such as mechanical and structural systems, as well as behavior issues, such as turning down the thermostat when not at home or while sleeping. Thus far, CWP has:

- Provided energy education and basic health and safety checks for all homes
- Installed set-back thermostats in about two-thirds of all homes
- Installed roof insulation in about 15 percent of homes
- Performed blower-door guided air sealing in about 25 percent of homes

PGW commissioned an independent evaluation of CWP that was completed in November 2008. Overall, CWP continued to produce solid energy savings at a very modest cost, producing about \$2 worth of energy savings for every dollar spent on the program.

Senior Citizen Discount Program

The senior citizen discount program is a closed program. Since September 1, 2003, the program is not available to new participants. However, PGW currently has approximately 40,000 participants in its senior citizen discount program. All participants currently in the program were “grandfathered” in when the PUC discontinued it in September 2003. In 2004 there were approximately 70,000 “grandfathered”

participants in the program. The senior citizen discount amounts to a 20 percent reduction on the participant's total gas bill each month.

Other Programs and Grants

In addition to the programs described above, PGW also participates in or partially funds several other assistance programs that are intended to increase cash flow and reduce accounts receivable.

LIHEAP Program

The Federally funded Low Income Home Energy Assistance Program ("LIHEAP") provides funds to households in order to ensure continued utility service. The City's low-income residential gas consumers may apply for assistance through PGW's district offices, the Department of Public Welfare, or at one of many community organizations throughout Philadelphia. The LIHEAP program consists of two grant components: Cash and CRISIS grants. The main difference between the two grant types is that CRISIS grants are only offered to eligible customers whose utility service is off or in danger of having services terminated. Funds obtained are paid directly to PGW for crediting to the customer's account.

LIHEAP is an important source of low income assistance funding for PGW and has ranged over the last six years (2003-2008) from a low of \$18.7 million in 2004 to a high of \$23.9 million in 2006. PGW's share of LIHEAP funds allocated by the Commonwealth of Pennsylvania has ranged from approximately 13 to 17 percent since 2003. These levels have been achieved through a vigorous educational and outreach program by PGW to encourage its low-income residential population to apply for the grants. Funding levels vary based on Federal allocation and program design by state. In the past few years, the Pennsylvania LIHEAP program design has limited the funds available to customers of regulated utilities.

Since 1996, the Commonwealth of Pennsylvania has had the flexibility to change the customer eligibility criteria for LIHEAP participation from 150 percent of the FPL to 110 percent of the FPL. In 2008, the program capped eligibility at 150 percent of the FPL.

Natural gas price escalation, which began in 2003 and has spiked dramatically at times since then, has led to an increase in LIHEAP authorization by the Federal government to \$5.1 billion in 2008-2009. Of this, Pennsylvania received approximately \$310 million, \$273 million of which is expected to be used for grants. In years past, the state reserved some LIHEAP funds for the following year, but that is not expected to be the case in 2009.

Vendor Payment Program

PGW continues to support a Vendor Payment Program for a group of customers known as Scattered Site Tenants of the PHA. The customers occupy dwellings, usually single family homes, owned by the PHA and for which the Federal Government provides rent subsidies. Under agreement with the PHA and the Scattered Site Tenants, the Federal Government's Department of Housing and Urban Development provides a utility allowance to PHA, on behalf of the tenant. There are two groups of PHA tenants: one for which utility payments are received by PGW directly from PHA, and a second group, which is responsible for paying their own utility bills.

Utility Emergency Services Fund

PGW also participates in the Utility Emergency Services Fund ("UESF"), which is a private fund set up with the assistance of the City of Philadelphia, the Water Department, PECO Energy, individual contributions, and private foundations. Under this program, customers at or below 175 percent of the FPL may combine a LIHEAP grant with a UESF grant and matching grant from PGW, and their own payment, if necessary, to zero-out all arrearages to avoid termination or restore service. The

maximum UESF grant and PGW matching grant is usually \$250 each (for a total of \$500). At times, and depending on funds available, the maximum has been \$1,000 total (\$500 each from UESF and PGW). To be eligible for a UESF grant, the customer must have a termination notice or already have service terminated. The customer must also apply for LIHEAP and must zero out their account. If the total arrearage is not satisfied by the combination of LIHEAP, UESF, and the matching PGW grant, then the customer must pay the balance that would remain, prior to being approved for the UESF grant and matching utility grant. Also, customers are limited to one UESF grant every two years.

Dollar Plus Program

PGW also continues to support the Dollar Plus Program, wherein PGW's customers are asked to add \$1.00 or more to their gas bill payments as a donation to the Utility Emergency Services Fund.

Supplemental Grant Programs

On a periodic basis, additional grant programs become available through city and state appropriations with some stipulations agreed upon between the PGW and the city or state. They are typically coupled with LIHEAP, to provide supplemental funds to customers for whom LIHEAP grants are insufficient to restore service or avoid termination. In 2007-2008, the City of Philadelphia made available \$200,000 for this purpose, and followed in 2008-2009 with an additional \$100,000. Also, in 2008-2009, the state of Pennsylvania made available \$42,500, again, to assist customers for whom the LIHEAP grant was insufficient to restore service. Customers do not need to make a separate application for these grants. They are provided on a first-come, first-served basis to customers who meet the stipulations.

Payment Plans

PGW maintains a number of residential customer payment plans that are tailored to the customer's ability to pay in order to allow the customer the opportunity to pay down past arrearages and budget future usage and payments.

Billing and Collections

To strengthen its financial condition, PGW continues to improve its billing and collections programs. The principal components of this effort are improving the functionality of its Billing, Collections, and Customer Service ("BCCS") system that was installed in calendar year 1999; improving customer service in its Customer Service and Credit Collection Call Centers; and implementing its Collections Renewal Initiative ("CRI") in early fiscal year 2004.

In fiscal years 2008 and 2009, PGW budgeted approximately \$20 million for a new billing system. Technology, limited functionality of the current system, and the inability to effectively upgrade the system are driving factors for pursuing the replacement of the BCCS system. In addition, PGW had had concerns about the current vendor's commitment to support the existing BCCS system in the future which have now been addressed. In support of this decision, PGW conducted an assessment by an independent consultant to help guide PGW's process in determining its options and selecting the most favorable alternative to address PGW's long term concerns regarding its BCCS system. The consultant's assessment focused on interviews and surveys of system users, an assessment of the current BCCS environment, development of PGW requirements, and the identification and analysis of alternative upgrades and replacement strategies. PGW has not yet replaced the BCCS system. The replacement is now tentatively budgeted for 2011.

The ongoing CRI effort covers Customer Service operations involved in the collection of accounts receivable. The renewal effort was initiated in response to increasing account receivables caused by two consecutive cold winters and increasing natural gas prices. The impact of the billing and collection

programs has shown improving trends in Call Center performance metrics and a significant improvement in the collection rate. PGW's goal for the CRI program is to make substantial and sustainable improvements in receivable collections. The initial financial objective of the CRI was to collect at least 92 percent of fiscal year billed revenues with continued incremental percentage improvements in successive years. PGW has not only reached the original objective but has surpassed fiscal goals in each succeeding year since the implementation of the Collection Renewal Initiative.

On November 30, 2004, the Pennsylvania General Assembly passed and the Governor signed Act 201, entitled the "Responsible Utility Customer Protection Act". Under specified conditions, PGW may shut off service to delinquent customers during the winter and on Fridays. To shut off service to non-low-income customers during winter months, PGW is no longer required to get PUC permission. PGW may now require higher income customers whose service has been shut off to pay past due bills in full, arrange for a payment agreement, pay a reconnect fee, and/or pay a deposit before PGW restores service. Lower income customers who have been shut off must agree to repay their arrearages over time. Act 201 also permits PGW to make any adult living in a home where service has been shut off accountable for all or part of an overdue balance before the adult can obtain service in his or her name.

The Act provides a number of tools to help PGW collect payment including:

1. Confirmation that termination of service following shut-off notification may occur up to 60 days after receipt of the notice.
2. Shut-off with notice is permitted if the customer does not pay a required deposit, does not follow through with payment arrangements or refuses to allow PGW access to its equipment.
3. Shut-off without notice permitted for theft of service, obtaining service through fraud, tampering with a gas meter, unsafe service conditions or presenting a fraudulent check to stop termination.
4. Winter (December 1 - March 31) termination is now permitted (under specified conditions) without PUC prior approval if the customer's household income exceeds 150 percent of the federal poverty level.

Act 201 has significantly improved PGW's collection capabilities. In addition, PGW has become more aggressive in terminating service for those with the means to pay.

In 2008, PGW began working on Business Transformation initiatives with the goal of developing additional tools for improving its collection rate. Five initiatives within the Customer Affairs department were selected: Risk Based Collections; Write-off Reactivation; Lien Re-write program, Landlord Cooperation Program and automation of the Soft-off program. The following is a synopsis of each of these initiatives:

Soft-off monitoring. PGW will automate many of the services associated with soft-off monitoring. Currently, when a customer moves, PGW deploys a field service representative to shut off service. The upgraded soft-off program will allow Operations to redirect field employees to other jobs - a more efficient use of resources. With new software upgrades, PGW will be able to transfer a customer's closed account back to PGW and monitor the soft-off account more closely to avoid any excess usage or theft of service.

Landlord cooperation program (LCP). In apartment and rental living, often the tenant is responsible for their gas bill. In the case of delinquency, PGW had difficulty gaining access to the property and gas can't be shut-off outside since many tenants share a common service. The LCP program allows landlords to work more collaboratively with PGW to improve PGW's ability to collect from tenants (gain access to the property) and minimize tenant delinquencies in exchange for not liening a landlord's property for a

tenant's unpaid balance. The changes to LCP are designed to improve required communications and allow for liens on a property when landlords fail to cooperate.

Write-off reactivation. Often, written off accounts with aged balances of 4-years or less are not applied to a new account when the customer reapplies for service. Recent changes to the BCCS system allow prior written-off accounts to be immediately linked when the customer re-applies for service. This will help PGW's collection efforts.

Risk-based collections. PGW is introducing a new risk-based collections system. Under the new system, PGW will analyze a customer's past payment pattern, and assign each customer a "score" – similar to a credit card company score. Based on a customer's score, PGW will be better able to target specific collection tools to improve collections. If a customer has a lower score, more frequent customer communications may be the only thing needed to ensure payment. Risk-based collections will also allow PGW to proactively manage new customers to avoid excessive delinquencies.

Lien re-write. PGW current lien system processes approximately 1,000 liens per month. With new software upgrades, PGW will be able to almost triple the amount of liens processed. This approach protects receivables in the event a property is sold. This initiative will minimally impact Credit and Collection employees as they learn a new computer software system.

The timeline for implementation of these programs is the first, second, and third quarter of 2009 calendar year. PGW estimates the gross benefits of these programs to be in the range of \$60 - \$70 million through year 2013.

Other initiatives implemented in 2008 included an upgrade to PGW's IVR system and a Late Payer Deposit Program. The upgrade to the IVR system includes new functionalities such as voice recognition, enrollment in budget billing, intake of check and credit card payment, scheduling for AMR (Automatic Meter Reader) exchange, and ability to obtain CRP (Customer Responsibility Program) application mailed. The Late Payer Deposit program involves a deposit charge to active customers who have had two consecutive or three late payment charges in the past 12 months. An evaluation of the program in April 2009 resulted in a temporary suspension in the program due to high call volume that was a result of the program and increased collection activity. The program is being refined and will be integrated in the Risk Based Collection Initiative.

Business Transformation

In 2006, PGW's Executive Management determined that operational changes should be made to improve the long-term financial outlook of PGW. PGW's Business Transformation Program (BT) was launched to design and coordinate a range of change programs. The goal of the Business Transformation is to enable PGW to improve its operational practices, improve service quality and reduce the cost of operations.

The recent economic challenges reinforce management's belief in the value that an efficient and financially strong PGW would be in the best interest of its employees, the community and stakeholders.

The comprehensive BT program seeks phased improvement opportunities in Customer Affairs, Field Operations, Supply Chain and for the Enterprise as described as follows:

- The *Customer Affairs* initiatives are designed to improve collections and back-office operating efficiencies through process, policy and technology changes.
- The *Field Operations* initiatives are designed to improve field efficiency through the redesign of field work processes and the implementation of a new integrated work planning, forecasting and scheduling model. These changes are intended to reduce operating costs, improve service and increase customer satisfaction.

- The *Supply Chain* initiatives are designed to reduce operating costs, space requirements and working capital levels through centralization of key supply chain processes, optimization of the fleet and the redesign of the Procurement Organization.
- The *Enterprise* initiatives are designed to enhance employee performance management processes, reduce PGW's physical footprint, and create a robust Project Management capability to support ongoing innovation and continuous process improvement.

In 2008, PGW received approval from PFMC and the PGC to proceed with the first phase of the program called BT "Lite". The BT initiatives selected to comprise this initial phase addressed immediate challenges being faced in Collections and aspects of Field Operations, included changes to the Time Accounting system, and the consolidation of PGW's real estate holdings. These initiatives are currently underway and the following summarize the expected results of these efforts:

- Three (3) of the five (5) collection initiatives have been fully implemented as of April 2009, programming for a fourth Soft-Off Monthly Monitor will be completed in early May and the final initiative Landlord Cooperation Program enhancements will be implemented in July. Benefits are already starting to accrue.
- The BT "Lite" Field Management and Resource Management Initiatives are projected to be completed Q3 FY2010 and benefits are expected to begin accruing in late FY2010.
- A new integrated Time and Labor Management system is expected to be implemented in April 2009.
- The Real Estate Rationalization assessment will be completed in April 2009 with benefits anticipated to start in FY 2010-11.

PGW expects these BT "Lite" initiatives to deliver estimated gross annual recurring benefits in the range of \$11-\$18 million.

Competition

PGW's customer, volume, and revenue mix is heavily weighted towards the residential and smaller commercial markets. PGW currently holds in excess of 90 percent of the home heating market in the City with fuel oil constituting most of the remaining market. This high market share combined with a service territory that is not growing limits PGW's ability to increase its customer base. For residential and small commercial customers, the short run cost of changing energy sources is generally prohibitive without some kind of incentive to switch appliances (rebates or financing of appliances, for example). While not totally immune from competition, the residential and small to medium-sized commercial markets are quite stable. Further, opportunities for PGW to increase market share are limited without investment in marketing or incentive programs.

Generally, competition in the larger commercial and industrial markets is common. PGW's BPS and LBS customers (interruptible sale customers) have the ability to burn alternate fuels (generally fuel oil). If the equivalent price of natural gas is higher than fuel oil, many customers will opt to burn oil. Further, these interruptible customers may be curtailed during peak periods in the winter. While large commercial and industrial loads are an important part of PGW's base, PGW's risk to competition is lower than most natural gas utilities that have a relatively higher industrial load. Further, regulations of the Clean Air Act will sometimes cause dual fuel commercial and industrial consumers to use natural gas (instead of fuel oil) in order to meet stringent air emission operating permits.

Financial Feasibility for the Eighth and Ninth Series Bonds

The financial data used in the analyses presented herein were obtained from the historical financial records of PGW, PUC GCR filings, and proposed operating and capital budgets for fiscal years 2009 through 2014. PGW's financial statements are audited annually. The most recently available audited financial statement is for fiscal year 2008, and may be viewed at www.pgworks.com. According to that audit, PGW's financial statements are maintained in conformity with generally accepted accounting principles for gas utilities.

Projected Revenues

Operating revenues for PGW consist principally of revenues from the sale of natural gas to residents of the City of Philadelphia. Non-operating revenues include interest income and miscellaneous other revenues from non-operating sources.

Projected Average Number of Customers

Consistent with the trend in a declining population base, the number of customers served by PGW is projected to decline slightly during fiscal years 2009 through 2014. Table 8 summarizes projected average number of customers. Historical average number of customers (for fiscal years 2003 through 2008) has been approximately 500,000. The total average number of customers served is projected to decline from approximately 492,771 in fiscal year 2009 to about 474,552 in fiscal year 2014, a total decline of about 3.7 percent over five years. Most of this decline is in the number of non-heating residential customers served. Based on a marketing load forecast study on demographic loss, PGW has projected a sharp reduction in its non-heating residential customers from the 2007 Report from 34,960 customers in 2009 to 17,094 customers in 2014.

It is projected that for fiscal year 2009 approximately 2,332 commercial, industrial and municipal firm customers, or 4.5 percent of total firm load, will take gas supply, transportation and storage services from a third party supplier. For purposes of this Report, it is assumed that the number of firm transport customers will continue to grow annually, reaching approximately 3,215, or approximately 7.3 percent of total firm load, by 2014. The balance of transportation customers in the forecast are served under PGW's interruptible service tariff.

The principal difference between customers taking sales versus transportation service is that PGW does not buy the natural gas commodity for the transportation customers. However, PGW continues to charge for the transportation of gas through its distribution system, through which customers will continue to take service from PGW. This charge for distribution service should not differ appreciably from the charge (less gas cost) that would apply to sales service customers. Therefore, PGW is unlikely to experience a material reduction in contribution margin (gross revenues less cost of gas) due to customers migrating to transportation service. So long as PGW's existing GCR provision remains in effect, the contribution margin will be unaffected as long as the number of customers who opt for other suppliers is relatively modest. While it is difficult to predict with certainty the actual number of customers who will migrate and the timing of such a migration, PGW's projection of interruptible customers transferring to transportation service appears to be reasonable. If the rates for transportation service are properly designed, the net revenues realized by PGW will not be materially sensitive to whether customers take sales or transportation service.

Table 8
Projected Average Number of Customers

Line No.	Description	Budget		Projected ^(a)			
		2009	2010	2011	2012	2013	2014
1	Total Average Number of Customers	492,771	488,129	484,374	481,088	477,817	474,552
	Gas Customers						
	Non-Heating						
	<i>Firm</i>						
2	Residential	34,960	31,373	27,792	24,219	20,653	17,094
3	CRP Residential	1,114	1,113	1,113	1,113	1,113	1,113
4	Commercial	5,155	5,101	5,068	5,055	5,057	5,069
5	Industrial	211	201	191	182	173	163
6	Municipal	106	103	101	98	97	97
7	Housing Authority	0	0	0	0	0	0
8	NGV	1	1	1	1	1	1
9	Total Average Firm Non-Heating	41,547	37,892	34,266	30,668	27,094	23,537
	<i>Interruptible</i>						
10	BPS - Small	77	67	60	53	49	45
11	BPS - Large	74	60	55	53	53	54
12	BPS - A/C	4	3	2	2	2	1
13	LBS - L Direct						
14	LBS - L Indirect	2	3	4	4	3	3
15	LBS - S Indirect	10	8	4	2	2	3
16	LBS - XL Direct	2	2	1	2	3	4
17	LBS - XL Indirect	1	1				
18	Cogeneration - Indirect	2	2	2	2	2	2
19	LNG - Direct	0	0	0	0	0	0
20	GTS - Sales	0	0	0	0	0	0
21	NGV Indirect	0	0	0	0	0	0
22	Total Average Interruptible	172	146	128	118	114	112
23	Total Average Non-Heating	41,719	38,038	34,394	30,786	27,208	23,649
	Heating						
24	Residential	346,604	345,417	344,775	344,595	344,417	344,244
25	CRP Residential	79,803	79,803	79,803	79,803	79,803	79,803
26	Commercial	18,586	18,715	18,908	19,153	19,431	19,739
27	Industrial	500	487	475	462	447	433
28	Municipal	379	369	365	366	368	370
29	Housing Authority	2,848	2,805	2,777	2,749	2,728	2,712
30	Total Average Heating	448,720	447,596	447,103	447,128	447,194	447,301
31	Total Average Sales Customers	490,439	485,634	481,497	477,914	474,402	470,950
32	Total Average Transportation Customers^(b)	2,332	2,495	2,877	3,174	3,415	3,602

(a) Projected figures are based on budgeted department figures.

(b) Increase in transportation customers is due to the transfer of interruptible customers to GTS service and firm sales customers to firm transportation service. No firm customers are assumed to transfer to GTS service.

Historical and Projected Gas Sales and Throughput

Historical throughput (sales plus transportation volumes) for the 2003 through 2008 fiscal years and projected throughput for the 2009 through 2014 fiscal years are summarized in Table 9. The throughput volumes for the projected period are based on 4,464 HDD for 2009 and 4,412 HDD for 2010 through 2014. The decline in total residential throughput (heating and non-heating) is consistent with the projected decline in the average number of residential customers. The projection for residential and commercial throughput generally reflects a constant use per customer.

As interruptible customers continue to migrate to transportation service, sales volumes attributable to interruptible customers also decline as transportation volumes increase. Additionally, as firm transportation load increases from 2.5 million Mcf in 2009 to 4.1 million Mcf in 2014, firm sales load likewise declines. As stated previously, if transportation rates are designed properly, the migration of customers and volumes from firm or interruptible sales service to transportation service should not translate into a material change in net contribution margin."

Sales and Transportation Revenues

Historical revenues (sales plus transportation service) for the 2003 through 2008 fiscal years and projected revenues for the 2009 through 2014 fiscal years are summarized in Table 10. The revenue figures shown in Table 10 are based on application of PGW's existing rates to the projected number of customers, projected normal sales and transported volumes, and the gas cost assumptions discussed in the "Projected Revenue Requirements – Gas Costs" section of this Report. The revenue projections reflect the same adjustments made to sales and throughput (migration of interruptible customers to transportation). We assume consistent with PGW's existing GCR, that changes in the gas cost recovery portion of revenues will equal changes in gas costs.

In this Report, the revenue projections reflect currently effective rates and a 95 percent collection factor on billed revenues. (See Table 12). It is our assumption that when PGW files a base rate case, as directed by the PUC to be no later than December 31, 2009, the extraordinary rate relief of \$60 million granted PGW by the PUC effective January 1, 2009, will become permanent in 2010 (or that PGW will achieve an equivalent combination of permanent revenue enhancements or cost savings). This should produce a level of revenues that should allow PGW to fulfill its goal of not using short-term financing for other than seasonal working capital requirements. In addition, this level of revenue enhancements, cost savings, and/or rate relief should also enable PGW to:

- Cover the increase in non-gas operating expenses and interest expense since granting of the 2008 extraordinary rate relief.
- Provide sufficient funds available for debt service to meet its rate covenants under the 1975 General Ordinance and the 1998 General Ordinance.
- Provide PGW with adequate liquidity when used to supplement internally generated funds without having to continually resort to borrowing funds externally for capital improvements (other than the projected \$150 million in financing from the Ninth Series Bonds).
- Make the \$18 million annual payment to the City beginning in 2014 without receiving a grant back.
- Repay short term commercial paper obligations.
- Provide additional earnings for further debt reduction.
- Meet coverage requirements for the planned Future Bonds.

**Table 9
Historical and Projected Sales and Throughput**

Line No.	Description	Actual ^(a)						Budget		Projected			
		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
		MMcf	MMcf	MMcf	MMcf	MMcf	MMcf	MMcf	MMcf	MMcf	MMcf	MMcf	MMcf
Gas Sales Volumes													
Non-heating													
Firm													
1	Residential	2,109	1,951	1,955	1,521	969	757	699	627	555	483	412	340
2	CRP Residential	NA	NA	NA	NA	71	45	47	47	47	47	47	47
3	Commercial	1,869	1,798	1,755	1,665	1,544	1,395	1,340	1,277	1,223	1,179	1,140	1,105
4	Industrial	429	389	327	305	280	235	279	263	252	242	231	224
5	Municipal	292	269	278	255	241	152	177	169	161	153	146	143
6	Housing Authority	0	0	0	0	0	0	0	0	0	0	0	0
7	NGV Firm	0	0	0	1	0	0	0	0	0	0	0	0
8	Total Firm Non-heating	4,698	4,407	4,315	3,747	3,104	2,585	2,543	2,384	2,239	2,105	1,976	1,860
Interruptible													
9	BPS - Small	202	138	205	139	132	141	123	108	97	88	81	76
10	BPS - Large	2,738	2,247	2,795	1,512	1,460	923	956	872	866	900	957	1,029
11	BPS - A/C	0	0	0	14	0	0	3	2	2	2	1	1
12	LBS - L Direct	435	262	97	13	0	0	0	0	0	0	0	0
13	LBS - L Indirect	1,047	552	391	148	24	1	45	172	304	364	314	245
14	LBS - S Indirect	1,005	649	787	375	728	535	224	146	83	37	42	80
15	LBS - XL Direct	197	112	10	6	17	22	24	24	18	39	187	304
16	LBS - XL Indirect	352	35	62	189	62	25	10	2	0	0	0	0
17	Cogeneration - Indirect	110	98	47	17	12	14	12	10	8	7	6	6
18	LNG - Direct	0	0	0	0	0	0	0	0	0	0	0	0
19	Grays Ferry	0	0	0	0	0	0	0	0	0	0	0	0
20	GTS - Sales	8	10	116	13	271	130	0	0	0	0	0	0
21	NGV Indirect	0	0	0	0	0	0	0	0	0	0	0	0
22	Off-System Sales	0	0	0	0	0	0	0	0	0	0	0	0
23	Total Interruptible	6,094	4,103	4,510	2,426	2,705	1,791	1,397	1,335	1,378	1,437	1,588	1,741
24	Total Non-Heating	10,792	8,510	8,825	6,173	5,809	4,376	3,939	3,719	3,617	3,542	3,564	3,601
Heating													
25	Residential	45,345	40,826	39,033	32,980	26,218	25,259	28,409	28,363	28,246	28,228	28,100	28,026
26	CRP Residential	NA	NA	NA	NA	8,805	8,891	10,473	10,473	10,473	10,476	10,473	10,473
27	Commercial	9,227	8,618	8,363	7,525	7,579	6,983	7,704	7,695	7,760	7,875	8,024	8,195
28	Industrial	903	738	711	610	570	421	477	464	451	441	430	422
29	Municipal	1,191	996	826	857	835	566	656	638	628	626	624	624
30	Housing Authority	681	584	560	526	806	820	860	816	785	763	745	732
31	Total Heating	57,348	51,762	49,493	42,498	44,812	42,940	48,579	48,448	48,342	48,409	48,397	48,472
32	Total Sales Volumes	68,140	60,272	58,318	48,671	50,621	47,316	52,518	52,167	51,959	51,951	51,960	52,073
33	Total Transportation^(b)	10,828	8,946	11,624	10,728	13,139	19,032	20,108	20,744	21,228	21,598	21,899	22,566
34	Total Throughput	78,968	69,218	69,943	59,399	63,760	66,348	72,626	72,911	73,187	73,549	73,859	74,639

(a) PGW historical data. CRP volumes are included in appropriate residential figure.

(b) Increase in transportation sales is due to the transfer of interruptible customers to GTS service and firm sales customers to firm transportation service. No firm customers are assumed to transfer to GTS service.

Table 10
Historical and Projected Revenues
(Thousands of Dollars)

Line No.	Description	Actual ^(a)						Budget		Projected				
		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Gas Sales Revenues														
Non-heating														
Firm														
1	Residential	31,571	34,245	37,132	35,981	24,848	20,165	17,759	15,472	13,870	12,198	10,344	8,636	
2	CRP Residential ^(b)	0	0	0	0	0	0	1,038	1,003	1,017	1,028	1,021	1,031	
3	CRP Shortfall	NA	(1,086)	(1,595)	(1,799)	(409)	(125)	(484)	(452)	(465)	(475)	(469)	(478)	
4	Commercial	22,762	25,178	26,980	32,148	28,171	25,794	25,105	23,004	22,436	21,922	21,089	20,720	
5	Industrial	5,101	5,338	5,036	5,929	5,092	4,265	5,117	4,637	4,504	4,382	4,146	4,079	
6	Municipal	2,975	3,323	3,862	4,603	4,021	2,424	2,980	2,727	2,644	2,552	2,408	2,391	
7	Housing Authority	0	0	0	0	0	0	0	0	0	0	0	0	
8	NGV	0	0	0	3	6	6	5	5	5	5	5	5	
9	Total Firm Non-heating	62,409	66,998	71,415	76,865	61,729	52,529	51,520	46,396	44,011	41,612	38,544	36,384	
Interruptible														
10	BPS - Small	1,787	1,749	2,705	2,281	2,079	2,642	2,693	2,157	1,894	1,717	1,574	1,471	
11	BPS - Large	18,471	18,134	29,289	22,068	18,428	15,493	18,270	14,956	14,515	15,002	15,823	16,986	
12	BPS - A/C	0	0	0	201	0	0	35	27	21	27	16	7	
13	LBS - L Direct	2,529	1,866	765	157	33	0	0	0	0	0	0	0	
14	LBS - L Indirect	6,360	4,179	3,165	1,837	205	(14)	593	2,188	3,874	4,643	4,013	3,143	
15	LBS - S Indirect	6,309	4,653	6,502	4,549	7,424	6,605	3,106	1,884	1,076	475	536	1,034	
16	LBS - XL Direct	1,294	777	83	70	171	264	320	301	224	478	2,263	3,684	
17	LBS - XL Indirect	1,860	290	512	1,888	627	331	141	25	0	0	0	0	
18	Cogeneration - Indirect	0	0	0	0	0	0	0	0	0	0	0	0	
19	LNG - Direct	691	663	371	199	130	171	151	119	99	85	75	67	
20	Grays Ferry	0	0	194	0	0	0	0	0	0	0	0	0	
21	GTS - Sales	0	0	0	0	0	0	0	0	0	0	0	0	
22	NGV Indirect	88	93	1,091	259	2,341	1,187	0	0	0	0	0	0	
23	Off-System Sales	0	0	0	0	0	0	0	0	0	0	0	0	
24	Total Interruptible	39,390	32,404	44,678	33,509	31,438	26,679	25,309	21,657	21,703	22,427	24,300	26,392	
25	Subtotal Non-Heating	101,799	99,402	116,093	110,374	93,167	79,208	76,829	68,053	65,714	64,039	62,844	62,776	
26	Cost of Gas Increase	NA	NA	NA	NA	NA	NA	NA	0	0	0	0	0	
27	Prior Year's Gas Cost Recovery	546	(328)	(1,212)	2,211	(2,036)	(521)	921	0	0	0	0	0	
28	Total Non-Heating	102,345	99,074	114,880	112,585	91,131	78,687	77,750	68,053	65,714	64,039	62,844	62,776	
Heating														
29	Residential	521,275	580,390	626,072	670,102	668,941	666,375	545,274	542,166	550,344	557,999	553,340	559,886	
30	CRP Residential ^(c)	0	0	0	0	0	0	204,814	197,465	200,712	203,158	201,597	203,950	
31	CRP Shortfall	NA	(47,408)	(59,493)	(86,645)	(86,207)	(87,602)	(95,575)	(88,942)	(91,695)	(93,792)	(92,518)	(94,536)	
32	Commercial	109,529	118,677	129,073	147,635	138,350	125,399	141,549	135,947	139,480	143,345	144,899	149,795	
33	Industrial	10,694	10,188	11,048	12,020	10,384	7,609	8,824	8,251	8,145	8,079	7,809	7,753	
34	Municipal	12,041	12,127	12,041	15,608	13,955	9,167	11,028	10,271	10,303	10,415	10,305	10,433	
35	Housing Authority	8,052	7,976	8,583	10,214	10,609	10,993	15,764	14,400	14,101	13,874	13,455	13,389	
36	Subtotal Heating	661,590	681,950	727,323	768,934	756,032	731,941	831,678	819,558	831,390	843,078	838,887	850,670	
37	Cost of Gas Increase	NA	NA	NA	NA	NA	NA	NA	0	0	0	0	0	
38	Prior Year's Gas Cost Recovery	7,054	(4,182)	(14,164)	24,792	(23,948)	(8,407)	13,941	0	0	0	0	0	
39	Total Heating	668,644	677,768	713,159	793,726	732,084	723,534	845,619	819,558	831,390	843,078	838,887	850,670	
40	Weather Normalization Adjustment	(10,029)	2,109	(1,365)	13,406	6,438	11,923	0	0	0	0	0	0	
41	Total Adjusted Heating	658,614	679,877	711,794	807,132	738,522	735,457	845,619	819,558	831,390	843,078	838,887	850,670	
42	Total Sales Revenues	760,959	778,951	826,674	919,717	829,653	814,144	923,369	887,611	897,104	907,117	901,731	913,446	
43	Total Transportation^(d)	2,560	2,945	4,679	6,460	12,949	19,215	25,190	26,950	29,136	30,690	31,776	33,079	
44	Total Revenues	763,519	781,896	831,353	926,177	842,602	833,359	948,559	914,561	926,240	937,807	933,507	946,525	
45	Rate Increase	0	0	0	0	0	0	44,532	60,000	60,000	60,000	60,000	60,000	
46	Adjusted Total Revenues	763,519	781,896	831,353	926,177	842,602	833,359	993,091	974,561	986,240	997,807	993,507	1,006,525	

(a) PGW historical data.

(b) Actual revenues included in Residential, Line 1.

(c) Actual revenues included in Residential, Line 29.

(d) Increase in transportation revenues is due to the transfer of interruptible customers to GTS service. No firm customers are assumed to transfer to GTS service.

The level of revenues projected for fiscal years 2009 through 2014 is based on normal weather conditions. As discussed in *"Rates and Tariffs - Weather Normalization Adjustment"*, the WNA essentially removes the single biggest risk to PGW of recovering its approved margin during periods of warmer than normal weather during the winter season as long as it remains in effect. Because PGW's WNA tariff has no sunset provision, the WNA will continue in place unless the PUC issues an order directing that it be discontinued. We are assuming for the purposes of this Report that the WNA will remain in effect through the projected period.

As with the projected volume and number of customers, as interruptible sales volumes and customers migrate to interruptible transportation service, so do revenues. Total transportation revenues also increase due to the previously discussed forecasted increase in customers migrating from firm sales to firm transportation service. As stated previously, if transportation rates are designed properly, this migration should not translate into a material reduction in net contribution margin and hence, net cash flow and income will not be materially affected.

Other Operating Revenues

Other operating revenues are projected to remain at an annual level of approximately \$21 million throughout fiscal years 2009 through 2014 (Table 16, Line 8). These revenues consist of sales of energy-related appliance services, finance charges realized on overdue accounts, field collection charges, and other miscellaneous sources.

Assistance Programs

Over the past several years, PGW has seen high accounts receivable balances and higher than usual delinquent accounts. As part of PGW's proactive approach to managing this problem, PGW has continued to develop programs targeted at assisting customers with meeting their energy costs. Table 11 details PGW's LIHEAP participation in recent years and provides an estimate for fiscal year 2009. Assistance programs are forecast to contribute \$32.7 million in revenues in fiscal year 2009.

Accounts Receivable

Since PGW has increased its focus on improving its billing and collection practices (*See Billing and Collections*) in the past few years, it has generally experienced a marked decrease in its accounts receivable beginning in fiscal year 2005. Net accounts receivable decreased 24 percent from \$93.1 million in 2004 to \$71.5 million in 2007. Although temporarily increasing in 2008, in fiscal year 2009 net accounts receivable are projected to be \$55.1 million and are forecasted to remain at the level of \$55 million to \$61 million through the projection period. If gas costs substantially exceed these levels, accounts receivable and bad debts may increase. Conversely, if gas costs are less than these levels, accounts receivable and bad debts may decrease.

Table 12 summarizes historical and projected accounts receivable and account write-offs. As seen from the table, we assume receivables as a percentage of billed gas revenues will remain relatively constant over the projection period at about 18 percent.

The projections in Table 12 are based on assuming the base rate increase of \$60 million effective January 1, 2009, remains in effect through the forecast period. Realized bad debt expense as a percent of billed gas revenues is projected to range from 4.4 percent to 4.1 percent over the projected period. Table 12 also shows PGW's historical and projected average collection rate. PGW's collection rate is projected to be 95.0 percent. The five-year historical average collection factor (fiscal years 2004 through 2008) is 95.7 percent. PGW's collection rate for 2007 and 2008 has been 95.8 and 95.5 percent, respectively.

**Table 11
Historical and Budgeted Assistance Programs**

Description	Historical						Forecast	
	2003	2004	2005	2006	2007	2008	2009	%
	Number	Number	Number	Number	Number	Number	Number	%
Grant Money Available								
Cash	\$121,518,984	\$108,384,165	\$116,058,846	\$154,859,009	\$131,148,030	\$152,021,400	\$285,600,000	74.8%
Crisis	\$72,786,033	\$78,433,307	\$82,414,865	\$91,232,494	\$88,708,770	\$87,355,715	\$194,675,432	68.2%
Total	\$48,732,951	\$29,950,858	\$33,643,981	\$63,626,515	\$42,439,260	\$64,665,685	\$90,924,568	31.8%
Number of Grants								
State of PA								
Cash	307,344	327,279	339,898	385,006	369,618	370,873	563,000	74.8%
Crisis	110,925	107,705	118,163	153,543	132,953	169,980	189,700	25.2%
Total State of PA	418,269	434,984	458,061	538,549	502,571	540,853	752,700	100.0%
PGW	0	0	0	0	0	0	0	100.0%
Cash	59,718	63,064	63,377	65,301	62,454	57,501	74,000	13.1%
Crisis	17,675	9,297	10,515	21,515	16,674	12,162	17,000	9.0%
Total PGW	77,393	72,361	73,892	86,816	79,128	69,663	91,000	12.1%
Total Funding - Final								
State of PA								
Cash	\$72,786,033	\$78,433,307	\$82,414,865	\$91,232,494	\$88,708,770	\$87,355,715	\$194,675,432	
Crisis	\$48,732,951	\$29,950,858	\$33,643,981	\$63,626,515	\$42,439,260	\$64,665,685	\$90,924,568	
Total State of PA	\$121,536,603	\$108,384,165	\$116,058,846	\$154,859,009	\$131,148,030	\$152,021,400	\$285,600,000	
PGW								
PGW - Cash	\$13,803,219	\$16,030,238	\$16,649,495	\$15,416,311	\$16,243,105	\$14,374,086	\$25,246,580	13.0%
PGW - Crisis	\$8,607,725	\$2,631,051	\$3,112,630	\$8,472,290	\$5,075,658	\$5,118,573	\$7,437,160	8.2%
Total PGW	\$22,410,944	\$18,661,289	\$19,762,125	\$23,888,601	\$21,318,763	\$19,492,659	\$32,683,740	11.4%
Value of Grants, per customer								
State of PA								
Cash	\$242	\$240	\$242	\$237	\$245	\$239	\$346	
Crisis	\$285	\$278	\$285	\$414	\$319	\$380	\$479	
PGW								
Cash	\$263	\$254	\$263	\$236	\$260	\$250	\$341	
Crisis	\$296	\$283	\$296	\$394	\$304	\$421	\$437	

(a) The City of Philadelphia provided supplemental low income customer assistance totaling \$60,000 in 2005, \$550,000 in 2006, \$200,000 in 2007, and \$100,000 in 2008.

**Table 12
Historical and Projected Accounts Receivable and Write-offs**

Description	Fiscal Year Ending August 31,														
	Historical						Budget								
	2000 ^(b)	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Billed Gas Revenues (\$000) ^(a)	495,545	741,964	557,467	755,919	786,406	846,729	899,174	868,586	842,287	978,229	974,561	986,240	997,807	993,507	1,006,525
Accounts Receivable (\$000)	185,421	280,406	254,047	321,408	323,340	295,114	243,249	221,683	239,739	181,488	176,742	174,770	174,576	175,910	179,134
Less: Reserve for Bad Debt	(129,154)	(184,324)	(187,461)	(228,548)	(230,216)	(207,480)	(168,889)	(150,231)	(140,435)	(126,302)	(121,520)	(117,878)	(115,803)	(115,602)	(117,703)
Net Accounts Receivable	56,267	96,082	66,586	92,860	93,124	87,634	74,360	71,452	99,304	55,186	55,222	56,892	58,773	60,308	61,431
Bad Debt Reserve/Accounts Receivable	69.7%	65.7%	73.8%	71.1%	71.2%	70.3%	69.4%	67.8%	58.6%	69.6%	68.8%	67.4%	66.3%	65.7%	65.7%
Net Write-Offs (\$000)	19,712	12,463	48,411	43,914	69,332	93,160	78,732	57,657	54,467	50,200	47,200	45,150	43,100	41,100	39,100
Receivable/Billed Gas Revenues	37.4%	37.8%	45.6%	42.5%	41.1%	34.9%	27.1%	25.5%	28.5%	18.6%	18.1%	17.7%	17.5%	17.7%	17.8%
Bad Debt (\$000)	54,642	67,633	51,548	85,000	71,000	70,424	40,132	40,000	37,000	44,011	42,418	41,508	41,025	40,899	41,201
Bad Debt/Billed Gas Revenues	11.0%	9.1%	9.2%	11.2%	9.0%	8.3%	4.5%	4.6%	4.4%	4.5%	4.4%	4.2%	4.1%	4.1%	4.1%
Bad Debt/Accounts Receivable	29.5%	24.1%	20.3%	26.4%	22.0%	23.9%	16.5%	18.0%	15.4%	24.3%	24.0%	23.8%	23.5%	23.2%	23.0%
Total Customer Receipts (\$000)	475,100	677,400	575,300	690,300	756,000	846,600	905,887	863,658	833,970	950,000	950,000	950,000	950,000	950,000	950,000
Total Customer Billings (\$000)	511,700	769,100	589,600	797,400	827,000	892,450	899,174	901,678	873,424	901,678	901,678	901,678	901,678	901,678	901,678
Collection Factor	92.85%	88.08%	97.57%	86.57%	91.41%	94.86%	100.75%	95.78%	95.48%	95.00%	95.00%	95.00%	95.00%	95.00%	95.00%
Five-Year Average Collection Factor (2004-2008)									95.73%	95.00%	95.00%	95.00%	95.00%	95.00%	95.00%

(a) Adjusted Total Revenues (Table 10, Line 43) less Prior Year's Gas Cost Recovery (Table 10, Lines 25 and 35)

(b) For fiscal year 2000, accounts receivable and reserve for bad debt is restated.

If the severity of the ongoing economic downturn continues, then billing and collections could be adversely affected, and a corresponding decrease in the collection rate and increase in receivables beyond those levels assumed in our projections could result.

Capital Improvement Program Financing

The Capital Improvement Program described earlier (*See Capital Improvement Program*) will be financed by PGW through funds currently available for capital projects, revenue bond issues, investment income, and system revenues.

The projected CIP expenditures for the six-year period ending August 31, 2014, are shown on Line 8 of Table 13 and total approximately \$432 million. The total par amount of the Ninth Series bonds to be issued of approximately \$150 million during the projection period is designed to maximize the capital requirements financed with bond proceeds.

Lines 1 through 7 outline the sources available to meet the CIP financing requirements. Line 1 in fiscal year 2009 shows the net balance available in the Capital Improvement Fund as of August 31, 2008, available to fund the CIP. Lines 2 through 5 show the net proceeds from bond sales, Line 6 shows the amount projected to be available from other sources each year from current operating revenues, and Line 7 presents the total funds available. Planned fund uses are summarized on Lines 8 and 9 of Table 13.

Table 13
Capital Improvement Fund
(Thousands of Dollars)

Line No.	Description	Fiscal Year Ending August 31,					
		Projected					
		<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
		\$	\$	\$	\$	\$	\$
1	Balance from Previous Year	109,687	51,769	102,909	52,909	12,909	2,909
2	Bond Proceeds @ Par	0	150,000	0	0	0	0
3	Less Discount & Issuance Costs	0	(24,645)	0	0	0	0
4	Less Deposit to Sinking Fund Reserve	0	(10,215)	0	0	0	0
5	Net Bond Proceeds	0	115,140	0	0	0	0
6	Other Sources of Funds ^(a)	<u>(7,459)</u>	<u>8,120</u>	<u>30,398</u>	<u>45,608</u>	<u>61,743</u>	<u>68,561</u>
7	Total Sources of Funds	102,228	175,029	133,307	98,517	74,652	71,470
8	Capital Expenditures	50,459	72,120	80,398	85,608	71,743	71,470
9	Capitalized Interest	0	0	0	0	0	0
10	Total Uses of Funds	50,459	72,120	80,398	85,608	71,743	71,470
11	Net Balance - End of Year	51,769	102,909	52,909	12,909	2,909	0

(a) Includes PGW internally generated funds.

As presented in Table 13, the only bond issue projected during the five year period is the Ninth Series Bonds in the principal amount of \$150 million. Coupled with a beginning available balance of \$109.7 million and a total of \$207.0 million of other funding sources, sufficient funds will be available for PGW to complete its planned capital improvement program.

Projected Revenue Requirements

PGW's rates are developed to provide sufficient levels of revenue to meet cost of gas, all operation and maintenance expenses of the System, debt service requirements on obligations issued for the System, capital improvement expenditures to be funded from current revenues, and other specific bond ordinance and revenue requirements. This section provides a discussion of the components that make up PGW's revenue requirements.

Gas Costs

Table 14, Line 1 presents PGW's historical and projected natural gas costs. The unit gas costs assumed by PGW and relied upon in this Report are projected to decrease from approximately \$11.73 per Mcf in fiscal year 2009 to \$11.52 per Mcf in fiscal year 2014. PGW gas cost assumptions are based on pricing input from Global Insight and futures prices from the New York Mercantile Exchange. PGW purchases its gas supplies under a portfolio approach as discussed in the "PGW Gas Supply – Supply Services" section of this Report. As a result of the GCR, changes in the cost of gas result in equal changes in revenues. The mechanism by which PGW recovers its gas supply costs is discussed in the "Gas Cost Rate" section of this Report.

Operation and Maintenance Expenses

Table 14 presents PGW's historical and projected operation and maintenance expense. The audited expenses for 2008 serve as a base for the projected years.

Variance in the current operations and maintenance projections and the forecast provided in the 2007 Report for fiscal year 2009 are primarily due to the following factors:

- Decreased bad debt expense (\$10.1 million)
- Increased field services expense (\$2.5 million)
- Increased pension expense (\$1.6 million)
- Lower health insurance costs (\$8.6 million)
- Increased other post employment benefits (\$25.6 million)

As discussed in the *Sales and Transportation Revenues* section of this Report, PGW's collection factor is projected at 95 percent of billed revenues through 2009-2014 fiscal years with bad debt expense forecasted to range from \$46.0 million to \$39.0 million. The higher level of bad debt expense for PGW relative to other gas utilities is consistent with the higher level of costs associated with social programs for PGW. Pension fund and health insurance costs are based on PGW's fiscal year 2009 operating budget filing and have been updated with the most current information from PGW for the forecast period through fiscal year 2014. The number of employees is projected to decline from 1,721 to 1,650 through the forecast period due to attrition.

Table 14
Historical and Projected Operation and Maintenance Expenses
(Thousands of Dollars)

Line No.	Description	Fiscal Year Ending August 31,												
		Historical					Budget					Projected		
		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	
	Operating Expenses													
1	Natural Gas	427,433	450,868	509,701	625,076	539,296	511,971	615,830	564,523	575,886	587,923	584,686	600,039	
2	Other Raw Materials		0	4	17	4	5	5	5	5	5	5	5	
3	Subtotal Fuel	427,436	450,868	509,705	625,093	539,300	511,976	615,835	564,528	575,891	587,928	584,691	600,044	
4	Gas Processing	16,952	17,284	18,584	15,234	16,240	14,436	15,518	16,849	17,395	17,749	18,311	18,464	
5	Field Services	29,906	29,557	28,455	35,667	36,100	37,126	39,375	38,144	38,706	39,587	40,513	41,630	
6	Distribution	16,804	15,778	15,115	15,179	17,119	17,319	17,982	18,529	19,001	19,582	20,248	21,027	
7	Collection	8,504	10,730	10,971	9,952	8,157	8,278	9,450	9,727	9,971	10,270	10,626	11,038	
8	Customer Services	13,704	13,514	12,512	11,083	11,783	12,305	13,510	13,828	14,155	14,513	14,953	15,452	
9	Customer Accounting	6,976	7,496	7,695	7,337	7,064	7,169	7,548	7,730	7,935	8,168	8,480	8,850	
10	Bad Debt Expense	85,000	71,000	70,424	40,132	40,000	37,000	46,000	39,982	39,450	39,912	39,740	40,261	
11	Marketing & Point-of-Sale Expenses	2,832	2,677	2,592	2,467	2,418	2,628	4,064	4,030	4,096	3,912	3,980	4,050	
12	Administrative & General	41,118	41,872	43,391	39,897	38,846	41,510	48,011	48,366	48,675	49,644	50,624	51,623	
13	Health Insurance	30,259	32,863	33,571	35,076	36,111	38,588	37,301	39,977	43,618	47,578	52,125	57,288	
14	Capitalized Fringe Benefits	(8,488)	(9,053)	(10,348)	(9,797)	(10,449)	(11,166)	(8,967)	(10,373)	(10,820)	(11,452)	(12,136)	(12,895)	
15	Capitalized Admin. Charges	(5,694)	(6,193)	(6,706)	(6,779)	(7,689)	(8,216)	(6,598)	(7,994)	(8,051)	(7,709)	(7,489)	(7,498)	
16	Regulatory Asset Amortization	3,750	3,750	0	0	0	0	0	0	0	0	0	0	
17	Amortization of Restructuring Costs	0	1,097	1,087	1,087	0	0	0	0	0	357	480	480	
18	Year 2000 & Deregulation Amortization	0	0	0	0	0	0	0	0	0	0	0	0	
19	Pensions	13,013	14,973	14,702	17,563	15,217	14,258	15,872	21,505	21,152	20,799	20,446	20,106	
20	Taxes	7,941	6,638	6,218	6,124	6,730	5,677	6,799	7,079	7,165	7,232	7,310	7,377	
21	Other Post Employment Benefits	0	0	0	0	26,421	25,834	25,558	24,615	23,489	22,163	20,616	18,828	
22	BT Costs/(Benefits)	0	0	0	0	0	0	2,250	(16,700)	(17,910)	(14,050)	(11,110)	(11,000)	
23	Environmental Expenses	241	334	0	0	0	0	0	0	0	0	0	0	
24	Pro Forma Adjustments	0	0	0	0	0	0	0	0	0	0	0	0	
25	Cost Savings/Productivity Improvements	0	0	0	0	0	0	(2,565)	(1,606)	(2,389)	(3,482)	(4,617)	(5,796)	
26	Total Other Operating Expenses	262,818	254,317	248,263	220,222	244,068	242,746	270,108	252,688	255,638	264,773	273,100	279,285	
27	Total Operating Expenses	690,254	705,185	757,968	845,315	783,368	754,722	885,943	817,216	831,529	852,701	857,791	879,329	
28	Depreciation	33,712	35,607	35,904	35,389	37,166	40,021	39,408	41,198	42,945	44,611	45,896	47,081	
29	Cost of Removal	2,356	3,261	3,643	2,566	2,542	2,847	3,000	3,000	3,000	3,000	3,000	3,000	
30	Less: Clearing Account Depreciation	(4,887)	(4,902)	(4,502)	(3,230)	(3,328)	(3,344)	(5,159)	(5,199)	(5,257)	(5,303)	(5,461)	(5,585)	
31	Net Depreciation	31,181	33,966	35,045	34,725	36,380	39,524	37,249	38,999	40,688	42,308	43,435	44,496	
32	Total Operating Expense & Dep'n.	721,435	739,151	793,013	880,040	819,748	794,246	923,192	856,215	872,217	895,009	901,226	923,825	

Debt Service Requirements

Table 15 presents a summary of the existing and proposed long-term debt service requirements for the five-year projection period. The proposed Eighth Series Bonds are assumed to be issued on or after July 1, 2009. Debt service on this issue assumes a 20-year amortization schedule and an 8.73 percent all-in true interest cost. The Eighth Series Bonds are being issued to refund the existing Sixth Series Bonds. Additionally, our projection assumes that Ninth Series Bonds will be issued on or about February 1, 2010, for \$150 million to fund forecasted capital expenditures. Debt Service on this issue assumes a 30-year amortization schedule and a 7.04 percent all-in true interest cost.

Payments to City

In accordance with the Management Agreement and the Gas Choice Act, PGW makes an annual base payment of \$18 million to the City. The \$18 million payment for fiscal year 2004 was not paid and may be forgiven. In fiscal years 2005 through 2008, the \$18 million payment was made and was granted back. The City's current Five-Year Plan also provides for payment and grant back of the \$18 million for fiscal years 2009 through 2013. For purposes of this forecast, it is assumed that the \$18 million payment to the City will not be granted back after 2013.

Adequacy of Projected Revenues to Meet Projected Revenue Requirements Under Ordinance Requirements

Table 16 presents a pro forma statement developed from the revenue and expense projections for 2009 through 2014. This table in conjunction with Table 17, which presents a statement of cash flows, provides an indication of the adequacy of PGW's revenues and the financial feasibility of the Future Bonds.

The operating revenue projections presented earlier in Table 10, Line 44 are summarized in Lines 1 through 3 of Table 16. These projected revenues are based on PGW's currently effective rate schedules. Revenues from Other Sales, primarily unbilled gas adjustments, are shown on Line 4 of Table 16. Since the Gas Choice Act mandates that the PUC approve and the PUC has acknowledged it has to approve PGW rates sufficient to meet PGW's bond covenants, as well as to provide PGW with needed liquidity, we reasonably assume the temporary extraordinary rate relief granted by the PUC at year-end 2008 will be made permanent in order for PGW to meet these requirements. Any combination of revenue enhancements, cost savings, and/or a permanent base rate increase, in fiscal years 2009 through 2014 is included on Line 6 (Line 45 on Table 10). These amounts, coupled with the projected \$150 million Ninth Series Bonds, (Table 13, Line 2) represent, in our opinion, the minimum level of increase needed to:

- Cover the increase in non-gas operating expenses and interest expense since granting of the 2008 extraordinary rate relief.
- Provide sufficient funds available for debt service to meet its rate covenants under the 1975 General Ordinance and the 1998 General Ordinance.
- Provide PGW with adequate liquidity when used to supplement internally generated funds without having to continually resort to borrowing funds externally for capital improvements (other than the projected \$150 million in financing from the Ninth Series Bonds).
- Make the \$18 million annual payment to the City beginning in 2014 without receiving a grant back.
- Repay short term commercial paper obligations.
- Provide additional earnings for further debt reduction.
- Meet coverage requirements for the planned Future Bonds.

Table 15
Projected Long Term Debt Service Requirements
(Thousands of Dollars)

Line No.	Description	Fiscal Year Ending August 31,					
		Projected					
		2009	2010	2011	2012	2013	2014
		\$	\$	\$	\$	\$	\$
Revenue Bonds under 1975 Ordinance							
1	Series 11C	0	0	11,017	14,005	0	0
2	Series 16	10,392	930	930	930	7,695	7,683
3	Series 17	16,466	14,934	13,121	11,560	17,217	15,672
4	Series 18	4,732	13,514	4,900	4,892	4,886	4,874
5	Series 19	<u>723</u>	<u>723</u>	<u>723</u>	<u>723</u>	<u>723</u>	<u>723</u>
6	Total 1975 Ordinance Debt	32,313	30,101	30,691	32,110	30,521	28,953
Revenue Bonds under 1998 Ordinance							
<i>Senior Debt</i>							
7	First Series A	15,789	15,054	12,779	9,048	8,301	7,563
8	Second Series	3,085	3,084	3,087	3,082	0	0
9	Third Series	3,141	3,141	3,141	3,144	0	0
10	Fourth Series	7,345	7,348	7,349	7,349	7,347	7,344
11	Fifth Series	6,000	8,418	8,416	8,418	8,417	8,420
12	A-2 Fifth Series Variable ^(a)	1,127	1,127	1,127	1,127	1,127	1,127
13	Sixth Series ^(b)	9,516	0	0	0	0	0
14	Seventh Series	14,400	14,400	14,401	14,401	16,850	14,297
15	Eighth Series	0	25,973	25,981	25,984	29,073	33,069
16	Ninth Series (2010 Bonds)	<u>0</u>	<u>5,104</u>	<u>10,211</u>	<u>10,210</u>	<u>10,212</u>	<u>10,215</u>
17	Senior Debt	60,403	83,650	86,491	82,763	81,327	82,035
<i>Subordinate Debt</i>							
18	First Series C	<u>1,990</u>	<u>1,986</u>	<u>1,988</u>	<u>1,984</u>	<u>1,990</u>	<u>1,985</u>
19	Total Subordinate Debt	1,990	1,986	1,988	1,984	1,990	1,985
20	Total 1998 Ordinance Debt	62,393	85,636	88,479	84,747	83,316	84,020
21	Total Long-Term Debt Service	94,706	115,737	119,170	116,857	113,837	112,972

(a) Assumes a 3.75 percent annual interest rate as budgeted by PGW.

(b) Refunded with Eighth Series.

Table 16
Projected Statement of Income
(Thousands of Dollars)

Line No.	Description	Fiscal Year Ending August 31,					
		2009	2010	2011	2012	2013	2014
		\$	\$	\$	\$	\$	\$
Projected Revenues							
1	Non-Heating	77,750	68,053	65,714	64,039	62,844	62,776
2	Gas Transport Service	25,190	26,950	29,136	30,690	31,776	33,079
3	Heating	845,619	819,558	831,390	843,078	838,887	850,670
4	Other Sales	757	(70)	228	209	(27)	167
5	Total Gas Revenues - Existing Rates	949,316	914,491	926,468	938,016	933,480	946,692
6	Base Rate Increase	44,532	60,000	60,000	60,000	60,000	60,000
7	Total Gas Revenues	993,848	974,491	986,468	998,016	993,480	1,006,692
8	Other Operating Revenues	20,463	20,417	20,736	21,057	21,198	21,544
9	Total Operating Revenues	1,014,311	994,908	1,007,204	1,019,073	1,014,678	1,028,236
Operating Expenses							
10	Natural Gas	615,830	564,523	575,886	587,923	584,686	600,039
11	Other Raw Materials	5	5	5	5	5	5
12	Total Fuel	615,835	564,528	575,891	587,928	584,691	600,044
13	Gas Processing	15,518	16,849	17,395	17,749	18,311	18,464
14	Field Services	38,375	38,144	38,706	39,587	40,513	41,630
15	Distribution	17,982	18,529	19,001	19,582	20,248	21,027
16	Collection	9,450	9,727	9,971	10,270	10,626	11,038
17	Customer Services	13,510	13,828	14,155	14,513	14,953	15,452
18	Customer Accounting	7,548	7,730	7,935	8,168	8,480	8,850
19	Bad Debt Expense	46,000	38,982	39,450	39,912	39,740	40,261
20	A&G and Other Expenses	121,725	108,899	109,025	114,992	120,229	122,563
21	Total Non-Fuel O&M	270,108	252,688	255,638	264,773	273,100	279,285
22	Depreciation	39,408	41,198	42,945	44,611	45,896	47,081
23	Cost of Removal	3,000	3,000	3,000	3,000	3,000	3,000
24	Less: Clearing Accounts	(5,159)	(5,199)	(5,257)	(5,303)	(5,461)	(5,585)
25	Net Depreciation	37,249	38,999	40,688	42,308	43,435	44,496
26	Total Operating Expenses	923,192	856,215	872,217	895,009	901,226	923,825
27	Net Operating Income	91,119	138,693	134,987	124,064	113,452	104,411
28	Other Income	11,907	13,641	15,863	14,770	13,383	11,579
29	Net Income Before Interest Charges	103,026	152,334	150,850	138,834	126,835	115,990
Interest							
30	Long Term Debt	53,066	68,318	67,654	64,845	62,528	60,123
31	Other	7,517	7,611	7,677	7,571	7,487	7,456
32	Loss From Refunded Debt	5,102	4,768	4,424	4,179	3,963	3,629
33	AFUDC	(873)	(872)	(983)	(916)	(784)	(784)
34	Total Interest	64,812	79,825	78,772	75,679	73,194	70,424
35	Net Income	38,214	72,509	72,078	63,155	53,641	45,566

Table 17
Projected Statement of Cash Flows
(Thousands of Dollars)

Line No.	Description	Fiscal Year Ending August 31,					
		2009	2010	2011	2012	2013	2014
		\$	\$	\$	\$	\$	\$
1	Beginning Cash Balance	49,338	82,165	89,405	113,717	124,257	107,614
	Sources of Funds						
	Internal Sources						
2	Net Income	38,214	72,509	72,078	63,155	53,641	45,566
3	Depreciation	39,408	41,198	42,945	44,611	45,896	47,081
4	Amortized Costs ^(a)	6,218	6,063	5,791	5,439	5,139	4,774
5	Earnings on Restricted Funds	10,225	1,013	(245)	1,881	1,140	1,236
6	Increased/(Decreased) Other Liabilities	(3,928)	334	(9,086)	(12,818)	(2,587)	(2,015)
7	Total Internal Sources	90,137	121,117	111,483	102,268	103,229	96,642
	External Sources						
8	Revenue Bond Proceeds	0	115,140	0	0	0	0
9	Capital Improvement Fund Drawdown	50,000	64,000	50,000	40,000	10,000	2,909
10	Release of Sinking Fund Asset	4,000	0	0	0	0	0
11	Grant Back from City	18,000	18,000	18,000	18,000	18,000	0
12	Temporary Borrowings	0	0	0	0	0	0
13	Total External Sources	72,000	197,140	68,000	58,000	28,000	2,909
14	Total Sources of Funds	162,137	318,257	179,483	160,268	131,229	99,551
	Uses of Funds						
15	Debt Reduction on all Bonds	41,280	47,095	42,054	39,070	49,075	50,565
16	PMA Bond Debt Reduction	1,500	1,565	1,640	1,715	1,805	1,890
17	CIP Requirements	50,459	72,120	80,398	85,608	71,743	71,470
18	Payment to City/Distribution of Earnings	18,000	18,000	18,000	18,000	18,000	18,000
19	Deposit to CIP Fund	0	115,140	0	0	0	0
20	Repayment of Commercial Paper	0	49,000	19,000	0	0	0
21	Change in Non-Cash Working Capital ^(b)	18,071	8,097	(5,921)	5,335	7,249	4,803
22	Total Uses of Funds	129,310	311,017	155,171	149,728	147,872	146,728
23	Increase/(Decrease) in Cash	32,827	7,240	24,312	10,540	(16,643)	(47,177)
24	Ending Cash Balance	82,165	89,405	113,717	124,257	107,614	60,437

(a) Includes amortization on bond issuance costs and extraordinary losses.

(b) Includes changes in Accounts Payable, Accounts Receivable, and Materials and Supplies.

Other operating revenues presented on Table 16, Line 8 include revenues from sales of energy-related appliance services and field collection charges. Projected Other Income for the System (Table 16, Line 28) includes interest earnings from the different reserve funds.

The projected operation and maintenance expenses shown on Table 16, Lines 10 through 26 are from Table 14. PGW's projected net operating income before interest is summarized on Line 29 of Table 16. Interest expense on existing bonds, proposed bonds, and capital leases is presented on Line 30. Other interest costs including loss from refunded debt and the allowance for funds used during construction ("AFUDC") are shown on Lines 31 through 33. PGW's projected net income is shown on Line 35 of the table is \$38.2 million in fiscal year 2009, increases to \$72.5 million in fiscal year 2010, and decreases to \$45.6 million in fiscal year 2014.

On Table 17, Line 1 presents PGW's cash balance as of September 1 for each fiscal year. From this starting point, the net income line from Table 16 is combined with non-cash adjustments (such as depreciation and amortization) expensed on the Income Statement. External sources of funds are summarized on Lines 8 through 12 and include revenue bond proceeds, drawdowns on the capital improvement fund, and the payment and grant back of the \$18 million for fiscal years 2009 through 2013. The total for all sources of funds is shown on Line 14 of Table 17.

Uses of funds are summarized on Lines 15 through 21 of Table 17. Lines 15 and 16 present the principal payments made on long-term debt. CIP requirements are shown on Line 17, and payments to the City and short-term debt obligations are shown on Lines 18 and 20. Changes in non-cash working capital items, including changes in accounts payable and accounts receivable, are shown in Line 21.

The net increase or decrease in available cash for each fiscal year is shown on Line 23 of Table 17. The ending cash balance for the year, which is the sum of Lines 1 and 23, is shown on Line 24. The ending cash balance for 2010 represents approximately 18 weeks of operations and maintenance expenses (excluding the cost of fuel) and the ending cash balances for fiscal years 2011 through 2014 represent approximately 23 to 11 weeks, respectively, of operations and maintenance expense (excluding the cost of fuel). These projected year-end cash balances for fiscal years 2010 through 2014 should be sufficient for PGW to accommodate normal fluctuations in expenditures for utility operations.

A detailed calculation of debt service coverage requirements under the 1975 and 1998 General Ordinances is presented in Table 18. The results presented in the table indicate that provided the assumptions made herein are realized, PGW will meet the requirements of the 1975 and 1998 General Ordinances for all years in the projection period.

Table 18
Projected Debt Service Coverage
(Thousands of Dollars)

Line No.	Description	Fiscal Year Ending August 31,					
		2009	2010	2011	2012	2013	2014
		\$	\$	\$	\$	\$	\$
SOURCES OF FUNDS							
1	Total Gas Revenues	993,848	974,491	986,468	998,016	993,480	1,006,692
2	Other Operating Revenues	20,463	20,417	20,736	21,057	21,198	21,544
3	Total Operating Revenues	1,014,311	994,908	1,007,204	1,019,073	1,014,678	1,028,236
4	Other Income ^(a)	40,255	33,526	34,601	35,567	33,307	13,599
5	Total Sources of Funds	1,054,566	1,028,434	1,041,805	1,054,640	1,047,985	1,041,835
USES OF FUNDS							
6	Fuel Costs	615,835	564,528	575,891	587,928	584,691	600,044
7	Other Operating Costs	307,357	291,687	296,326	307,081	316,535	323,781
8	Total Operating Expenses	923,192	856,215	872,217	895,009	901,226	923,825
9	Less: Non-Cash Expenses	(68,105)	(68,998)	(69,661)	(70,046)	(69,814)	(69,248)
10	Total Uses of Funds	855,087	787,217	802,556	824,963	831,412	854,577
11	Funds Available for Debt Service	199,479	241,217	239,249	229,677	216,573	187,258
12	1975 Ordinance Bonds Debt Service	32,313	30,101	30,691	32,110	30,521	28,953
13	Debt Service Coverage - 1975 Ordinance	6.17	8.01	7.80	7.15	7.10	6.47
14	Net Available after Prior Debt Service	167,166	211,116	208,558	197,567	186,052	158,305
15	1998 Ordinance Bonds Debt Service	60,403	83,650	86,491	82,763	81,327	82,035
16	Debt Service Coverage - 1998 Ordinance	2.77	2.52	2.41	2.39	2.29	1.93
17	Net Available after Prior Debt Service	106,763	127,466	122,067	114,804	104,726	76,270
18	1998 Ordinance Subordinate Debt	1,990	1,986	1,988	1,984	1,990	1,985
19	Debt Service Coverage on Subordinate Debt	53.65	64.18	61.42	57.87	52.63	38.43
Standard & Poor's Fixed Coverage Charge Calculations							
20	Net Available to Service Aggregate Debt Service ^(b)	141,148	192,205	192,521	182,058	171,054	161,270
21	Aggregate Debt Service ^(c)	94,706	115,737	119,170	116,857	113,837	112,972
22	Fixed Coverage Charge on Long-Term Debt	1.49	1.66	1.62	1.56	1.50	1.43

(a) Includes the City's grant back of the \$18 million payment in fiscal years 2009 through 2013.

(b) S&P's Definition: Net Available for Debt Service = Line 9, Table 16 - Line 33, Table 16 - (Line 26 - Line 25, Table 16) + Line 28, Table 16

(c) Line 12 + Line 15 + Line 18

Assumptions and Opinions

In developing the information which Black & Veatch utilized for preparing the projections presented herein, Black & Veatch relied on PGW's financial planning model and PGW's assumptions contained within that model with several exceptions as noted in this Report. The analyses summarized in this Report are based on assumptions that have been provided by or reviewed by PGW and others and relied on currently available information and present circumstances. Black & Veatch has not conducted verification tests of this information. While we believe that these data and the underlying assumptions are reasonable, actual results may materially differ from those projected, as influenced by the conditions, events and circumstances that actually occur that are unknown at this time and/or which are beyond the control of Black & Veatch. Such factors may include PGW's ability to execute the capital improvement plan as scheduled and within budget, regional climate and weather conditions affecting the demand for gas, and adverse legislative, regulatory or legal decisions (including environmental laws and regulations) affecting PGW's ability to operate the System.

Considerations and Assumptions

The following, while not all inclusive, is a list of critical assumptions used in the development of the projections presented herein:

Revenues

1. As set forth by the PUC in its order dated February 22, 2001, the PUC will comply with its statutory obligations under the Public Utility Code, including the section of the Gas Choice Act (66 Pa C.S.A. §2212(b)) requiring that the PUC, in determining PGW's revenue requirement and approving overall rates and charges, "follow the same rate-making methodology and requirements that were applicable to [PGW] prior to the assumption of jurisdiction by the [PUC]" and permit PGW to "impose, charge or collect rates or charges as necessary to permit...PGW to comply with its covenants to the holders of any approved bonds." "Approved Bonds" include the Eighth and Ninth Series Bonds and the commercial paper.
2. The throughput and revenue figures are based on the assumption of normal weather (4,464 HDD per year for 2009 and 4,412 HDD for 2010). To the extent that weather is warmer than normal, the resulting contribution margin will be maintained to the extent that the WNA remains in effect.
3. Projected revenue figures are based on the assumption that PGW will recover, in a timely manner, 100 percent of all gas supply costs and 100 percent of the costs (or discounted revenues) attributed to the Customer Responsibility Program, Customer Works Program, Senior Citizen Discount Program, restructuring transition costs, and costs attributable to PUC mandated programs such as those indicated in Chapters 56 and 59 of the Public Utility Code.
4. PGW will realize \$60 million in revenue enhancements, cost savings, or base rate increases on a levelized basis beginning in fiscal year 2010. If PGW does not receive rate relief of \$60 million beginning in 2010, PGW will likely not be able to meet all of these stated goals. If PGW were unable to meet the rate covenants required under the 1975 General Ordinance and 1998 General Ordinance, PGW would then have to reduce expenditures, develop other sources of Project Revenues, and/or file for and receive timely rate relief.

Operating Expenses

1. PGW's annual accounts receivable write-offs will range from \$40.9 to \$42.4 million and PGW's collection factor on billed revenues will be 95.0 percent during the projected 2010-2014 period.

Capital Improvement Program

1. The planned capital improvements are assumed to be sufficient to maintain the System and meet regulatory requirements.
2. Projected levels of cash-financed capital improvements are assumed to comply with PGW's internal policies for financing capital improvements with other funding sources.

City Payments

1. The \$18 million annual payment to the City will only be granted back to PGW by the City in fiscal years 2009 through 2013.
2. The \$18 million payment for fiscal year 2004 was not paid and is assumed to have been forgiven.

Opinions

Based on these analyses and the assumptions set forth or referred to in this Report, we offer the following opinions to indicate PGW's conformance with specific requirements which must be met for the issuance of the Eighth and Ninth Series Bonds as provided in the 1975 and 1998 General Ordinances:

1. PGW is a competently managed and operated gas distribution utility. PGW and the System are organized, operated, and maintained at a level equal to, or in excess of, regulatory requirements and generally accepted industry practices. The System is in good operating condition.
2. Based upon Black & Veatch's evaluation of financial projections and certain assumptions with respect to the System which Black & Veatch believes to be reasonable, and on the basis of actual and estimated future annual financial operations of the System (including the projects to be established with the proceeds of the Future Bonds), the System will yield Project Revenues (which are pledged under the 1975 General Ordinance and the 1998 General Ordinance) over the amortization periods of the Bonds issued under the 1975 General Ordinance and the 1998 General Ordinance which will be sufficient to (a) meet all expenses of operation, maintenance, repair and replacement of the System, (b) meet all reserve or special funds required to be established under the 1975 General Ordinance and the 1998 General Ordinance, (c) meet the principal of and interest on all Bonds (including the Future Bonds) issued under such Ordinances, as the same shall become due and payable, and (d) provide such surplus requirements as are contained in the respective rate covenants of the 1975 General Ordinance and the 1998 General Ordinance. The Project Revenues forming the basis of this opinion comply with the requirements of the definition of Project Revenues contained in Section 2 of the Act.
3. The Project Revenues and Gas Works Revenues which are pledged as security for the Bonds issued under the 1975 General Ordinance and the 1998 General Ordinance, respectively, are currently, and are projected to be, sufficient to comply with the Rate Covenants set forth in Section 4.03(b) of the 1975 General Ordinance and Section 4.03(b) of the 1998 General Ordinance.

4. The capital improvements proposed during the projection period, September 1, 2009, through August 31, 2014, should, along with continued good operation and maintenance practices, enable PGW to maintain the System in good operating condition. Review of present management practices indicates that good operation and maintenance is likely to continue.
5. Contracted PGW gas supplies plus (a) spot market purchases, (b) anticipated additional contracted supplies plus supplemental gas capacities, as well as, (c) the pipeline transport capacity to move these supplies to PGW, appear adequate to meet PGW's projected demand on a day of maximum demand (a "design peak day"), in an hour of maximum demand (a "design peak hour"), and during a year of maximum demand (a "design peak year").

The following are significant changes or events that have occurred since the issuance of our prior Report dated January 26, 2007 ("2007 Report"), and are addressed more fully in the text of this Report:

1. PGW paid off the City Loan of \$45 million in 2008 as assumed in the 2007 Report.
2. PGW received a \$25 million permanent rate increase out of the \$100 million requested effective September 20, 2007, and a \$60 million extraordinary rate increase effective January 1, 2009, that is assumed to be permanent in this Report.
3. The 2007 Report assumed that internally generated funds would be sufficient (based on a \$100 million rate increase) to defer the need for new bond proceeds for capital improvements beyond 2012. This Report assumes that PGW will issue Ninth Series Bonds in 2010 in the amount of \$150 million.
4. PGW's five-year average collection factor has improved to 95.7 percent (2004-2008) from 93.6 percent (2002-2006).
5. Long-term debt service will increase by approximately \$20 million over the 2010-2014 period.
6. PGW's fiscal year 2009 estimated capital expenditures of \$50.5 million represent an 18.3 percent decrease from 2008 levels reflecting a management decision to implement a contingency plan to reduce spending. This action was necessary given the dislocation in the financial markets. Spending for the forecast period beyond 2009 assumes that capital spending will resume at previously budgeted levels.
7. PGW did not install the Phase 2 LNG facilities as originally budgeted for 2008 and 2009. PGW has determined that it is capable of meeting its near term LNG liquefaction needs with the Phase 1 LNG facilities already in service.

APPENDIX C

CERTAIN INFORMATION CONCERNING THE CITY OF PHILADELPHIA

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APPENDIX C

THE GOVERNMENT OF THE CITY OF PHILADELPHIA

General

The City of Philadelphia (the "City") was incorporated in 1789 by an Act of the General Assembly of the Commonwealth of Pennsylvania (the "Commonwealth") (predecessors of the City under charters granted by William Penn in his capacity as proprietor of the colony of Pennsylvania may date to as early as 1684). In 1854, the General Assembly, by an act commonly referred to as the Consolidation Act, made the City's boundaries coterminous with the boundaries of Philadelphia County (the same boundaries that exist today) (the "County"), abolished all governments within these boundaries other than the City and the County and consolidated the legislative functions of the City and the County. Article 9, Section 13 of the Pennsylvania Constitution abolished all county offices in the City and provides that the City performs all functions of county government and that laws applicable to counties apply to the City.

Since 1952, the City has been governed under a Home Rule Charter authorized by the General Assembly (First Class City Home Rule Act, Act of April 21, 1949, P.L. 665, Section 17) and adopted by the voters of the City. The Home Rule Charter, as amended and supplemented to this date, provides, among other things, for the election, organization, powers and duties of the legislative branch (the "City Council"); the election, organization, powers and duties of the executive and administrative branch; and the basic rules governing the City's fiscal and budgetary matters, contracts, procurement, property and records. The Home Rule Charter, as amended, now also provides for the governance of The School District of Philadelphia (the "School District") as a home rule school district. Certain other constitutional provisions and Commonwealth statutes continue to govern various aspects of the City's affairs, notwithstanding the broad grant of powers of local self-government in relation to municipal functions set forth in the First Class City Home Rule Act.

Under the Home Rule Charter, as currently in effect, there are two principal governmental entities in Philadelphia: (1) the City, which performs ordinary municipal functions as well as traditional county functions; and (2) the School District, which has boundaries coterminous with the City and has responsibility for all public primary and secondary education.

The court system in Philadelphia, consisting of Common Pleas, Municipal and Traffic Courts, is part of the Commonwealth of Pennsylvania judicial system. Although judges are paid by the Commonwealth, most other court costs are paid by the City, with partial reimbursement from the Commonwealth.

Elected and Appointed Officials

The Mayor is elected for a term of four years and is eligible to succeed himself for one term. Each of the seventeen members of the City Council is also elected for a four-year term which runs concurrently with that of the Mayor. There is no limitation on the number of terms that may be served by members of the City Council. Of the members of the City Council, ten are elected from districts and seven are elected at-large, with a minimum of two of the seven representing a party or parties other than the majority party. The District Attorney and the City Controller are elected at the mid-point of the terms of the Mayor and City Council.

The City Controller's responsibilities derive from the Home Rule Charter, various City ordinances and state and federal statutes, and contractual arrangements with auditees. The City Controller must follow GAGAS, Generally Accepted Government Auditing Standards established by the federal Government Accountability Office (formerly known as the General Accounting Office), and GAAS, Generally Accepted Auditing Standards promulgated by the American Institute of Certified Public

Accountants. As of March 1, 2009, the Office of the City Controller had 120 employees, including 76 auditors, 29 of whom were certified public accountants.

The City Controller post-audits and reports on the City's combined financial statements, federal assistance received by the City, the performance of City departments and the finances of the School District. The City Controller also conducts a pre-audit program of expenditure documents required to be submitted for approval, such as invoices, payment vouchers, purchase orders and contracts. Documents are selected for audit by category and statistical basis. The Pre-Audit Division verifies that expenditures are authorized and accurate in accordance with the Home Rule Charter and other pertinent legal and contractual requirements before any moneys are paid by the City Treasurer. The Pre-Audit Technical Unit, consisting of auditing and engineering staff, inspects and audits capital project design, construction and related expenditures. Other responsibilities of the City Controller include investigation of allegations of fraud, preparation of economic reports, certification of the City's debt capacity and the capital nature and useful life of the capital projects, and opining to the Pennsylvania Intergovernmental Cooperation Authority on the reasonableness of the assumptions and estimates in the City's five-year financial plans.

The principal officers of the City's government appointed by the Mayor are the Managing Director of the City (the "Managing Director"), the Director of Finance of the City (the "Director of Finance"), the City Solicitor (the "City Solicitor"), and the Deputy Mayor for Planning and Economic Development and Director of Commerce (the "Director of Commerce"). These officials, together with the Mayor and the other members of the Mayor's cabinet, constitute the major policy-making group in the City's government.

The Managing Director is responsible for supervising the operating departments and agencies of the City that render the City's various municipal services. The Director of Commerce is charged with the responsibility of promoting and developing commerce and industry.

The City Solicitor is head of the Law Department and acts as legal advisor to the Mayor, the City Council, and all of the agencies of the City government. The City Solicitor is also responsible for all of the City's contracts and bonds, for assisting City Council, the Mayor, and City agencies in the preparation of ordinances for introduction in City Council, and for the conduct of litigation involving the City.

The Director of Finance is the chief financial and budget officer of the City and is selected from three names submitted to the Mayor by a Finance Panel. The Director of Finance is responsible for the financial functions of the City including development of the annual operating budget, the capital budget, and capital program; the City's program for temporary and long-term borrowing; supervision of the operating budget's execution; the collection of revenues through the Department of Revenue; and the oversight of pension administration as Chairperson of the Board of Pensions and Retirement. The Director of Finance is also responsible for the appointment and supervision of the City Treasurer, whose office serves as the disbursing agent for the distribution of checks and electronic payments from the City Treasury and the management of cash resources.

The following are brief biographies of Mayor Nutter, his chief of staff, his cabinet and the City Controller:

Michael A. Nutter, Mayor, was sworn in as Philadelphia's 98th Mayor on January 7, 2008. He won the Democratic nomination in a five-way primary election. Elected to Philadelphia City Council in 1992, the Mayor represented the City's Fourth Councilmanic District for nearly fifteen years. During his time in Council, he engineered groundbreaking ethics reform legislation, led successful efforts to pass a citywide smoking ban, worked to lower taxes for Philadelphians and to reform the City's tax structure, and labored to increase the number of Philadelphia police officers patrolling the streets and to create a Police Advisory Board to provide a forum for discussion between citizens and the Police Department.

Mayor Nutter received his B.A. from the Wharton School of Business at the University of Pennsylvania in 1979.

Clarence D. Armbrister, Chief of Staff, was appointed on January 7, 2008. Prior to his appointment, Mr. Armbrister was Executive Vice President and Chief Operating Officer of Temple University. Mr. Armbrister began his career at Temple in April 2003 when he was named Senior Vice President. He was elevated to the position of Executive Vice President and Chief Operating Officer in January 2007. Prior to joining Temple, Mr. Armbrister was a Director in the UBS Financial Services Municipal Securities Group in Philadelphia and had served as Managing Director of the School District of Philadelphia, Treasurer of the City of Philadelphia, and was a partner in the law firm of Saul Ewing LLP. Mr. Armbrister holds a J.D. from the University of Michigan Law School and a B.A. degree in political science and economics from the University of Pennsylvania.

Camille Cates Barnett, Ph.D., Managing Director, was appointed in January 2008. Dr. Barnett is a professional manager, having worked in the cities of Sunnyvale, California, Dallas, Houston and Austin, Texas and Washington, DC. Prior to her appointment as Managing Director, Dr. Barnett served as an advisor and consultant to public sector clients to improve governance, with the Public Strategies Group, and Public Financial Management. Dr. Barnett encourages collaborative approaches to growth, disaster recovery, economic strength, environmental sustainability and other issues that cross governmental jurisdictions and has written numerous articles on emerging networks in governing and transforming the public sector. Dr. Barnett has a Ph.D. in public administration from the University of Southern California and has taught at the University of Southern California and the University of Texas at Austin.

Rob Dubow, Director of Finance, was appointed on January 7, 2008. The Director of Finance is the Chief Financial Officer of the City. Prior to his appointment, Mr. Dubow was the Executive Director of the Pennsylvania Intergovernmental Cooperation Authority (PICA), which is a financial oversight board established by the Commonwealth in 1991. He served as Chief Financial Officer of the Commonwealth of Pennsylvania from 2004 to 2005. From 2000 to 2004, he served as Budget Director for the City of Philadelphia, where he had also been a Deputy Budget Director and Assistant Budget Director. Before working for the City, Mr. Dubow was a Senior Financial Analyst for PICA. He also served as a Research Associate at the Pennsylvania Economy League and was a reporter for the Associated Press. Mr. Dubow earned a Masters in Business Administration degree from the Wharton School of Business and a Bachelor of Arts degree from the University of Pennsylvania.

Shelley R. Smith, City Solicitor, was appointed on January 7, 2008. The City Solicitor of the City of Philadelphia is the City's chief legal officer, the head of the City's Law Department, and a member of the Mayor's Cabinet. Prior to her appointment, Ms. Smith was the Associate General Counsel for Regulatory Affairs - East at Exelon Corporation. Prior to joining Exelon, Ms. Smith was with Ballard Spahr as Of Counsel in the Labor, Employment & Immigration Group. Ms. Smith also spent more than a decade with the City of Philadelphia's Law Department where she was trial attorney and supervisor in the Civil Rights Unit, Chief of the Affirmative Litigation and Labor and Employment Units, and, finally, Chair of the Corporate and Tax Group.

Rina Cutler, Deputy Mayor for Transportation and Utilities was appointed in January 2008. Ms. Cutler advises and assists the Mayor on and coordinates all policies, planning and initiatives relating to transportation, waste management, infrastructure and public utilities. She collaborates with the Managing Director in coordinating the development of policy and the allocation of resources for the departments of Streets, Water and Aviation. Ms. Cutler also serves as the Mayor's representative working with SEPTA, PGW, the Parking Authority and other organizations. Ms. Cutler previously served as Deputy Secretary of Administration for the Pennsylvania Department of Transportation in Harrisburg. Her experience includes time as Executive Director of the Philadelphia Parking Authority and Transportation Commissioner for the Transportation Department in Boston, Massachusetts, as well as the Executive Director of Parking and Traffic in San Francisco.

Everett A. Gillison, Deputy Mayor for Public Safety, was appointed on January 7, 2008. Mr. Gillison advises and assists the Mayor on all policies, planning and initiatives designed to promote the public safety and prevent crime. He will lead a collaborative effort with the Police Department and other agencies in the criminal justice system to provide a more holistic approach to the prevention and the enhancement of public safety throughout the City. Mr. Gillison previously served as a Senior Trial Lawyer for the Defender Association of Philadelphia where he worked for more than 30 years. Other experience also includes his time on the Board of Summerbridge of Greater Philadelphia, as well as a member of the American College of Trial Lawyers.

Alan Greenberger, Acting Deputy Mayor for Planning and Economic Development and Director of Commerce, was appointed on June 30, 2009. Mr. Greenberger is also the Executive Director of the City Planning Commission where he chairs the Philadelphia Zoning Code Commission. A native of New York City, he moved to Philadelphia in 1974 to join Mitchell/Giurgola Architects. He became an associate of Mitchell/Giurgola in 1980, moved to Australia to join Mitchell/Giurgola & Thorpe, architects for the Australian Parliament House, and rejoined Mitchell/Giurgola in Philadelphia as a partner in 1986. In 1990, he and several partners at M/G changed the name of the firm to MGA Partners, where he practiced through 2008. He has been the lead designer on numerous MGA projects including the Department of State National Foreign Affairs Training Center, the West Chester University School of Music and Performing Arts Center, America on Wheels Museum, Lehigh University Linderman Library Renovation, Mann Center for the Performing Arts Master Plan and Pavilions, and the Centennial District Master Plan.

Dr. Donald F. Schwarz, Deputy Mayor for Health and Opportunity and Health Commissioner, was appointed in January 2008. Prior to entering government service, Dr. Schwarz was Vice Chairman of the Department of Pediatrics of the University of Pennsylvania School of Medicine and Craig-Dalsimer Division Chief for Adolescent Medicine at The Children's Hospital of Philadelphia. He was also Mary D. Ames Associate Professor of Child Advocacy in the Department of Pediatrics of the University of Pennsylvania School of Medicine at The Children's Hospital of Philadelphia. Dr. Schwarz is board certified in pediatrics and adolescent medicine. Dr. Schwarz was, for 22 years, an active researcher in the areas of adolescent risk behaviors and early childhood development.

Pauline Abernathy, Senior Advisor to the Mayor, was appointed in January 2008. Ms. Abernathy was previously Deputy Director of Health and Human Services Policy at The Pew Charitable Trusts where she initiated, designed and managed national initiatives related to child welfare policy, underage drinking prevention, retirement savings and student debt policy. Prior to working at Pew, Ms. Abernathy worked at The White House National Economic Council and Domestic Policy Council and at the U.S. Department of Education and as a legislative assistant for a U.S. Senator. She has a bachelor's degree in Art History from Yale University and a Masters in Public Policy from Harvard University's Kennedy School of Government.

Julia Chapman, Legislative Affairs Director, was appointed in January 2008. Her role is to manage state and local legislation important to the City and to oversee government relations with state and local elected officials. Prior to her appointment, Ms. Chapman worked for Michael A. Nutter when he was a member of Philadelphia City Council, serving as his Chief of Staff for fifteen years. She also worked for State Representative Dwight Evans in the capacity as Legal Counsel to the House Appropriations Democratic Committee. In addition, Ms. Chapman worked for former Mayor Wilson Goode, Sr. in the Office of Policy & Legislative Affairs. Ms. Chapman is an attorney. She is a graduate of Rutgers University School of Law in Camden, NJ and received her Bachelor of Science degree in Economics at the University of Illinois.

Michael DiBerardinis, Commissioner of Parks and Recreation and Special Advisor to the Mayor on Libraries, was appointed in April 2009. Prior to his appointment, Mr. DiBerardinis served as Secretary

of Pennsylvania's Department of Conservation and Natural Resources, overseeing 117 state parks, 26 forest districts, and 7 regional community offices. The department, under Secretary DiBerardinis, managed 2.5 million acres of public land and administered grant programs that annually dispensed over \$80 million dollars. Prior to being named as Secretary for DCNR, Mr. DiBerardinis served as Executive Director of the Campaign for Working Families. Before working with the Campaign, Mr. DiBerardinis was the Vice President of Programs for the William Penn Foundation. Mr. DiBerardinis' long history of public administration includes serving as the Commissioner of the Philadelphia Department of Recreation from 1992 to 2000. Mr. DiBerardinis earned a Bachelor of Arts degree in Political Science from St. Joseph's University.

Patricia Enright, Director of Communications and Deputy Chief of Staff, was appointed on January 7, 2008. Prior to joining the Administration, Ms. Enright served as Executive Director of the Mayor's Transition Team as well as Campaign Manager of the Mayor's campaign during the general election. Ms. Enright was Campaign Manager for Governor Ed Rendell's re-election campaign. Prior to the campaign, she was appointed by Rendell as Director of the Office of Public Liaison. In addition to several national campaign positions, Ms. Enright served as press secretary for Sen. Harkin and spent 8 years in the Clinton Administration including appointments as Assistant Secretary for Public Affairs and Senior Advisor to the Secretary at the Department of Housing and Urban Development.

Allan R. Frank, Chief Technology Officer, was appointed on September 2, 2008. Mr. Frank's background includes co-founder of a publicly-traded Consulting and Research company, Senior Partner in a Global Professional Services Firm, and extensive experience in setting strategy, implementing and operating core business processes, product development, marketing, internal IT management, and software development. He is also recognized as an expert in the areas of information delivery, decision support and knowledge management. Mr. Frank holds a Bachelor of Science in Accounting, Master of Science in Computer Science, and Master of Business Administration in Finance from Lehigh University and he is also a non-practicing Certified Public Accountant.

Teresa A. Gillen, Senior Advisor to the Mayor for Economic Development, was appointed on January 7, 2008. Prior to joining the Administration, Terry Gillen was the Chief Executive Officer of the Collegiate Consortium for Workforce and Economic Development. She also has served as the Director of Policy for the Pennsylvania Department of Community and Economic Development in Harrisburg under the Rendell Administration and as Chief Operating Office of National Community Capital Association – a national community development financing organization. From 1995 to 1998, Ms. Gillen was Senior Vice President of the Philadelphia Industrial Development Corporation ("PIDC"), which is the City's leading economic development agency. At PIDC, Ms. Gillen managed the Office of Defense Conversion, which oversees the reuse of the City's former defense facilities – including the former Navy Yard. In 1992, Ms. Gillen was appointed by Mayor Rendell as Deputy Commerce Director for the City of Philadelphia.

Melanie Johnson, City Representative, was appointed on January 7, 2008. The City Representative will promote and give wide publicity to items of interest reflecting the accomplishments of the City and its inhabitants and the growth and development of its commerce and industry. Ms. Johnson had served as the Director of Communications for the Nutter for Mayor Campaign since August of 2006. Prior experience includes her time as Press Secretary to Former Mayor Ed Rendell, Director of Communication for Multicultural Affairs Congress at Philadelphia Convention and Visitors Bureau, and Senior Account Executive at Beach Advertising.

Amy L. Kurland, Inspector General, was appointed on January 7, 2008. The Inspector General investigates fraud, corruption, and abuse in all City departments, agencies, commissions and boards, as well as in contracts with individuals or companies receiving City funds and doing business with the City. Prior to her appointment, Ms. Kurland was an Assistant United States Attorney and Senior Litigation Counsel for the Eastern District of Pennsylvania for 24 years, specializing in public corruption and white

collar fraud prosecutions. She is also an Adjunct Professor of Trial Advocacy at Rutgers University. Ms. Kurland received her B.A. from Reed College and her J.D. from Rutgers University.

Joan L. Markman is the City's first Chief Integrity Officer, and took office with the Nutter administration on January 7, 2008. Before that, Ms. Markman spent 20 years as a federal prosecutor in the United States Attorney's Office in Philadelphia, where she focused on the investigation and prosecution of fraud and public corruption cases. Ms. Markman has also served as an adjunct lecturer in Trial Advocacy at the University of Pennsylvania Law School, as an associate attorney in the firm Dechert Price and Rhoads, and as an Assistant District Attorney in Philadelphia. She is a 1979 graduate of Wesleyan University and a 1983 graduate of the University of Virginia School of Law.

Lori A. Shorr, Ph.D., Chief Education Officer, was appointed in January 2008. Dr. Shorr previously served in Pennsylvania's Rendell administration as Special Assistant to the Secretary of Education for the Commonwealth of Pennsylvania and in that capacity led the administration's work in aligning academic expectations between high school and post-secondary education. Her work at the state included dual enrollment, transfer and articulation, the Governor's Commission on College and Career Success, and other initiatives. Dr. Shorr was previously Vice President of Policy and Planning at Philadelphia Youth Network, a nationally-recognized non-profit which manages \$24 million of investments from government, industry and the foundations community to effect systems change and serve over 10,000 disenfranchised Philadelphia youth through direct programming. Before her service at the Commonwealth, she was in the Provost's and President's offices at Temple University where her work concentrated on local academic alignment issues. At Temple Dr. Shorr also was affiliated faculty in both Women's Studies and Urban Education departments, lecturing on both feminist film theory and educational equity. She continues to publish and speak nationally in the areas of education, equity, and public policy. Dr. Shorr earned her Ph.D. from the University of Pittsburgh in Critical and Cultural Studies.

Gary P. Steuer, Chief Cultural Officer was appointed on October 1, 2008. Prior to his appointment, Mr. Steuer served as Vice President for Private Sector Affairs at Americans for the Arts, the national service organization for local arts agencies. Mr. Steuer also had the additional title of Executive Director of the Arts & Business Council of Americans for the Arts. Mr. Steuer has also served as Executive Director of National Actors Theatre on Broadway, Director of the Capital Funding Initiative of the New York State Council on the Arts, Managing Director of the Vineyard Theatre, Director of Programs for the Alliance of Resident Theatres/New York, an aide to a United States Congressman, and a commercial theatre producer.

David G. Wilson, Deputy Managing Director, was appointed in August 2008. Prior to his appointment Mr. Wilson was the Executive Vice President of the Private Industry Council of Milwaukee County, the workforce development board for the local area. Mr. Wilson served as Director of Parks and Public Infrastructure and Regional Manager during a 13 year career in Milwaukee County Government. Mr. Wilson holds a Masters in Business Administration from Marquette University and a Bachelor of Arts degree from Bethany College.

Alan L. Butkovitz is serving his second term as Philadelphia's elected City Controller, an office independent of the Mayor. Prior to his election as City Controller, Mr. Butkovitz served 15 years in the Pennsylvania House of Representatives, representing the 174th Legislative District in Northeast Philadelphia where he served on the Veterans Affairs and Urban Affairs Committees as well as committees on Aging and Older Adults, Children and Youth and Insurance. Mr. Butkovitz was widely praised for leading the bi-partisan investigation into violence in Philadelphia public schools. He authored legislation creating the Office of the Safe Schools Advocate, the first of its kind in the nation. Mr. Butkovitz was born and raised in Philadelphia. He is an attorney and received his Juris Doctor degree from Temple University Law School in 1976 and a bachelor's degree from Temple University in 1973.

Government Services

Municipal services provided by the City include: police and fire protection; health care; certain welfare programs; construction and maintenance of local streets, highways, and bridges; trash collection, disposal and recycling; provision for recreational programs and facilities; maintenance and operation of the water and wastewater systems (the "Water and Wastewater Systems"); the acquisition and maintenance of City real and personal property, including vehicles; maintenance of building codes and regulation of licenses and permits; maintenance of records; collection of taxes and revenues; purchase of supplies and equipment; construction and maintenance of airport facilities; and maintenance of a prison system. The City owns the assets that comprise the Philadelphia Gas Works ("PGW" or the "Gas Works"). PGW serves residential, commercial, and industrial customers in the City. PGW is operated by Philadelphia Facilities Management Corporation ("PFMC"), a non-profit corporation specifically organized to manage and operate the PGW for the benefit of the City.

Local Government Agencies

There are a number of significant governmental authorities and quasi-governmental non-profit corporations that also provide services within the City.

The Southeastern Pennsylvania Transportation Authority ("SEPTA"), which is supported by transit revenues and Federal, Commonwealth, and local funds, is responsible for developing and operating a comprehensive and coordinated public transportation system in the southeastern Pennsylvania region.

The Philadelphia Parking Authority is responsible for the construction and operation of parking facilities in the City and at the Philadelphia International Airport and, by contract with the City, for enforcement of on-street parking regulations.

The Philadelphia Municipal Authority (formerly The Equipment Leasing Authority of Philadelphia) ("PMA") was originally established for the purpose of buying equipment and vehicles to be leased to the City. PMA's powers have been expanded to include, without limitation, the construction and leasing of municipal solid waste disposal facilities, correctional facilities, and other municipal buildings.

The Redevelopment Authority of the City of Philadelphia (the "Redevelopment Authority") and the Philadelphia Housing Authority develop and/or administer low and moderate income rental units and housing in the City. The Redevelopment Authority, supported by Federal funds through the City's Community Development Block Grant Fund and by Commonwealth and local funds, is responsible for the redevelopment of the City's blighted areas.

The Hospitals and Higher Education Facilities Authority of Philadelphia (the "Hospitals Authority") assists non-profit hospitals by financing hospital construction projects. The City does not own or operate any hospitals. The powers of the Hospitals Authority have been expanded to permit the financing of construction of buildings and facilities for certain colleges and universities and other health care facilities and nursing homes.

The Philadelphia Industrial Development Corporation ("PIDC") and its affiliate, the Philadelphia Authority for Industrial Development ("PAID"), coordinate the City's efforts to maintain an attractive business environment and to attract new businesses to the City and retain existing ones.

The Pennsylvania Convention Center Authority (the "Convention Center Authority") constructed and maintains, manages, and operates the Pennsylvania Convention Center, which opened on June 25, 1993. The Convention Center Authority is currently undertaking an expansion of the Pennsylvania Convention Center.

School District

The School District was established by the Educational Supplement to the City's Home Rule Charter to provide free public education to the City's residents. Under the Home Rule Charter, its board is appointed by the Mayor and must submit a lump sum statement of expenditures to the City annually. Such statement is used by City Council in making its determination to authorize the levy of taxes on behalf of the School District. Certain financial information regarding the School District is included in the City's Comprehensive Annual Financial Report. It has no independent taxing powers and may levy only the taxes authorized on its behalf by the City and the Commonwealth. Under the Home Rule Charter, the School District is managed by a nine-member Board of Education appointed by the Mayor from a list supplied by an Educational Nominating Panel that is chosen by the Mayor. In some matters, including the incurrence of short-term and long-term debt, both the City and the School District are governed primarily by the laws of the Commonwealth. The School District is a separate political subdivision of the Commonwealth and the City has no property interest in or claim on any revenues or property of the School District.

The School District was declared distressed by the Secretary of Education of the Commonwealth pursuant to Section 691(c) of the Public School Code of 1949, as amended (the "School Code"), effective December 22, 2001. During a period of distress under Section 691(c) of the School Code, all of the powers and duties of the Board of Education granted under the School Code or any other law are suspended and all of such powers and duties are vested in the School Reform Commission (the "School Reform Commission") provided for under the School Code. The School Reform Commission is responsible for the operation, management and educational program of the School District during such period. It is also responsible for financial matters related to the School District. The School Code provides that the members of the Board of Education continue to serve during the time the School District is governed by the School Reform Commission, and that the establishment of the School Reform Commission shall not interfere with the regular selection of the members of the Board of Education. During the tenure of the School Reform Commission, the Board of Education will perform those duties delegated to it by the School Reform Commission. As of the date hereof, the School Reform Commission has not delegated any duties to the Board.

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

General

The Pennsylvania Intergovernmental Cooperation Authority ("PICA") was created on June 5, 1991 by the Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class (the "PICA Act"). PICA was established to provide financial assistance to cities of the first class. The City is the only city of the first class in the Commonwealth. The PICA Act provides that, upon request by the City to PICA for financial assistance and for so long as any bonds issued by PICA remain outstanding, PICA shall have certain financial and oversight functions. Under the PICA Act, PICA no longer has the authority to issue bonds for new money purposes, but may refund bonds previously issued by it. PICA has the power, in its oversight capacity, to exercise certain advisory and review procedures with respect to the City's financial affairs, including the power to review and approve five-year financial plans prepared at least annually by the City, and to certify non-compliance by the City with the then-existing five-year plan adopted by the City pursuant to the PICA Act. PICA is also required to certify non-compliance if, among other things, no approved five-year plan is in place; and PICA is required to certify non-compliance with an approved five-year plan if the City has failed to file mandatory revisions to an approved five-year plan. Under the PICA Act, any such certification of non-compliance would require the Secretary of the Budget of the Commonwealth to withhold payments due to the City from the Commonwealth or any of its agencies (including, with certain exceptions, all grants, loans, entitlements and payment of the portion of the PICA Tax, hereinafter described, otherwise payable to the City). See "Source of Payment of PICA Bonds" below.

On June 16, 1992, PICA, at the request of the City, issued \$474,555,000 Special Tax Revenue Bonds (City of Philadelphia Funding Program), Series of 1992 (the "1992 PICA Bonds"). The proceeds of the 1992 PICA Bonds were used (i) to make grants to the City to fund the Fiscal Year 1991 General Fund cumulative deficit (\$153.5 million) and the then-projected Fiscal Year 1992 General Fund deficit (\$71.4 million); (ii) to make grants to the City to pay the costs of certain capital projects to be undertaken by the City; and (iii) to make a grant to the City to provide it with financial assistance to enhance productivity in the operation of City government. It had been anticipated that the proceeds of the 1992 PICA Bonds would also be used to fund the City's projected Fiscal Year 1993 General Fund deficit; however, because no deficit occurred, a grant from PICA for this purpose was not required. These proceeds, in the amount equal to \$23.5 million, were instead used to provide funds for other City purposes.

On July 29, 1993, PICA, at the request of the City, issued \$643,430,000 Special Tax Revenue Bonds (City of Philadelphia Funding Program), Series of 1993 (the "1993 PICA Bonds"), the proceeds of which were used to make grants to the City to pay the costs of certain capital projects to be undertaken by the City and to make a grant to the City to provide for the defeasance of certain outstanding general obligation bonds of the City in the aggregate amount of \$336,225,000.

On September 14, 1993, PICA issued \$178,675,000 Special Tax Revenue Refunding Bonds (City of Philadelphia Funding Program), Series of 1993A (the "1993A PICA Bonds"), the proceeds of which were used to advance refund \$136,670,000 principal amount of the 1992 PICA Bonds.

On December 15, 1994, PICA, at the request of the City, issued \$122,020,000 Special Tax Revenue Bonds (City of Philadelphia Funding Program) Series of 1994 (the "1994 PICA Bonds"), the proceeds of which were used to make grants to the City to pay the costs of certain capital projects to be undertaken by the City.

On May 30, 1996, PICA issued \$343,030,000 Special Tax Revenue Refunding Bonds (City of Philadelphia Funding Program), Series of 1996 (the "1996 PICA Bonds"), the proceeds of which were used to advance refund \$304,160,000 principal amount of the 1992 PICA Bonds and \$120,180,000 principal amount of the 1994 PICA Bonds.

On April 15, 1999, PICA issued \$610,005,000 Special Tax Revenue Refunding Bonds (City of Philadelphia Funding Program), Series of 1999 (the "1999 PICA Bonds"), the proceeds of which were used to advance refund \$610,730,000 principal amount of the 1993 PICA Bonds.

On June 16, 2003, PICA issued \$165,550,000 Special Tax Revenue Refunding Bonds (City of Philadelphia Funding Program), Series of 2003, the proceeds of which were used to refund \$163,185,000 principal amount of the 1993A PICA Bonds.

On June 15, 2006, PICA issued \$89,950,000 Special Tax Revenue Refunding Bonds (City of Philadelphia Funding Program) Series of 2006 (Auction Rate Securities), the proceeds of which were used to refund \$89,960,000 principal amount of the 1996 PICA Bonds.

On May 15, 2008, PICA issued \$133,740,000 Series 2008A and \$80,825,000 Series 2008B Special Tax Revenue Refunding Bonds (City of Philadelphia Funding Program). The proceeds of the Series 2008A bonds were used to refund \$142,085,000 principal amount of the 2003 PICA Bonds; the proceeds of the Series 2008B Bonds together with other available funds of the Authority were used to refund \$85,500,000 principal amount of the 2006 PICA Bonds.

As of the close of business on June 30, 2008, the principal amount of PICA bonds outstanding was \$572,095,000.

On June 15, 2009, PICA issued \$354,925,000 Special Tax Revenue Refunding Bonds (City of Philadelphia Funding Program), Series of 2009, the proceeds of which were used to refund the outstanding 1999 PICA Bonds and pay the costs of terminating an associated swap.

Source of Payment of PICA Bonds

The PICA Act authorized the City to impose a tax for the sole and exclusive purposes of PICA. In connection with the adoption of the Fiscal Year 1992 budget and the adoption of the first Five-Year Plan, the City reduced the wage, earnings, and net profits tax on City residents by 1.5% and enacted a PICA Tax of 1.5% tax on wages, earnings and net profits of City residents (the "PICA Tax"). Proceeds of the PICA Tax are solely the property of PICA. The PICA Tax, collected by the City's Department of Revenue, is deposited in the "Pennsylvania Intergovernmental Cooperation Authority Tax Fund" (the "PICA Tax Fund") of which the State Treasurer is custodian. The PICA Tax Fund is not subject to appropriation by City Council or the General Assembly of the Commonwealth.

The PICA Act authorizes PICA to pledge the PICA Tax to secure its bonds and prohibits the Commonwealth and the City from repealing the PICA Tax or reducing the rate of the PICA Tax while any bonds secured by the PICA Tax are outstanding.

The PICA Act requires that proceeds of the PICA Tax in excess of amounts required for (i) debt service, (ii) replenishment of any debt service reserve fund for bonds issued by PICA, and (iii) certain PICA operating expenses, be deposited in a trust fund established pursuant to the PICA Act exclusively for the benefit of the City and designated the "City Account." Amounts in the City Account are required to be remitted to the City not less often than monthly, but are subject to withholding if PICA certifies the City's non-compliance with the then-current five-year plan.

The PICA Act establishes a "Bond Payment Account" for PICA as a trust fund for the benefit of PICA bondholders and authorizes the creation of a debt service reserve fund for bonds issued by PICA. Since PICA has issued bonds secured by the PICA Tax, the PICA Act requires that the State Treasurer pay the proceeds of the PICA Tax held in the PICA Tax Fund directly to the Bond Payment Account, the debt service reserve fund created for bonds issued by PICA and the City Account.

The total amount of PICA Tax remitted to PICA by the State Treasurer (which is net of the costs of the State Treasurer in collecting the PICA Tax) for each of the Fiscal Years 1999 through 2008, the current estimate for Fiscal Year 2009 and the budgeted amount for Fiscal Year 2010, are set forth below:

<u>Year</u>	<u>Amount</u>
1999	\$ 245.8 million
2000	256.6 million
2001	273.6 million
2002	278.0 million
2003	281.5 million
2004	285.0 million
2005	300.2 million
2006	309.9 million
2007	327.9 million
2008	341.8 million
2009 (Estimate)	352.1 million
2010 (Adopted Budget)	360.9 million

PICA bonds are payable from the PICA revenues, including the PICA Tax, pledged to secure PICA's bonds, the Bond Payment Account and any debt service reserve fund established for such bonds and have no claim on any revenues of the Commonwealth or the City.

Five-Year Plans of the City

One of the conditions precedent to the issuance of bonds by PICA was the development by the City and approval by PICA of a five-year financial plan. The original five-year plan, which covered Fiscal Years 1992 through 1996, was prepared by the Mayor, approved by City Council on April 29, 1992 and by PICA on May 18, 1992. In each subsequent year, the City updated the previous year's five-year plan, each of which was adopted by City Council, signed by the Mayor and approved by PICA.

The Mayor presented the Seventeenth Five-Year Plan (the "Seventeenth Five-Year Plan") to City Council on February 14, 2008. City Council approved the Fiscal Year 2009 Budget and the revised Fiscal Years 2009-2013 Five Year Plan on May 22, 2008. The Mayor signed the budget into law on May 22, 2008. The Seventeenth Five-Year Plan was approved by PICA on June 17, 2008.

The Mayor presented the Eighteenth Five-Year Plan (the "Eighteenth Five-Year Plan") to City Council on March 19, 2009. City Council began its review of the Fiscal Year 2010 Operating Budget and Eighteenth Five Year Plan on March 25, 2009. City Council approved the Fiscal Year 2010 Budget on May 21, 2009, and the Mayor signed it on May 27, 2009. The City submitted the revised Eighteenth Five-Year Plan to PICA in June 2009 for PICA's approval. PICA's Board approved the City's Eighteenth Five-Year Plan on July 21, 2009 with several conditions, including that the Eighteenth Five-Year Plan will be deemed disapproved if (i) the General Assembly of the Commonwealth fails to enact legislation authorizing the City to increase the City's sales tax and change the City's pension fund payments by August 15, 2009 or such earlier date that the General Assembly recesses for the summer, or (ii) the City fails to provide PICA by August 20, 2009 with a list of items that could generate at least \$25 million in additional savings or recurring revenues in each year of the Eighteenth Five-Year Plan. If either of the conditions referred to above are not met, the City would be required to submit a revised Eighteenth Five Year Plan within 15 days of the deemed disapproval. The City is preparing the information required in clause (ii) and anticipates that it will be submitted to PICA by August 20, 2009. The City is currently developing alternate budget scenarios and revisions to the Eighteenth Five-Year Plan to submit to PICA on a timely basis in the event the sales tax and pension change legislation is not enacted. See "DISCUSSION OF FINANCIAL OPERATIONS - Effect of Economic Crisis on City Budget" and "- Fiscal Year 2010 Adopted Budget", and "PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY-Five Year Plans of the City". For a discussion of the effect of the City failing to maintain or comply with an approved five-year plan, see "General" above.

CITY FINANCIAL PROCEDURES

Except as otherwise noted, the financial statements, tables, statistics, and other information shown below have been prepared by the Office of the Director of Finance and can be reconciled to the financial statements in the City's Comprehensive Annual Financial Report and Notes therein.

Independent Audit and Opinion of the City Controller

The City Controller has examined and expressed opinions on the basic financial statements of the City of Philadelphia contained in the City's Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2008 (the "Fiscal Year 2008 Comprehensive Annual Financial Report").

The City Controller has not participated in the preparation of this Official Statement nor in the preparation of the budget estimates and projections and cash flow statements and forecasts set forth in various tables contained in this Official Statement. Consequently, the City Controller expresses no opinion with respect to any of the data contained in this Official Statement other than what is contained in the Fiscal Year 2008 Comprehensive Annual Financial Report.

Principal Operations

The major operations of the City are conducted through the General Fund. In addition to the General Fund, operations of the City are conducted through two other major governmental funds and 12 minor governmental funds. The two major governmental funds and three of the minor governmental funds are financed solely through grants from the Commonwealth and Federal government. The City's Debt Service Fund and Capital Projects Fund are also included with the minor governmental funds.

Fund Accounting

Funds are groupings of activities that enable the City to maintain control over resources that have been segregated for particular purposes or objectives. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds. The governmental funds are used to account for the financial activity of the City's basic services, such as: general government; economic and neighborhood development; public health, welfare and safety; cultural and recreational; and streets, highways and sanitation. The funds' financial activities focus on a short-term view of the inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the fiscal year. The financial information presented for the governmental funds is useful in evaluating the City's short term financing requirements.

The City maintains twenty-three individual governmental funds. The City's Comprehensive Annual Financial Report (including for the City's fiscal year ended June 30, 2008), presents data separately for the General Fund, Grants Revenue Fund and Health Choices Behavioral Health Fund, which are considered to be major funds. Data for the remaining eighteen funds are combined into a single aggregated presentation.

Proprietary Funds. The proprietary funds are used to account for the financial activity of the City's operations for which customers are charged a user fee; they provide both a long and short-term view of financial information. The City maintains three enterprise funds that are a type of proprietary funds - airport, water and wastewater operations, and industrial land bank.

Fiduciary Funds. The City is the trustee, or fiduciary, for its employees' pension plans. It is also responsible for PGW's employees' retirement reserve assets. Both of these fiduciary activities are reported in the City's Comprehensive Annual Financial Report (including for the City's fiscal year ended June 30, 2008), as separate financial statements of fiduciary net assets and changes in fiduciary net assets.

Basis of Accounting and Measurement Focus

Governmental funds account for their activities using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as in the case of full accrual accounting. Debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due; however, those expenditures may be accrued if they are to be liquidated with available resources.

Imposed non-exchange revenues, such as real estate taxes, are recognized when the enforceable legal claim arises and the resources are available. Derived tax revenues, such as wage, business privilege, net profits and earnings taxes, are recognized when the underlying exchange transaction has occurred and the resources are available. Grant revenues are recognized when all the applicable eligibility requirements

have been met and the resources are available. All other revenue items are considered to be measurable and available only when cash is received by the City.

Revenue that is considered to be program revenue includes: (1) charges to customers or applicants for goods received, services rendered or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program specific revenues; therefore, all taxes are considered general revenues.

The City's financial statements reflect the following three funds as major Governmental Funds:

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in other funds.
- The Health Choices Behavioral Health Fund accounts for resources received from the Commonwealth. These resources are restricted to providing managed behavioral health care to residents of the City.
- The Grants Revenue Fund accounts for the resources received from various federal, state and private grantor agencies. The resources are restricted to accomplishing the various objectives of the grantor agencies.

The City also reports on Permanent Funds, which are used to account for resources legally held in trust for use by the park and library systems of the City. There are legal restrictions on the resources of the funds that require the principal to remain intact, while only the earnings may be used for the programs.

The City reports on the following Fiduciary Funds:

- The Municipal Pension Fund accumulates resources to provide pension benefit payments to qualified employees of the City and certain other quasi-governmental organizations.
- The Philadelphia Gas Works Retirement Reserve Fund accounts for contributions made by PGW to provide pension benefit payments to its qualified employees under its noncontributory pension plan.

The City reports on the following major Proprietary Funds:

- The Water Fund accounts for the activities related to the operation of the City's water delivery and sewage systems.
- The Aviation Fund accounts for the activities of the City's airports.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's ongoing operations. The principal operating revenues of the Water Fund are charges for water and sewer service. The principal operating revenue of the Aviation Fund is charges for the use of the airport. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Legal Compliance

The City's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). In accordance with the Home Rule Charter, the City has formally established budgetary accounting control for its operating and capital improvement funds.

The operating funds of the City, consisting of the General Fund, ten Special Revenue Funds (County Liquid Fuels Tax, Special Gasoline Tax, Health Choices Behavioral Health, Hotel Room Rental Tax, Grants Revenue, Community Development, Car Rental Tax, Wage Tax Reduction, Acute Care Hospital Assessment and Housing Trust Funds) and two Enterprise Funds (Water and Aviation Funds), are subject to annual operating budgets adopted by City Council. Included with the Water Fund is the Water Residual Fund. These budgets appropriate funds for all City departments, boards and commissions by major class of expenditure within each department. Major classes are defined as: personal services; purchase of services; materials and supplies; equipment; contributions, indemnities and taxes; debt service; payments to other funds; and advances and other miscellaneous payments. The appropriation amounts for each fund are supported by revenue estimates and take into account the elimination of accumulated deficits and the re-appropriation of accumulated surpluses to the extent necessary. All transfers between major classes (except for materials and supplies and equipment, which are appropriated together) must have councilmanic approval. Appropriations that are not expended or encumbered at year-end are lapsed.

The City's capital budget is adopted annually by City Council. The capital budget is appropriated by project for each department. Requests to transfer appropriations between projects must be approved by City Council. Any appropriations that are not obligated at year-end are either lapsed or carried forward to the next fiscal year.

Schedules prepared on the legally enacted basis differ from the GAAP basis in that both expenditures and encumbrances are applied against the current budget, adjustments affecting activity budgeted in prior years are accounted for through fund balance or as reduction of expenditures and certain interfund transfers and reimbursements are budgeted as revenues and expenditures.

Budget Procedure

At least ninety days before the end of the Fiscal Year the operating budget for the next Fiscal Year is prepared by the Mayor and must be submitted to City Council for adoption. The budget, as adopted, must be balanced and provide for discharging any estimated deficit from the current Fiscal Year and make appropriations for all items to be funded with City revenues. The Mayor's budgetary estimates of revenues for the ensuing Fiscal Year and projection of surplus or deficit for the current Fiscal Year may not be altered by City Council. Not later than the passage of the operating budget ordinance, City Council must enact such revenue measures as will, in the opinion of the Mayor, yield sufficient revenues to balance the budget.

At least thirty days before the end of each Fiscal Year, City Council must adopt by ordinance an operating budget and a capital budget for the ensuing Fiscal Year and a capital program for the six ensuing years. If the Mayor disapproves the bill, he must return it to City Council with the reasons for his disapproval at the first meeting thereof held not less than ten days after he receives it. If the Mayor does not return the ordinance within the time required, it becomes law without his approval. If City Council passes the bill by a vote of two-thirds of all of its members within seven days after the bill has been returned with the Mayor's disapproval, it becomes law without his approval. The capital program is prepared annually by the City Planning Commission to present the capital expenditures planned for each of the six ensuing Fiscal Years, including the estimated total cost of each project and the sources of funding (local, state, Federal, and private) estimated to be required to finance each project. The capital program is reviewed by the Mayor and transmitted to City Council for adoption with his recommendation thereon. See Table A-11 for a summary of the City's capital improvement program for the Fiscal Years 2010 through 2015.

The capital budget ordinance, authorizing in detail the capital expenditures to be made or incurred in the ensuing Fiscal Year from funds that City Council appropriates, is adopted by City Council

concurrently with the capital program. The capital budget must be in full conformity with that part of the capital program applicable to the Fiscal Year that it covers.

Awards

For the twenty-eighth consecutive year, the Government Finance Officers Association of the United States and Canada (GFOA) awarded its prestigious Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2007. The City received this recognition by publishing a report that was well organized and readable and satisfied both generally accepted accounting principles and applicable legal requirements.

CITY CASH MANAGEMENT AND INVESTMENT POLICIES

Consolidated Cash

The Act of the General Assembly of the Commonwealth of June 25, 1919, P.L. 581, Art. XVII, § 6, gives the City the authority to make temporary inter-fund loans between operating and capital funds.

The Consolidated Cash Account provides for the physical commingling of the cash of all City Funds, except those which, for legal or contractual reasons, cannot be commingled (e.g., the Municipal Pension Fund, sinking funds, sinking fund reserves, funds of PGW, the Water Fund, the Aviation Fund and certain other restricted purpose funds). A separate accounting is maintained for the equity of each member fund in the Consolidated Cash Account. The City manages the Consolidated Cash Account pursuant to the following procedures:

To the extent that any member fund temporarily experiences the equivalent of a cash deficiency, the required advance is made from the Consolidated Cash Account, in the amount necessary to result in a zero balance in the cash equivalent account of the borrowing fund. All subsequent net receipts of a borrowing fund are applied in repayment of the advance.

All advances are made within the budgetary constraints of the borrowing funds. Within the General Fund, this system of inter-fund advances has historically resulted in the temporary use of tax revenues or other operating revenues for capital purposes and the temporary use of capital funds for operating purposes.

Procedures governing the City's cash management operations require the General Fund-related operating fund to borrow initially from the General Fund-related capital fund, and only to the extent there is a deficiency in such fund may the General Fund-related operating fund borrow money from any other funds in the Consolidated Cash Account.

Investment Practices

Cash balances in each of the City's funds are managed to maintain daily liquidity to pay expenses, and make investments that preserve principal while striving to obtain the maximum rate of return. In accordance with the Home Rule Charter, the City Treasurer is the City Official responsible for managing cash collected into the City Treasury. The available cash balances in excess of daily expenses are placed in demand accounts, swept into money market mutual funds, or used to make investments directed by professional money managers. These investments are held in segregated trust accounts at a separate financial institution. Cash balances related to Revenue Bonds for Water and Sewer and the Airport are directly deposited and held separately in trust. A Fiscal Agent manages these cash balances per the related bond documents and the investment practice is guided by administrative direction of the City Treasurer per the Investment Committee and the Investment Policy. In addition, certain operating cash deposits (such as Community Behavioral Health, Special Gas/County Liquid and "911" surcharge)

of the City are restricted by purpose and required to be segregated into accounts in compliance with Federal or State reporting.

Investment guidelines for the City are embodied in legislation approved by City Council appearing in the Philadelphia City Code, Chapter 19. In furtherance of the City, State, and Federal legislative guidelines, the Director of Finance adopted a written Investment Policy (the "Policy") that first went into effect in August 1994 and most recently was revised in April 2001. This Policy supplements other legal requirements and establishes a comprehensive investment policy for the overall administration and effective management of all monetary funds (except the Municipal Pension Fund and PGW Retirement Reserve Fund).

The Policy delineates the authorized investments as approved by City Council Ordinance and the funds to which the Policy applies. The authorized investments include U.S. Government Securities, U.S. Treasuries, U.S. Agencies, Collateralized Certificates of Deposit, Bankers Acceptance Notes, Eurodollar Deposits, Euro Certificates of Deposit, Commercial Paper, Corporate Bonds, Money Market Mutual Funds, Repurchase Agreements and Commonwealth of Pennsylvania securities, all of investment grade rating or better. Each category of instruments, excluding U.S. Government Treasury and Agency securities which carry no limitation, is limited to investment of no more than 25% of the total portfolio, and no more than 10% of the total portfolio per institutional or corporate issuer. The Policy also restricts investments to those having a maximum maturity of two years. Daily liquidity is maintained through the use of SEC-registered money market mutual funds with the balance of funds invested by the City or money managers in accordance with the Policy.

The Policy provides for an ad hoc Investment Committee consisting of the Director of Finance, the City Treasurer and the Deputy City Treasurer with ex-officio membership of a representative of each of the principal operating and capital funds, i.e., Water Fund, Aviation Fund, Philadelphia Gas Works and Philadelphia Municipal Authority. The Investment Committee meets quarterly with each of the investment managers to review each manager's performance to date and to plan for the next quarter. Investment managers are given any changes in investment instructions at these meetings. The Investment Committee approves all modifications to the Policy.

The Policy expressly forbids the use of any derivative investment product whose yield or market value does not follow the normal swings in interest rates. Investment in derivatives such as "inverse floaters," leveraged variable rate debt and interest-only or principal-only Collateralized Mortgage Obligations are specifically forbidden. The use of any other derivative investment products is restricted to identified "core cash" in any fund but never to exceed 25% of any fund's balance at the time of purchase.

General Fund Cash Flow

Because the receipts of General Fund revenues lag behind expenditures during most of each fiscal year, the City issues notes in anticipation of General Fund revenues and makes payments from the Consolidated Cash Account to finance its on-going operations. The City has issued notes in anticipation of the receipt of income by the General Fund in each fiscal year since Fiscal Year 1972 (with a single exception). Each issue was repaid when due, prior to the end of the fiscal year.

The timing imbalance referred to above results from a number of factors, principally the following: (1) real property, business privilege tax and certain other taxes are not due until the latter part of the fiscal year; and (2) the City experiences lags in reimbursement from other governmental entities for expenditures initially made by the City in connection with programs funded by other governments.

DISCUSSION OF FINANCIAL OPERATIONS

Fiscal Year 2008 Actual

Results for Fiscal Year 2008 reflect revenues of \$3.72 billion, obligations of \$3.92 billion and a Fiscal Year 2008 fund balance of \$119.5 million on a legally enacted basis (modified accruals), an increase of \$35.1 million over the fund balance estimated in the adopted budget, but a decrease of \$178.4 million from the Fiscal Year 2007 ending fund balance. The decrease was caused in large part by one-time payments to the City's four unions as part of collective bargaining agreement settlements and reduction in business privilege and real estate transfer tax collections. This increase over the estimate in the adopted budget is largely due to the fact that the Fiscal Year 2007 fund balance was \$126 million higher than anticipated when the budget was adopted. The estimate is also \$54 million lower than the Fiscal Year 2008 fund balance estimated in the Approved Five Year Plan. This decrease is mainly the result of the lower than expected business privilege tax receipts, and lower state reimbursements.

Fiscal Year 2009 Adopted Budget

The City's Fiscal Year 2009 budget was approved by City Council on May 22, 2008 and signed into law that day. The budget projects estimated revenues of \$3.9 billion, obligations of \$4.03 billion and an ending fund balance of \$62.5 million on the legally enacted basis. This budget was adopted by the City in conjunction with the Seventeenth Five-Year Plan which was approved by PICA on June 17, 2008.

Fiscal Year 2009 Current Estimate

The City's Fiscal Year 2009 current estimate projects revenues of \$3.75 billion and obligations of \$3.95 billion on a legally enacted basis. Tax revenues are now projected to be \$179 million below budget levels. The real estate transfer tax and business privilege tax account for more than \$152 million of the reduction. Total general fund revenue is projected to be \$138.5 million below budget. Obligations are now projected to be \$78.4 million below budgeted levels as the administration took quick action to reduce obligations and reduce the projected deficit. The Fiscal Year 2009 fund balance is projected to be (\$60) million.

Effect of Economic Crisis on City Budget

Like other local governments across the country, the City is experiencing declines in tax collections and expected increases in pension costs. On November 6, 2008, Mayor Nutter announced the City's budget-balancing plan to address what would be, unless compensatory action was taken, an estimated \$1 billion deficit over the next five years and a \$108 million fund balance deficit, out of a \$4 billion budget, in Fiscal Year 2009.

The Mayor's plan included, among other things, curtailment of certain nonessential services, suspension of City-funded business and wage tax reductions until Fiscal Year 2015, closing some outdoor pools, eliminating 800 positions either through layoffs or not filling vacancies, and reducing employee overtime costs. On December 4, 2008, City Council approved revenue enhancement legislation which was part of the Mayor's budget-balancing plan. This legislation included halting reductions of City-funded wage and business privilege tax rates until Fiscal Year 2015. In addition, the legislation included increases to certain fees, including some licensing and inspection fees, false burglar alarm fees and some health related fees. The budget-balancing plan was expected to result in \$148 million in savings for Fiscal Year 2009, which, based upon then current revenue estimates, would have resulted in a Fiscal 2009 ending fund balance of \$41 million.

However during November and December the City continued to experience declining receipts and further erosion in pension fund earnings performance. On January 15, 2009, Mayor Nutter announced

that despite previous actions taken which are described above, the City again faced a five year deficit of over \$1 billion and a Fiscal Year 2009 fund balance estimate of (\$60) million.

On January 16, 2009, the administration issued a budget call that included budget reductions of 10, 20 and 30 percent from every department. The administration reviewed these responses, engaged in community outreach programs and town hall meetings and conducted citizen and employee surveys to solicit input on the array of options available to balance the budget and Plan. The administration proposed a Fiscal Year 2010 budget (discussed below) and an Eighteenth Five-Year Plan that includes staff reductions, anticipated benefit and pension savings and work rule changes, increased fees and a temporary increase in the City Sales Tax (as defined herein). Additionally, the Eighteenth Five-Year Plan assumes a partial deferral of the City's pension payment in Fiscal Year 2010 (\$150 million) and Fiscal Year 2011 (\$80 million) to be paid back by Fiscal Year 2014. In addition to the deferral, the City is changing the amortization period from 20 years to 30 years and lowering the interest rate assumption from 8.75 percent to 8.25 percent. The temporary City Sales Tax increase and several pension changes require approval of the Pennsylvania General Assembly. The City is currently working with Commonwealth officials on obtaining such approval for these changes. See "EXPENDITURES OF THE CITY-Municipal Pension Fund (Related to All Funds)" herein.

Fiscal Year 2010 Adopted Budget

The City's Fiscal Year 2010 budget was presented to City Council on March 19, 2009, was approved by City Council on May 21, 2009, and signed by the Mayor on May 27, 2009. The budget projects estimated revenues of \$3.815 billion, obligations of \$3.694 billion and an ending fund balance of \$85.3 million after discharging the Fiscal Year 2009 fund balance deficit on the legally enacted basis. The budget includes a 1 percent City Sales Tax increase which is estimated to yield \$106 million in Fiscal Year 2010 increasing to an estimated \$121 million in Fiscal Year 2014. The City Sales Tax increase and several of the assumed changes to the pension system will require approval of the Pennsylvania General Assembly. The administration is developing alternate budget balancing scenarios in the event that approval of the Pennsylvania General Assembly does not occur.

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Table A-1
City of Philadelphia General Fund
Summary of Operations
(Legal Basis) (Amounts In Millions of USD)

	Actual	Actual	Actual	Actual	Actual	Current Estimate	Adopted Budget
	2004	2005	2006	2007	2008	2009	2010
REVENUES							
Real Property Taxes	377.7	392.7	395.8	397.5	402.8	412.8	420.2
Wage and Earnings Tax	1,049.6	1,073.6	1,111.2	1,167.4	1,184.8	1,127.3	1,146.0
Net Profits Tax	13.0	13.7	14.6	15.3	12.5	11.8	12.4
Business Privilege Tax	309.2	379.5	415.5	436.4	398.8	365.7	348.7
Sales Tax	108.0	119.9	127.8	132.6	137.3	128.0	234.7
Other Taxes ^(a)	202.2	250.9	304.1	286.7	260.3	200.9	177.3
Total Taxes	2,059.7	2,230.3	2,369.0	2,435.9	2,396.5	2,246.5	2,339.3
Locally Generated Non-Tax Revenue	207.4	200.9	235.9	247.9	265.8	275.6	276.0
Revenue from Other Governments	801.1	1,054.6	924.5	1,032.9	1,033.4	1,091.2	1,171.1
Receipts from Other City Funds	24.7	26.3	24.9	27.4	27.2	136.0	28.2
Total Revenue	3,092.9	3,512.1	3,554.3	3,744.1	3,722.8	3,749.3	3,814.6
OBLIGATIONS/APPROPRIATIONS							
Personnel Services	1,278.3	1,243.5	1,250.2	1,327.6	1,390.7	1,420.8	1,358.4
Purchase of Services	1,050.3	1,090.1	1,065.7	1,151.6	1,188.7	1,188.8	1,149.5
Materials, Supplies and Equipment	70.6	71.5	82.1	89.1	92.1	87.2	78.3
Employee Benefits	598.9	704.7	760.2	890.3	983.0	965.2	812.8
Indemnities, Contributions and Grants	95.1	113.5	110.9	119.0	120.9	130.3	117.9
City Debt Service	93.7	89.7	82.9	89.1	87.2	108.3	121.9
Other	32.0	36.7	38.6	31.2	32.3	22.7	25.0
Payments to Other City Funds	29.1	36.6	35.4	38.7	24.8	30.0	30.0
Total Obligations/Appropriations	3,248.0	3,386.3	3,426.0	3,736.6	3,919.8	3,953.3	3,693.8
Operating Surplus (Deficit) for the Year	(155.4)	125.8	128.2	7.5	(197.0)	(204.0)	120.8
Net Adjustments – Prior Year	17.3	17.2	30.1	35.9	18.6	24.5	24.5
Funding for Contingencies	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cumulative Fund Balance Prior Year	91.3	(46.8)	96.2	254.5	297.9	119.5	(60.0)
Cumulative Adjusted Year End Fund Balance (Deficit)	(46.8)	96.2	254.5	297.9	119.5	(60.0)	85.3

(a) Includes Real Estate Transfer Tax, Parking Tax, Amusement Tax, and Other Taxes.
FIGURES MAY NOT ADD DUE TO ROUNDING.

Table A-2
City of Philadelphia
Principal Operating Funds (Debt Related)
Summary of Operations (Legal Basis)
(Amounts in Millions of USD)

	Actual	Actual	Actual	Actual	Actual	Actual	Current	Adopted
	2004	2005	2006	2007	2008	2009	Estimate	Budget
REVENUES								
General Fund	3,092.8	3,512.1	3,554.3	3,744.1	3,722.8	3,749.3	3,749.3	3,814.6
Water Fund ^(a)	438.3	451.4	490.3	519.7	589.7	561.3	561.3	613.6
Aviation Fund ^(b)	241.4	249.0	271.5	268.6	287.9	329.6	329.6	364.8
Other Operating Funds ^(c)	39.0	38.6	41.9	44.9	113.2	45.6	45.6	49.2
Total Revenue	<u>3,811.5</u>	<u>4,251.1</u>	<u>4,358.0</u>	<u>4,577.3</u>	<u>4,713.6</u>	<u>4,685.8</u>	<u>4,685.8</u>	<u>4,842.2</u>
OBLIGATIONS/APPROPRIATIONS								
Personnel Services	1,444.7	1,409.0	1,412.9	1,498.2	1,568.9	1,605.8	1,605.8	1,542.6
Purchase of Services	1,197.0	1,250.0	1,233.5	1,328.5	1,441.4	1,415.3	1,415.3	1,399.8
Materials, Supplies and Equipment	119.2	121.9	136.2	145.9	151.1	151.3	151.3	163.6
Employee Benefits	662.1	784.9	845.3	990.1	1,095.8	1,076.3	1,076.3	934.5
Indemnities, Contributions and Taxes	99.7	117.3	116.5	122.6	127.1	141.3	141.3	130.4
Debt Service ^(d)	344.6	336.8	337.6	348.8	346.7	395.3	395.3	429.7
Other	32.0	36.7	38.6	31.2	32.3	22.6	22.6	25.0
Payments to Other City Funds	95.5	97.0	119.4	144.9	154.7	114.3	114.3	123.6
Total Obligations/Appropriations	<u>3,994.8</u>	<u>4,153.6</u>	<u>4,240.0</u>	<u>4,610.2</u>	<u>4,917.9</u>	<u>4,922.2</u>	<u>4,922.2</u>	<u>4,749.2</u>
Operating Surplus (Deficit) for the Year	(183.4)	97.5	118.0	(32.8)	(204.3)	(236.4)	(236.4)	93.0
Net Adjustments Prior Year	41.0	45.8	60.6	69.6	51.0	52.7	52.7	56.7
Funding for Contingencies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cumulative Fund Balance (Deficit) Prior Year End	132.0	(10.4)	132.9	311.5	348.3	195.0	195.0	11.3
Cumulative Adjusted Year End Fund Balance (Deficit)	<u>(10.4)</u>	<u>132.9</u>	<u>311.5</u>	<u>348.3</u>	<u>195.0</u>	<u>11.3</u>	<u>11.3</u>	<u>161.0</u>

(a) Revenues of the Water Fund are not legally available for payment of other obligations of the City until, on an annual basis, all revenue bond debt service requirements and covenants relating to those bonds have been satisfied, and then only to the extent of \$4,994,000 per year, provided certain further conditions are satisfied. From Fiscal Year 1991 to Fiscal Year 2003, the maximum transfer, per administrative agreement, was \$4,138,000. For Fiscal Year 2004, the budgeted transfer was not made. For Fiscal Year 2005, the transferred amount was \$4,401,000. For Fiscal Year 2006, 2007 and 2008, the transferred amount was \$4,994,000.

(b) Airport revenues are not available for other City purposes.

(c) Includes County Liquid Fuels Tax Fund, Special Gasoline Tax Fund and Water Residual Fund.

(d) Excludes PICA bonds.

FIGURES MAY NOT ADD DUE TO ROUNDING.

Quarterly Reporting to PICA

On November 16, 1992, the City submitted the first of its quarterly reports to PICA. This reporting is required under the PICA Act so that PICA may determine whether the City is in compliance with the then-current Five-Year Plan. Under the PICA Act, a "variance" is deemed to have occurred as of the end of a reporting period if (i) a net adverse change in the fund balance of a covered fund of more than 1% of the revenues budgeted for such fund for that fiscal year is reasonably projected to occur, such projection to be calculated from the beginning of the fiscal year for the entire fiscal year, or (ii) the actual net cash flows of the City for a covered fund are reasonably projected to be less than 95% of the net cash flows of the City for such covered fund for that fiscal year originally forecast at the time of adoption of the budget, such projection to be calculated from the beginning of the fiscal year for the entire fiscal year. The Mayor is required to provide a report to PICA that describes actual or current estimates of revenues, expenditures, and cash flows by covered funds compared to budgeted revenues, expenditures, and cash flows by covered funds for such previous quarterly or monthly period and for the year-to-date period from the beginning of the then-current fiscal year of the City to the last day of the fiscal quarter or month, as the case may be, just ended. Each such report is required to explain any variance existing as of such last day.

PICA may not take any action with respect to the City for variances if the City (i) provides a written explanation of the variance that PICA deems reasonable; (ii) proposes remedial action that PICA believes will restore overall compliance with the then-current Five-Year Plan; (iii) provides information in the immediately succeeding quarterly financial report demonstrating to the reasonable satisfaction of PICA that the City is taking remedial action and otherwise complying with the then-current Five-Year Plan; and (iv) submits monthly supplemental reports as required by the PICA Act.

On February 20, 2009 based on results as reported in the December 31, 2008 Quarterly City Managers Report for December 31, 2008, PICA informed the City that a variance had been declared as defined in Section 4.10(a) of the Intergovernmental Cooperation Agreement. The City is providing monthly information to PICA as requested. PICA has agreed to accept the submission of the Eighteenth Five Year Plan (FY2010-FY2014) as the City's proposed remedial action to address the variance.

REVENUES OF THE CITY

General

In 1932, the Pennsylvania General Assembly adopted an act (commonly referred to as the Sterling Act) under which the City was permitted to levy any tax that was not specifically pre-empted by the Commonwealth. Prior to 1939, the City relied heavily upon the real property tax as the mainstay of its revenue system. Acting under the Sterling Act and other legislation, the City has taken various steps over the years to reduce its reliance on real property taxes as a source of income, including: (1) enacting the wage, earnings, and net profits tax in 1939; (2) introducing a sewer service charge to make the sewage treatment system self-sustaining after 1945; (3) requiring under the Home Rule Charter that the water, sewer, and other utility systems be fully self-sustaining; and (4) enacting in 1952 the Mercantile License Tax (a gross receipts tax on business done within the City), which was replaced as of the commencement of Fiscal Year 1985 by the Business Privilege Tax.

Major Revenue Sources

The City derives its revenues primarily from various taxes, non-tax revenues, and receipts from other governments. See Table A-3 for revenues by major source for Fiscal Years 1999-2010 and Table A-4 for General Fund tax revenues for Fiscal Years 2004-2010. The following description does not take into account revenues in the Non-Debt Related Funds. The tax rates for Fiscal Years 1999 through 2008 are contained in the Fiscal Year 2008 Comprehensive Annual Financial Report.

Wage, Earnings, and Net Profits Taxes. These taxes are levied on the wages, earnings, and net profits of all residents of the City and all non-residents employed within the City. The rate for both residents and non-residents was 4.3125% from Fiscal Year 1977 through Fiscal Year 1983. For Fiscal Years 1984 through 1991 the wage and earnings tax rate was 4.96% for residents and 4.3125% for non-residents and the net profits tax rate was 4.96% for both residents and non-residents.

In Fiscal Year 1992, the City reduced the City wage, earnings, and net profits tax on City residents by 1.5% and imposed the PICA Tax on wages, earnings and net profits at the rate of 1.5% on City residents. The table below sets forth the resident and non-resident wage and earnings tax rates for Fiscal Years 1999-2008, and the annual wage and earnings tax receipts in Fiscal Years 1999-2008 and the estimated receipts in Fiscal Year 2009 and budgeted receipts in Fiscal Year 2010.

<u>Fiscal Year</u>	<u>Resident Wage and Earnings Tax Rates*</u>	<u>Non-Resident Wage and Earnings Tax Rates</u>	<u>Annual Wage and Earnings Tax Receipts (including PICA Tax) (Amounts in Millions)</u>
1999	4.6869%	4.0750%	\$1,195.6
2000	4.6135	4.0112	1,242.3
2001	4.5635	3.9672	1,332.6
2002	4.5385	3.9462	1,297.3
2003	4.5000	3.9127	1,306.6
2004	4.4625	3.8801	1,347.6
2005	4.3310	3.8197	1,387.5
2006	4.3010	3.7716	1,435.6
2007	4.2600	3.7557	1,510.6
2008	4.2190	3.7242	1,527.5
2009 (Current Estimate)**	3.9800 (July 1) 3.9300 (January 1)	3.5392 (July 1) 3.5000 (January 1)	1,488.7
2010 (Adopted Budget)	3.9296	3.4997	1,516.2

* Includes PICA Tax.

** There were two rate decreases during Fiscal Year 2009.

In the Seventeenth Five-Year Plan, the Mayor approved further reductions in this tax rate for each of the Fiscal Years 2009-2013. The Seventeenth Five-Year Plan approved reducing the wage tax from its current level of 4.2190% for residents and 3.7242% for non-residents to 3.60% for residents and 3.25% for non-residents by Fiscal Year 2013. These reduced rates include rate reductions funded through tax reduction funding provided by the Commonwealth of Pennsylvania from gaming proceeds. In Fiscal Year 2009 there have been two rate reductions: one that took effect July 1, 2008 and the other that took effect January 1, 2009. Each approved Five-Year Plan since the one covering Fiscal Years 1996-2000 has included reductions in this tax rate for each of its fiscal years. The Eighteenth Five-Year Plan suspends future City-funded rate reductions until Fiscal Year 2015.

For a discussion of legislation approved by City Council that halts the reduction of City-funded wage tax rates until Fiscal Year 2015, see "DISCUSSION OF FINANCIAL OPERATIONS-Effect of Economic Crisis on City Budget" in this Appendix A.

Business Privilege Tax. In May 1984, the City enacted an ordinance substituting the Business Privilege Tax for the Mercantile License Tax. The Business Privilege Tax has been levied since January 1985 on every entity engaging in business in the City.

The Business Privilege Tax is a composite tax. Tax rates vary according to business classification (regulated, non-regulated, persons registered under the Pennsylvania Securities Act of 1972, manufacturing, wholesale, or retail) and method of tax computation employed. The various methods of tax computation are as follows: effective Fiscal Year 1989, all regulated industries, banks, trust

companies, insurance companies, and public utilities, among others, were taxed at an annual rate of 3.25 mills on annual receipts not to exceed 6.5% of their net income. The tax on annual receipts and net income of all businesses, other than regulated industries, was levied at 3.25 mills and 6.5%, respectively, provided that persons registered under the Pennsylvania Securities Act of 1972 shall in no event pay a tax of less than 5.711 mills on all taxable receipts plus the lesser of 4.302% of net income or 4.302 mills on gross taxable receipts.

Non-regulated industry manufacturers can opt for a lower 5.395% rate on receipts from sales after deducting the applicable cost of goods. Non-regulated wholesalers may choose a gross receipts tax on wholesale transactions at a lower rate of 7.55% after deducting applicable product and labor costs. Non-regulated retailers have the option of choosing the lower rate of 2.1% on receipts from retail sales after deducting applicable product and labor costs.

All persons subject to both the Business Privilege Tax and the Net Profits Tax are entitled to apply a credit of 60% of their Business Privilege Tax liability against what is due on the Net Profits Tax, which credit may be carried back or forward for up to three years.

In Fiscal Year 1996, the City began a program of reducing the gross receipts portion of the Business Privilege Tax from its previous level of 3.25 mills. The tax rates for tax years 1999-2009 are set forth below.

<u>Tax Year</u>	<u>Business Privilege Tax/Gross Receipts</u>
1999	2.775 mills
2000	2.650 mills
2001	2.525 mills
2002	2.400 mills
2003	2.300 mills
2004	2.100 mills
2005	1.900 mills
2006	1.665 mills
2007	1.540 mills
2008	1.415 mills
2009	1.415 mills

In the Seventeenth Five-Year Plan, the Mayor approved further reductions in the gross receipts portion of the Business Privilege Tax for each of the Fiscal Years 2009-2013. The Eighteenth Five-Year Plan suspends future City-funded rate reductions until Fiscal Year 2015.

For a discussion of legislation approved by City Council that halts the reduction of City-funded business privilege tax rates until Fiscal Year 2015, see "DISCUSSION OF FINANCIAL OPERATIONS-Effect of Economic Crisis on City Budget" in this Appendix A.

All business activity is also assessed a one-time \$200 licensing fee administered by the Department of Licenses and Inspections.

Real Property Taxes. A real estate tax on all taxable real property is levied on the assessed value of residential and commercial property located within the City's boundaries. From Fiscal Year 2003 through Fiscal Year 2007 the City's portion of the rate was 34.74 mills and the School District's portion was 47.90 mills. In Fiscal Year 2008, City Council shifted 1.69 mills of City tax to the School District. In Fiscal Year 2008, the City's portion of the rate became 33.05 mills and the School District's portion became 49.59 mills. Those rates remain in effect.

Sales and Use Tax. In connection with the adoption of the Fiscal Year 1992 Budget, the City adopted a 1% sales and use tax (the "City Sales Tax") for City general revenue purposes. The Commonwealth authorized the levy of this tax under the PICA Act. Vendors are required to pay this sales tax to the Commonwealth Department of Revenue together with the similar Commonwealth sales and use tax. The State Treasurer deposits the collections of this tax in a special fund and disburses the collections, including any investment income earned thereon, less administrative fees of the Commonwealth Department of Revenue, to the City on a monthly basis.

The City Sales Tax is imposed in addition to, and on the same basis as, the Commonwealth's sales and use tax. The City Sales Tax became effective September 28, 1991 and is collected for the City by the Commonwealth Department of Revenue. The Fiscal Year 2010 budget assumes an increase to 2 percent from the current 1 percent rate. This increase requires approval of the Pennsylvania General Assembly. The Plan assumes this temporary increase will sunset on June 30, 2014. The table below sets forth the City Sales Tax collected in Fiscal Years 1999 through 2008, estimated collections for Fiscal Year 2009 and budgeted collections for Fiscal Year 2010.

<u>Fiscal Year</u>	<u>City Sales Tax Collections</u>
1999	\$101.4 million
2000	103.7 million
2001	111.3 million
2002	108.1 million
2003	108.0 million
2004	108.0 million
2005	119.9 million
2006	127.8 million
2007	132.6 million
2008	137.3 million
2009 (Current Estimate)	128.0 million
2010 (Adopted Budget)	234.7 million

Other Taxes. The City also collects real property transfer taxes, parking lot taxes, and other miscellaneous taxes such as the Amusement Tax.

Other Locally Generated Non-Tax Revenues. These revenues include license fees and permit sales, traffic fines and parking meter receipts, court related fees, stadium revenues, interest earnings and other miscellaneous charges and revenues of the City.

Revenue from Other Governments. The City's Fiscal Year 2009 General Fund current estimate projects that approximately 28.5% of General Fund revenues will be received from other governmental jurisdictions, including: (1) \$537 million from the Commonwealth for health, welfare, court, and various other specified purposes; (2) \$200 million from the Federal government; and (3) \$68.6 million from other governments, in which revenues are primarily rental and loan repayments from the Philadelphia Gas Works and the Convention Center Service Fee offset. In addition, the projected net collections of the PICA Tax of \$281.6 million are included in "Revenue from Other Governments." These amounts do not include the substantial amounts of revenues from other governments received by the Grants Revenue Fund, Community Development Fund, and other operating and capital funds of the City. The delay in the passage of the Commonwealth's budget for fiscal year 2010 is impacting the City's cash flow as the Commonwealth cannot make fiscal year 2010 payments to the City without the necessary appropriations. The City is meeting regularly to review its cash position and is limiting payment outflows, including delaying vendor payments (except for emergency services), to address this situation until the Commonwealth's fiscal year 2010 budget is passed. In addition, a material decrease in the level of funding from the Commonwealth in its fiscal year 2010 budget, once passed, could have a negative impact on the financial position of the City.

Revenues from City-Owned Systems

In addition to taxes, the City realizes revenues through the operation of various City-owned systems such as the Water and Wastewater Systems and PGW. The City has issued revenue bonds with respect to the Water and Wastewater Systems and PGW to be paid solely from and secured by a pledge of the respective revenues of these systems. The revenues of the Water and Wastewater Systems and PGW are not legally available for payment of other obligations of the City until, on an annual basis, all revenue bond debt service requirements and covenants relating to those bonds have been satisfied and then, in a limited amount and upon satisfaction of certain other conditions.

Effective June 1991, the revenues of the Water Department were required to be segregated from other funds of the City. Under the City's Restated General Water and Wastewater Revenue Bond Ordinance of 1989 (the "Water Ordinance"), an annual transfer may be made from the Water Fund to the City's General Fund in an amount not to exceed the lesser of (a) all Net Reserve Earnings, as defined below, or (b) \$4,994,000. Net Reserve Earnings means the amount of interest earnings during the fiscal year on amounts in the Debt Reserve Account and Subordinated Bond Fund, as defined in the Water Ordinance. Commencing in Fiscal Year 1991, the \$4,994,000 amount was reduced to \$4,138,000 by administrative agreement that remained in effect through Fiscal Year 2003. No such transfer was made in Fiscal Year 1992; however, the transfer was made in each subsequent year through Fiscal Year 2003. For Fiscal Year 2004, the transfer was to have increased to \$4,994,000 but no payment was made. For Fiscal Year 2005, the transferred amount was \$4,401,000; for Fiscal Year 2006, the transferred amount was \$4,994,000; and for Fiscal Years 2007 and Fiscal Year 2008, the transferred amount was \$4,994,000.

The revenues of PGW are segregated from other funds of the City. Payments for debt service on Gas Works Revenue Bonds are made directly by PGW. In previous years, PGW has also made an annual payment of \$18,000,000 to the City's General Fund. For Fiscal Year 2005 the City agreed to forgo the \$18,000,000 payment and for Fiscal Years 2006, 2007, 2008 and 2009 the City budgeted the receipt of the \$18,000,000 payment and the grant back of such amount to PGW. The City's Eighteenth Five-Year Plan assumes that the \$18,000,000 payment will be made in each of Fiscal Years 2010 through 2014 and that the City will grant back such payment to PGW in each such Fiscal Year.

Philadelphia Parking Authority

The Philadelphia Parking Authority ("PPA") was established by City ordinance pursuant to the Pennsylvania Parking Authority Law, P.L. 458, No. 208 (June 5, 1947). Various statutes, ordinances, and contracts authorized PPA to plan, design, acquire, hold, construct, improve, maintain and operate, own or lease land and facilities for parking in the City, including such facilities at Philadelphia International Airport (the "Airport"), and to administer the City's on-street parking program through an Agreement of Cooperation ("Agreement of Cooperation") with the City.

Revenues under the Lease Agreement with PPA – PPA owns and operates five parking garages at the Airport, as well as operating a number of surface parking lots at the Airport. The land on which these garages and surface lots are located is leased from the City, acting through the Department of Commerce, Division of Aviation, pursuant to a lease expiring in 2030 (the "Lease Agreement"). The Lease Agreement provides for payment of rent to the City, which is equal to gross receipts less operating expense, debt service on PPA's bonds issued to finance improvements at the Airport and reimbursement to PPA for capital expenditures and prior year operating deficits relating to its Airport operations, if any. The City received transfers of rental payments in Fiscal Years 2003 through 2008 that totaled \$11,629,311, \$14,539,053, \$27,239,000, \$30,186,642, \$33,184,918, and \$33,570,037, respectively. The Fiscal Year 2009 estimated transfer amount is \$35,000,000. The Fiscal Year 2010 budgeted transfer amount is \$36,000,000.

One component of the operating expenses is PPA's administrative costs. In 1999, at the request of the Federal Aviation Administration ("FAA"), PPA and the City entered into a letter agreement (the "FAA Letter Agreement") which contained a formula for calculating PPA's administrative costs and capped such administrative costs at 28% of PPA's total administrative costs for all of its cost centers. PPA owns and/or operates parking facilities at a number of non-Airport locations in the City. These parking facilities are revenue centers for purposes of the FAA Letter Agreement.

Assessment and Collection of Real and Personal Property Taxes

The Board of Revision of Taxes (the "Board") appoints real estate assessors who annually assess all real estate located within the City. The assessors return assessments for each parcel of real estate to the Board. The Board may increase or decrease the property valuations contained in the returns of the assessors in order that such valuations conform with law. After the Board gives proper notice of all changes in property assessments, and after it has heard all assessment appeals, it then makes assessments and certifies the results to the Department of Revenue.

Real estate taxes, if paid by February 28, are discounted by 1%. If the tax is paid during the month of March, the gross amount of tax is due. If the tax is not paid by the last day of March, tax additions of 1.5% per month are added to the tax for each month that the tax remains unpaid through the end of the calendar year. Beginning in January of the succeeding year, the 15% tax additions that accumulated during the last ten months of the preceding years are capitalized and the tax is registered delinquent. Interest is then computed on the new tax base at a rate of 0.5% per month until the real estate tax is fully paid. Commencing in February of the second year, an additional 1% per month penalty is assessed for a maximum of seven months. See the Fiscal Year 2008 Comprehensive Annual Financial Report for assessed and market values of taxable realty in the City and for levies and rates of collections.

During Fiscal Year 1997 and subsequent to the adoption of the Fiscal Year 1998 budget, the City decided to abandon the collection of the Personal Property Tax due to uncertainty as to the outcome of litigation challenging specific aspects of the tax then pending in other jurisdictions of the Commonwealth. As a result, the City realized no Personal Property Tax revenues in Fiscal Year 1998 or in subsequent years. The Personal Property Tax had been levied on the value of certain personal property of the residents of the City.

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Table A-3
City of Philadelphia
Summary of
Principal Operating Funds (Debt Related)
Revenues by Major Source
Fiscal Years 1999-2010 (Legal Basis)
(Amounts in Millions of USD)

Fiscal Year	Real Property Taxes ^(a)	Wage Earnings & Net Profits Taxes ^(a)	Business Privilege Tax ^(a)	Sales and Use Tax ^(a)	Other Taxes ^(b)	Total Taxes	Water & Wastewater Charges	Airport Charges	Other Locally Generated Charges	Total Local Revenue	Revenue from Other Govts	Revenue from Other City Funds	Total Revenues
1999	342.6	949.8 ^(c)	254.5	101.4	118.3	1,766.6	290.5	143.2	259.9	2,460.2	639.9	103.1	3,203.2
2000	353.6	985.7 ^(c)	290.1	103.7	123.5	1,856.6	296.1	149.4	258.0	2,560.1	708.3	79.9	3,348.3
2001	363.4	1,059.0 ^(d)	314.0 ^(d)	111.3	130.0 ^(d)	1,977.7	285.8	175.7	251.3	2,690.5	781.7	90.5	3,562.7
2002	376.8	1,019.3	295.8	108.1	148.6	1,945.4	302.8	181.7	257.9	2,687.8	722.5	80.8	3,491.1
2003	361.1	1,025.1	286.1	108.0	156.3	1,936.6	329.6	219.4	327.4	2,813.0	909.7	62.8	3,785.5
2004	377.7	1,062.6	309.2	108.0	202.2	2,059.7	383.1	235.0	207.4	2,885.2	834.2	92.1	3,811.5
2005	392.7	1,087.3	379.5	119.9	250.9	2,230.3	419.7	246.3	200.8	3,097.1	1,082.4	71.6	4,251.1
2006	395.8	1,125.8	415.5	127.8	304.1	2,369.0	460.4	269.4	236.2	3,335.0	953.1	69.9	4,358.0
2007	397.5	1,182.7	436.4	132.6	286.7	2,435.9	486.9	266.0	248.3	3,437.1	1,063.3	77.0	4,577.4
2008	402.8	1,197.3	398.8	137.3	260.3	2,396.5	555.0	275.3	267.5	3,494.3	1,066.2	153.1	4,713.6
2009 (Current Estimate)	412.8	1,127.3	365.7	128.0	212.7	2,246.5	487.3	325.1	285.7	3,334.6	1,125.8	225.4	4,685.8
2010 (Adopted Budget)	420.2	1,146.0	348.7	234.7	189.7	2,339.3	528.4	355.0	275.8	3,498.5	1,212.7	131.0	4,842.2

- (a) See Table 7 in the Fiscal Year 2008 Comprehensive Annual Financial Report for Tax Rates.
- (b) Includes Real Estate Transfer Tax, Parking Tax, Amusement Tax, and Other Taxes.
- (c) In Fiscal Year 1992, the City reduced the resident Wage and Earnings and Net Profits Taxes from 4.96% to 3.46% and levied the PICA Tax at a rate of 1.50%, the proceeds of which are remitted to PICA for payment of debt service on the PICA bonds and PICA's expenses.
- (d) Accounting accrual changes required by GASB #33 resulted in additional one-time tax revenue accruals in Fiscal Year 2001. (Wage Tax, \$50.4 million; Business Privilege, \$5.2 million; Other Taxes, \$4.3 million).

FIGURES MAY NOT ADD DUE TO ROUNDING.

Table A-4
City of Philadelphia General Fund
Tax Revenues (s)
Fiscal Years 2004-2010
(Amounts in Millions of USD)

	Actual 2004	Actual 2005	Actual 2006	Actual 2007	Actual 2008	Current Estimate 2009	Adopted Budget 2010
REAL PROPERTY TAXES							
Current	332.6	353.2	354.1	367.2	366.5	370.8	378.2
Prior	45.1	39.5	41.7	30.3	36.3	42.0	42.0
Total	<u>377.7</u>	<u>392.7</u>	<u>395.8</u>	<u>397.5</u>	<u>402.8</u>	<u>412.8</u>	<u>420.2</u>
WAGE AND EARNINGS TAX^(b)							
Current	1,034.5	1,066.0	1,104.0	1,162.4	1,176.5	1,115.3	1,134.0
Delinquent	15.1	7.6	7.2	5.1	8.3	12.0	12.0
Total	<u>1,049.6</u>	<u>1,073.6</u>	<u>1,111.2</u>	<u>1,167.5</u>	<u>1,184.8</u>	<u>1,127.3</u>	<u>1,146.0</u>
BUSINESS TAXES							
Business Privilege							
Current	269.9	326.7	390.5	401.9	376.1	340.7	323.7
Delinquent	39.2	52.8	25.0	34.5	22.7	25.0	25.0
Sub-Total Business	<u>309.1</u>	<u>379.5</u>	<u>415.5</u>	<u>436.4</u>	<u>398.8</u>	<u>365.7</u>	<u>348.7</u>
Privilege							
Net Profits Tax							
Current	11.3	12.0	11.8	10.9	9.1	8.3	8.4
Delinquent	1.7	1.7	2.8	4.3	3.4	3.5	4.0
Sub-Total Net Profits	<u>13.0</u>	<u>13.7</u>	<u>14.6</u>	<u>15.3</u>	<u>12.5</u>	<u>11.8</u>	<u>12.4</u>
Tax							
Total Business Taxes	<u>322.1</u>	<u>393.2</u>	<u>430.1</u>	<u>451.6</u>	<u>411.3</u>	<u>377.5</u>	<u>361.1</u>
OTHER TAXES							
Sales and Use Tax	108.0	119.9	127.8	132.6	137.3	128.0	234.7
Amusement Tax	18.3	13.5	17.0	16.4	18.0	18.4	18.9
Real Property Transfer	141.3	192.3	236.4	217.3	184.0	110.6	84.7
Tax							
Parking Taxes	42.5	45.0	48.4	50.3	55.5	69.0	70.7
Other Taxes	0.1	0.1	2.3	2.6	2.8	2.9	3.0
Sub-Total Other Taxes	<u>310.2</u>	<u>370.8</u>	<u>431.9</u>	<u>419.2</u>	<u>397.6</u>	<u>328.9</u>	<u>412.0</u>
TOTAL TAXES	<u>2,059.6</u>	<u>2,230.3</u>	<u>2,369.0</u>	<u>2,435.9</u>	<u>2,396.5</u>	<u>2,246.5</u>	<u>2,339.3</u>

(a) See Table 7 in the Fiscal Year 2008 Comprehensive Annual Financial Report for Tax Rates.
(b) Beginning in Fiscal Year 1992, the City reduced the resident Wage and Earnings and Net Profits Tax from 4.96% to 3.46% and levied the PICA Tax at a rate of 1.50%, the proceeds of which are remitted to PICA for payment of debt service on PICA bonds and the PICA expenses. After paying debt service and expenses, net proceeds from the tax are remitted to the City as Revenue from Other Governments.

FIGURES MAY NOT ADD DUE TO ROUNDING

Table A-5
Ten Largest Certified Market and Assessment Values
of Tax-Abated Properties
Certified Values for 2008

	Location	2008 Certified Market Value	Total Assessment	Total Taxable Assessment	Total Exempt Assessment
1	2201 Park Towne Place	\$48,000,000	\$15,360,000	\$13,452,400	\$ 1,907,600
2	819-41 Chestnut Street	45,200,000	14,464,000	5,440,000	9,024,000
3	1600-18 Arch Street	37,661,200	12,051,584	2,550,400	9,501,184
4	1825-51 North 10 th Street	33,200,000	10,624,000	0	10,624,000
5	3118-98 Chestnut Street	29,861,000	9,555,520	656,075	8,899,445
6	801 Market Street	30,000,000	9,600,000	1,544,000	8,056,000
7	1915-19 Chestnut Street	29,264,100	9,364,512	8,956,800	407,712
8	200 West Washington Square	30,572,000	9,783,040	640,000	9,143,040
9	11000 East Roosevelt Blvd.	24,277,400	7,768,768	3,680,000	4,088,768
10	3175 John F. Kennedy Blvd.	26,400,000	8,448,000	2,400,000	6,048,000

Source: City of Philadelphia, Board of Revision of Taxes

EXPENDITURES OF THE CITY

The major City expenditures are for personal services, employee benefits, purchase of services (including payments to SEPTA), and debt service.

Personal Services (Personnel)

As of June 30, 2009, the City employed 27,482 full-time employees with the salaries of 22,912 employees paid from the General Fund. Additional employment is supported by other funds, including the Water Fund and the Aviation Fund.

Additional operating funds for employing personnel are contributed by other governments, primarily for categorical grants, as well as for the conduct of the community development program. These activities are not undertaken if funding is not received.

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The following table sets forth the number of filled full-time positions of the City as of the dates indicated.

Table A-6
City of Philadelphia
Filled, Full Time Positions — All Operating Funds
at June 30 Actual

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010*</u>
General Fund							
Police	7,668	7,368	7,287	7,424	7,367	7,443	7,478
Streets	1,946	1,788	1,858	1,814	1,839	1,724	1,797
Fire	2,337	2,248	2,270	2,399	2,326	2,252	2,328
Health	745	667	662	664	665	662	739
Courts	2,046	2,004	1,936	1,928	1,970	1,889	1,965
Prisons	2,033	2,152	2,225	2,176	2,131	2,294	2,360
Human Services	1,815	1,743	1,703	1,721	1,784	1,743	1,858
All Other	5,170	4,995	4,878	4,941	5,029	4,905	4,982
Total General Fund	<u>23,760</u>	<u>22,965</u>	<u>22,819</u>	<u>23,067</u>	<u>23,111</u>	<u>22,912</u>	<u>23,507</u>
Other Funds	<u>4,659</u>	<u>4,649</u>	<u>4,616</u>	<u>4,598</u>	<u>4,642</u>	<u>4,570</u>	<u>5,044</u>
TOTAL	28,419	27,614	27,435	27,665	27,753	27,482	28,551

* Adopted Budget includes vacant positions.

Labor Agreements

Four major bargaining units represent City employees for collective bargaining purposes. District Councils 33 and 47 of the American Federation of State, County and Municipal Employees, AFL-CIO represents approximately 15,000 non-uniformed employees. The bargaining units for uniformed employees are the Fraternal Order of Police, Lodge 5 (the "FOP") and the Philadelphia Fire Fighters Association, Local 22, International Association of Fire Fighters AFL-CIO ("IAFF Local 22"), which together represent approximately 9,400 employees. The non-uniformed employees bargain under Act 195 of 1972, which allows for the limited right to strike over collective bargaining impasses. The uniformed employees bargain under Pennsylvania Act 111 of 1968, which provides for final and binding interest arbitration to resolve collective bargaining impasses. All contract expiration dates are June 30 unless otherwise noted.

In September 2004, a collective bargaining agreement was reached with District Council 47. This four-year contract includes a \$750 payment to each member with no general wage increase in Fiscal Year 2005 and wage increases of 2, 3 and 4 percent effective July 1 of each succeeding year, respectively. In December 2004, a collective bargaining agreement was reached with District Council 33, which mirrored the agreement previously reached with District Council 47. Each of the collective bargaining agreements included a health benefit reopener provision for the final two years of the agreement. The City concluded negotiations with District Councils 33 and 47 and agreed to increase the per member per month contributions to the unions by fourteen percent in Fiscal Year 2007 and an additional fourteen percent in Fiscal Year 2008.

On June 28, 2006, an arbitration panel issued a 3-year award to the IAFF Local 22. The award granted wage increases of 3.0% effective July 1, 2005, 3.0% effective July 1, 2006, and 4.0% effective July 1, 2007. In addition, the panel granted Local 22 health medical increases of 11.3% effective July 1, 2005, 14.1% effective July 1, 2006, and 14.0% effective July 1, 2007. The arbitration panel also addressed management issues believed by the City to be outside its jurisdiction. On August 24, 2007, the Commonwealth Court issued an opinion affirming in part and revising in part. The Court upheld the

medical increases granted by the arbitrator's and revised the decision that limited the City's management rights.

The FOP contract contained a 3% increase in wages effective July 1, 2004, 3% effective July 1, 2005, 3% effective July 1, 2006 and a 4% increase effective July 1, 2007. The award also called for a re-opener for health medical coverage for Fiscal Year 2006 and Fiscal Year 2007.

At the re-opener in August of Fiscal Year 2006, the arbitrators ordered the City to increase FOP healthcare contributions by 15.7 percent and 10 percent in Fiscal Year 2006 and Fiscal Year 2007, respectively. After a City appeal, the Court of Common Pleas remanded the ruling back to arbitration, but the panel reissued its original ruling with no change. The City appealed the ruling to Common Pleas Court on February 13, 2006, and lost. The City has appealed that ruling in Commonwealth Court which ruled in favor of the City. The FOP petitioned the Pennsylvania Supreme Court asking the Court to review the matter, which the Court declined to do. The Mayor and the FOP reached a settlement in which the City agreed to pay the amounts awarded by the arbitrator. Accordingly, the matter has been withdrawn as moot.

On July 10, 2008 the arbitration panel awarded a one-year contract to the FOP effective July 1, 2008. The award called for a 2 percent wage increase effective July 1, 2008, a 2 percent wage increase effective January 1, 2009 and a 1 percent increase in longevity pay effective January 1, 2009. In addition, the panel reduced the per member per month health medical payment from the current monthly rate of \$1,303 per member to \$1,165 per member.

On October 17, 2008, an arbitration panel awarded a one-year contract to the IAFF Local 22 effective July 1, 2008. The award called for a 2 percent wage increase effective July 1, 2008, a 2 percent wage increase effective January 1, 2009, and a 1 percent increase in longevity pay effective January 1, 2009. In addition, the panel reduced the per member per month health medical payment from the current monthly rate of \$1,444 per member to \$1,270 per member.

The City also reached a one year agreement with District Council 33 and District Council 47, which was effective July 1, 2008. The agreement called for a lump sum bonus of \$1,100 per member. The agreement also called for no increase in the current per member per month health benefit payment. The union memberships have ratified the agreements.

Contracts for the four major bargaining units representing City employees expired on June 30, 2009. Negotiations are underway with District Councils 33 and 47. The contract with the FOP is in arbitration. Arbitration for the IAFF Local 22 is scheduled to begin in September.

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The following table presents employee wage increases for the Fiscal Years 1998 through 2009.

Table A-7
City of Philadelphia
Employee Wage Increases
Fiscal Years 1998-2009

<u>Fiscal Year</u>	<u>District Council No. 33</u>	<u>District Council No. 47</u>	<u>Fraternal Order of Police</u>	<u>International Association of Fire Fighters</u>
1998	3.0% (a)	3.0% (a)	4.0% (b)	4.0% (c)
1999	3.0% (a)	3.0% (a)	3.0% (b)	3.0% (c)
2000	4.0% (d)	4.0% (d)	4.0% (e)	4.0% (f)
2001	No increase	No increase	3.0%	3.0%
2002	3.0% (h)	3.0% (h)	4.0%	4.0%
2003	3.0% (i)	3.0% (i)	3.0%	3.0%
2004	3.0%	3.0%	3.5%	3.5%
2005	No increase (j)	No increase (j)	3.0%	3.0%
2006	2.0%	2.0%	3.0%	3.0%
2007	3.0% (k)	3.0% (k)	3.0%	3.0%
2008	4.0% (l)	4.0% (l)	4.0%	4.0%
2009	No increase (m)	No increase (m)	4.0% (n)	4.0% (n)

- (a) Third year of a four year contract: 3% effective December 15, 1998.
- (b) First year of a two year contract: 3% effective September 15, 1998.
- (c) Third year of a four year contract: 3% effective September 15, 1998.
- (d) Fourth year of a four year contract: 4% effective March 15, 2000.
- (e) Second year of a two year contract: 4% effective September 15, 1999.
- (f) Fourth year of a four year contract: 4% effective September 15, 1999.
- (g) First year of a four year contract: cash bonus of \$1,500 paid in August 2000.
- (h) Second year of a four year contract: 3% effective December 15, 2001.
- (i) Third year of a four year contract: 3% effective December 15, 2002.
- (j) First year of a four year contract: cash bonus of \$750 paid in October 2004 to District Council 47 members and in December 2004 to District Council 33 members.
- (k) Third year of a four year contract: 3% effective July 1, 2006.
- (l) Fourth year of a four year contract: 4% effective July 1, 2007.
- (m) Cash bonus of \$1,100 paid 15 days after ratification.
- (n) One year contract: 2% effective July 1, 2008 and 2% effective January 1, 2009.

Employee Benefits

The City provides various pension, life insurance, health, and medical benefits for its employees. General Fund employee benefit expenditures for Fiscal Years 2004 through 2010 are shown in the following table.

Table A-8
City of Philadelphia
General Fund Employee Benefit Expenditures
Fiscal Years 2004-2010
(Amounts in Millions of USD)

	<u>Actual</u> <u>2004</u>	<u>Actual</u> <u>2005</u>	<u>Actual</u> <u>2006</u>	<u>Actual</u> <u>2007</u>	<u>Actual</u> <u>2008</u>	<u>Current</u> <u>Estimate</u> <u>2009</u>	<u>Adopted</u> <u>Budget</u> <u>2010</u>
Pension Contribution*	229.4	315.5	346.5	436.8	430.8	461.1	332.2
Health/Medical/Dental	253.7	285.9	291.8	331.5	421.0	368.8	368.8
Social Security	60.6	59.9	60.8	64.1	69.7	69.2	69.2
Other	<u>55.2</u>	<u>43.4</u>	<u>61.1</u>	<u>57.9</u>	<u>61.5</u>	<u>66.1</u>	<u>42.6</u>
Total	<u>598.9</u>	<u>704.7</u>	<u>760.2</u>	<u>890.3</u>	<u>983.0</u>	<u>965.2</u>	<u>812.8</u>

* The Pension Contribution amount includes debt service on the Pension Obligation Bonds, Series 1999. The Fiscal Year 2010 Pension Contribution assumes certain changes which require the approval of the Pennsylvania General Assembly.

Municipal Pension Fund (Related to All Funds)

The City is required by the Home Rule Charter to maintain an actuarially sound pension and retirement system covering all officers and employees of the City. Court decisions have interpreted this requirement to mean that the City must make contributions to the Municipal Pension Fund sufficient to fund:

- A. Accrued actuarially determined normal costs.
- B. Amortization of the unfunded actuarial accrued liability ("UAAL") determined as of July 1, 1985. The portion of that liability attributable to a class action lawsuit by pension fund beneficiaries is amortized in level installments, including interest, over 40 years through June 30, 2009. The remainder of the liability is amortized over 34 years with increasing payments expected to be level as a percentage of each year's aggregate payroll.
- C. Amortization in level percent of pay of the changes in the July 1, 1985 liability due to: nonactive member's benefit modifications (10 years); experience gains and losses (15 years); changes in actuarial assumptions (20 years); and active members' benefit modifications (20 years).

The pension fund was actuarially valued every two years through 1984, and beginning with the July 1, 1985 valuation report, is required to be actuarially valued each year.

The July 1, 1980 unfunded liability, as amended by subsequent reports, will be amortized over 38 years through annual contributions which will closely approximate a level percent of payroll. The Pennsylvania Municipal Pension Plan Funding Standard and Recovery Act, enacted December 18, 1984 adopted changes in funding of municipal pensions that have been reflected in the valuation report for July 1, 1985. In particular, this act generally requires that unfunded actuarial accrued liability be funded in annual level dollar payments. The City is permitted to amortize the July 1, 1985 UAAL over 40 years as a level percentage of pay of each year's aggregate payroll ending in 2025.

A July 2004 amendment to Act 205 allowed for 2001 and 2002 calendar year investment losses to be amortized over 30 years, rather than the usual 15.

Based on the City's most recent actuarial report dated as of July 1, 2008, the unfunded accrued liability was \$3.775 billion which equals a funding ratio of 55.4%. Although no additional actuarial report concerning the Municipal Pension Fund funding ratio has been completed since July 1, 2008, it is anticipated that as a result of investment losses, the funding ratio of the fund has decreased. The City's current estimate of the Municipal Pension Fund funding ratio as of the end of Fiscal Year 2009, based on discussions with the City's actuary, is between 45-50%. See "DISCUSSION OF FINANCIAL OPERATIONS - Effect of Economic Crisis on City Budget" herein.

Non-uniformed employees become vested in the Municipal Pension Plan upon the completion of ten years of service. Upon retirement, non-uniformed employees may receive up to 80% of their average final compensation depending upon their years of credited service. Uniformed employees become vested in the Municipal Pension Plan upon the completion of ten years of service. Upon retirement, uniformed employees may receive up to 100% of their average final compensation depending upon their years of credited service. The retirement age differs for Plan 67 (age 55) and Plan 87 (age 60).

Effective January 1, 1987, the City adopted a new plan ("Plan 87") to cover employees hired after January 8, 1987, as well as members in the previous Plan who elected to transfer to Plan 87. Except for elected officials, Plan 87 provides for less costly benefits and reduced employee contributions. For elected officials, Plan 87 provides for enhanced benefits, with participating elected officials required to pay for the additional normal cost. Police and Fire personnel became eligible for Plan 87 on July 1, 1988. Because of Court challenges, members of District Council 33 and Locals 2186 and 2187 of District Council 47 were not eligible for Plan 87 until October 2, 1992.

The Eighteenth Five-Year Plan assumes several changes to the pension system, some of which will require approval of the Pennsylvania General Assembly. The City proposes to change the amortization period from 20 to 30 years and to lower the assumed rate of interest from 8.75 percent to 8.25 percent. Additionally, the Plan assumes a partial deferral of the pension payment in Fiscal Year 2010 (\$150 million) and Fiscal Year 2011 (\$80 million) to be paid back by Fiscal Year 2014. Through Fiscal Years 2010 to 2014, the impact of the City's proposed pension changes on the Municipal Pension Fund's funding percent is modest. Over time however, the effect is more significant. By Fiscal Year 2026 the funded ratio is projected to be approximately 85% under current funding assumptions, but less than 70% if the proposed changes are implemented.

A comprehensive statement of operations of the City Municipal Pension Fund for Fiscal Years 1999 through 2008 is contained in the Fiscal Year 2008 Comprehensive Annual Financial Report.

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Purchase of Services

The City accounts for a number of expenditures as purchase of services. The following table presents major purchases of services in the General Fund in Fiscal Years 2004 through 2010.

TABLE A-9
CITY OF PHILADELPHIA
PURCHASE OF SERVICE IN THE GENERAL FUND
FISCAL YEARS 2004-2010
(AMOUNTS IN MILLIONS OF USD)

	Actual			2007	Actual	Current Estimate	Adopted Budget
	2004	2005	2006		2008	2009	2010
Human Services (a)	493.7	511.8	467.9	495.3	515.3	498.9	490.6
Public Health	69.1	60.7	61.1	65.5	65.1	71.1	68.6
Public Property (b)	132.4	133.3	137.6	156.3	139.5	142.3	146.1
Streets (c)	53.9	54.6	54.8	58.3	58.4	52.0	45.6
Sinking Fund-Lease Debt (d)	70.8	70.7	77.0	84.3	85.1	91.6	93.7
Legal Services (e)	33.4	33.5	33.6	35.4	37.3	37.3	35.9
First Judicial District	23.0	28.3	24.4	24.8	25.6	22.1	20.9
Licenses & Inspections (f)	6.0	3.1	11.5	11.4	11.9	9.9	8.5
Emergency (g)	12.0	22.1	28.6	31.3	33.9	32.5	31.7
Prisons	80.8	84.9	82.8	87.5	93.6	111.1	116.7
All Other	<u>75.2</u>	<u>87.1</u>	<u>86.4</u>	<u>101.5</u>	<u>123.0</u>	<u>120.0</u>	<u>91.3</u>
Total	<u>1,050.3</u>	<u>1,090.1</u>	<u>1,065.7</u>	<u>1,151.6</u>	<u>1,188.7</u>	<u>1,188.8</u>	<u>1,149.6</u>

- (a) Includes payments for care of dependent and delinquent children.
- (b) Includes payments for SEPTA, space rentals, utilities, and telecommunications. In Fiscal Year 2008, the telecommunications division was transferred to the Mayor's Office of Information Services (M.O.I.S.). Services purchased for MOIS appear in the table under the category "All Other". In FY2010 telecommunications is budgeted in Public Property.
- (c) Includes solid waste disposal costs.
- (d) Includes, among other things, Justice Center, Neighborhood Transformation Initiative and Stadium lease debt.
- (e) Includes payments to the Defender Association to provide legal representation for indigents.
- (f) Includes payments for demolition in Fiscal Year 2006, Fiscal Year 2007, Fiscal Year 2008 and Fiscal Year 2009.
- (g) Includes homeless shelter and boarding home payments.

FIGURES MAY NOT ADD DUE TO ROUNDING

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City Payments to School District

In each fiscal year since Fiscal Year 1996, the City has made an annual grant of \$15 million to the School District. Pursuant to negotiations with the Commonwealth to address the School District's current and future educational and fiscal situation, the Mayor and City Council agreed to provide the School District with an additional annual \$20 million beginning in Fiscal Year 2002. In Fiscal Year 2008, the Mayor and City Council agreed to provide an additional \$2 million, bringing the total contribution to \$37 million. The Fiscal Year 2009 budget includes a \$38.5 million contribution, and the Fiscal Year 2010 budget includes a \$38.5 million contribution.

City Loan to PGW

The City made a loan of \$45 million to PGW during Fiscal Year 2001 to assist PGW in meeting its cash flow requirements. This loan was scheduled to mature in Fiscal Year 2007; however, PGW did not make the \$45 million payment. PGW repaid \$2 million to the City on August 31, 2007. PGW remitted a payment for \$20.5 million before December 28, 2007; and PGW remitted a payment for the balance of \$22.5 million on August 29, 2008. In addition, in order to assist PGW, (i) the City agreed to forgo the \$18 million annual payment in Fiscal Year 2004, (ii) for Fiscal Years 2005, 2006, 2007, 2008 and 2009 the City made a grant to PGW equal to the annual payment received from PGW in such fiscal years, and (iii) the City's Eighteenth Five-Year Plan contemplates that in each of the Fiscal Years 2010 through 2014, the City will make a grant to PGW equal to the annual payment received from PGW in such Fiscal Years.

City Payments to SEPTA

The City's Fiscal Year 2008 operating subsidy payment to SEPTA was \$61.3 million. The City's Fiscal Year 2009 operating subsidy payment to SEPTA was \$63.1 million. The Fiscal Year 2010 budget projects operating subsidy payments to SEPTA of \$64.2 million. The Eighteenth Five-Year Plan provides that the City's contribution to SEPTA will increase to \$70.9 million by Fiscal Year 2014.

DEBT OF THE CITY

The Constitution of the Commonwealth provides that the authorized debt of the City "may be increased in such amount that the total debt of said City shall not exceed 13.5% of the average of the annual assessed valuations of the taxable realty therein, during the ten years immediately preceding the year in which such increase is made, but said City shall not increase its indebtedness to an amount exceeding 3.0% upon such average assessed valuation of realty, without the consent of the electors thereof at a public election held in such manner as shall be provided by law." It has been judicially determined that bond authorizations once approved by the voters will not be reduced as a result of a subsequent decline in the average assessed value of City property.

The Constitution of the Commonwealth further provides that there shall be excluded from the computation of debt for purposes of the Constitutional debt limit, debt (herein called "self-supporting debt") incurred for revenue-producing capital improvements that may reasonably be expected to yield revenue in excess of operating expenses sufficient to pay interest and sinking fund charges thereon. In the case of general obligation debt, the amount of such self-supporting debt to be so excluded must be determined by the Court of Common Pleas of Philadelphia County upon petition by the City. Self-supporting debt is general obligation debt of the City, with the only distinction from tax-supported debt being that it is not used in the calculation of the Constitutional debt limit. Self-supporting debt has no lien on any particular revenues.

As of June 30, 2008, the Constitutional debt limitation for tax-supported general obligation debt was approximately \$1,417,996,300 (based upon a formula of 13.5% of the assessed value of taxable real estate within the City on a 10 year rolling average). As of June 30, 2008, the City's total amount of

authorized general obligation debt was \$1,688,913,000, which includes approximately \$359,651,000 of self-supporting debt, which does not count against the Constitutional debt limit. As of June 30, 2008, \$1,329,262,000 of general obligation debt subject to the constitutional debt limit was authorized, and of this authorized amount, \$1,144,477,000 was issued and outstanding. As of June 30, 2008, a balance of \$184,785,000 remained authorized and unissued, and after legally authorized deductions for appropriations of approximately \$30,855,700 for Fiscal Year 2009 maturing serial bonds, there remained a balance of \$119,590,000 available for future authorization and issuance. On May 14, 2009, the City introduced a bill to authorize the issuance of \$65,525,000 of general obligation bonds.

Of the balance of remaining authorized general obligation debt subject to the Constitutional debt limit, \$165,000,000 was utilized by the issuance on the General Obligation Bonds, Series 2008B on January 6, 2009, and \$19,785,000 remains authorized and unissued.

The City is also authorized to issue revenue bonds pursuant to The First Class City Revenue Bond Act of 1972. Currently, the City issues revenue bonds to support the Division of Aviation, the Water Department and PGW. Bonds so issued are excluded for purposes of the calculation of the Constitutional debt limit.

Short-Term Debt

The City has issued notes in anticipation of the receipt of income by the General Fund in each fiscal year since Fiscal Year 1972 (with a single exception). Each note issue was repaid when due prior to the end of the fiscal year of issuance. The City issued \$350 million of Tax and Revenue Anticipation Notes in November 2008. These notes were repaid on June 30, 2009.

Long-Term Debt

Table A-10 presents a synopsis of the bonded debt of the City and its component units at the close of Fiscal Year 2008. In addition, for tables setting forth a ten year historical summary of tax-supported debt of the City and School District and the debt service requirements to maturity of the City's outstanding bonded indebtedness as of June 30, 2008, see the Fiscal Year 2008 Comprehensive Annual Financial Report.

Of the total balance of City tax-supported general obligation bonds issued and outstanding at June 30, 2008, approximately 15% is scheduled to mature within 5 years and approximately 34% is scheduled to mature within 10 years.

Other Long-Term Debt Related Obligations

The City has entered into other contracts and leases to support the issuance of debt by public authorities related to the City pursuant to which the City is required to budget and appropriate tax or other general revenues to satisfy such obligations. As of June 30, 2008, the principal amounts of the outstanding bonds of each of these authorities relating to the City's contract and lease obligations were as follows:

PMA	\$ 185.9 million
PAID*	\$ 1,987.1 million
Parking Authority	\$ 16.9 million
Redevelopment Authority	\$ 265.6 million
Convention Center Authority	\$ 215.3 million

Source: Office of the Director of Finance

*This includes 100% of Pension Bonds, only 86% applicable to the general fund.

The bonds of the Parking Authority included in the previous table are payable from project revenues, and by the City only if and to the extent that net revenues are inadequate for this purpose. The City paid \$2.3 million in Fiscal Year 2006, \$1.2 million in Fiscal Year 2007, \$2.0 million in Fiscal Year 2008 and \$1.2 million in Fiscal Year 2009 toward the repayment of these bonds. The budgeted amount in Fiscal Year 2010 is \$1,335,650. See "Revenues of the City – Philadelphia Parking Authority."

The Hospitals Authority and the State Public School Building Authority have issued bonds on behalf of the Community College of Philadelphia ("CCP"). Under the Community College Act, each community college must have a local sponsor, which for CCP is the City. As the local sponsor, the City is obligated to pay up to 50% of the annual capital expenses of the college, which includes debt service. The remaining 50% is paid by the Commonwealth. Additionally, the City annually appropriates funds for a portion of CCP's operating costs (less tuition and less the Commonwealth's payment). The total payment to CCP in Fiscal Year 2008 was \$24,467,924. The amount paid in Fiscal Year 2009 is \$26,467,924. The budgeted amount in Fiscal Year 2010 is \$26,467,924. This amount represents the portion of operating costs (less student tuition and the Commonwealth payment) and up to half of the annual capital expenses for the year.

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Swap Information

The City has entered into various swaps related to its outstanding General Fund supported bonds as detailed in the following chart:

City Entity	City GO (1)	City Lease - PAID	City Lease - PAID	City Lease - PAID	City Lease - PAID
Related Bond Series	2007B	2001 (Stadium)	2001 (Stadium)	2007B (Stadium)	2007B (Stadium)
Initial Notional Amount	\$313,505,000	\$298,485,000	\$104,965,000	\$217,275,000	\$72,400,000
Current Notional Amount	\$313,505,000	\$193,520,000	\$104,965,000	\$217,275,000	\$72,400,000
Termination Date	8/1/2031	10/1/2030	10/1/2020	10/1/2030	10/1/2030
Product	Fixed Payer Swap	Basis Swap (2)	Constant Maturity Swap	Fixed Payer Swap	Fixed Payer Swap
Rate Paid by Dealer	SIFMA	67% 1-month LIBOR + 0.20%, plus fixed annuity	62.89% 5-year LIBOR CMS + 0.20%	SIFMA	SIFMA
Rate Paid by City Entity	3.829%	SIFMA	SIFMA	3.9713%	3.9713%
Dealer	Royal Bank of Canada	Merrill Lynch Capital Services, Inc.	Merrill Lynch Capital Services, Inc.	JP Morgan Chase Bank, N.A.	Merrill Lynch Capital Services, Inc.
Fair Value (3)	(\$16,616,713)	(\$9,346,012)	\$1,153,346	(\$14,639,304)	(\$4,878,046)

Notes:

(1) Notional amount will be reduced to \$100,000,000 in connection with the issuance of the General Obligation Bonds, Series 2009A Bonds, which is expected to close in August 2009.

(2) PAID receives annual fixed payments of \$1,216,500 from 7/1/2004 through 7/1/2013. As the result of an amendment on 7/14/2006, \$104,965,000 of the total notional was restructured as a constant maturity swap (the rate received by PAID on that portion was converted from a percentage of 1-month LIBOR to a percentage of the 5-year LIBOR swap rate from 10/1/2006 to 10/1/2020). The constant maturity swap is shown separately.

(3) Fair values are as of June 30, 2009 and are shown from the City's perspective and include accrued interest.

While the City is party to several interest rate swap agreements, for which there is General Fund exposure and on which the swaps currently have a negative mark against the City, the City has no obligation to post collateral on these swaps while the City's underlying ratings are investment grade.

For more information related to certain swaps entered into in connection with revenue bonds issued for the Water and Wastewater Systems, PGW and the Airport, see the City's 2008 Comprehensive Annual Financial Report attached as Appendix B. In addition, PICA has entered into swaps which are detailed in the City's 2008 Comprehensive Annual Financial Report attached as Appendix B.

Recent and Upcoming Financings

On April 16, 2008, the City priced \$195,170,000 of its General Obligation Refunding Bonds, Series 2008A. The 2008A Bonds, proceeds of which were used to refund all of the City's Series 2003B-1 and B-2 General Obligation Bonds, closed on May 1, 2008.

The City, in conjunction with PAID, replaced the Financial Guaranty Insurance Company ("FGIC") insurance policy on the Philadelphia Authority for Industrial Development Multi-Modal Lease Revenue Refunding Bonds, 2007 Series B with a direct pay letter of credit from J.P. Morgan and Bank of

New York. The remarketing of the bonds took place on April 30 and the restructuring closed on May 1, 2008.

On June 9, 2008, the City purchased a Letter of Credit from Wachovia Bank, N.A. related to the Sinking Fund Reserve Account for the 1998B Airport Revenue Bonds. The surety policy was originally provided by FGIC, but because FGIC was downgraded below the 'AA' category, the surety policy no longer met the rating requirements of the General Airport Revenue Bond Ordinance ("GARBO"). The Wachovia Letter of Credit in an amount of \$33.1 million meets the requirements of the bond ordinance and replaced the FGIC policy. This letter of credit was renewed for another year on June 8, 2009.

The City restructured \$78.5 million outstanding Water and Wastewater Revenue Bonds, Series 1997B. The Ambac Assurance Corporation ("Ambac") insurance policy was replaced by a Letter of Credit from Bank of America N.A. The transaction closed on September 10, 2008.

On November 18, 2008, the City priced \$350 million of Tax and Revenue Anticipation Notes. The transaction closed on November 25, 2008.

The City restructured \$178.6 million in outstanding Airport Revenue Bonds Series 2005C and the sinking fund reserve account in the approximate amount of \$18.7 million. The City replaced the MBIA insurance policy and the surety policy for the sinking fund reserve account for the Series 2005C Bonds with a letter of credit for both the Series 2005C Bonds and the reserve account provided by TD Bank. The City closed this transaction on December 23, 2008.

On December 15, 2008 the City priced \$165 million of General Obligation Bonds, Series 2008B. These bonds will be used to fund the cost of certain capital projects. The transaction closed on January 6, 2009.

The Airport Revenue Bonds, Series 2005B were insured by MBIA Insurance Corporation ("MBIA"). The Airport Revenue Bonds Series 2005A and 2005B also had MBIA surety policies for the Sinking Fund Reserve Account in the following approximate amounts: \$8.3 million, and \$4.0 million, respectively. When MBIA was downgraded below the 'AA' category, the surety policies no longer met the requirements of the GARBO. The City together with the Airport refunded the Series 2005B Bonds with the issuance of the 2009A fixed rate bonds. The MBIA reserve account surety policy for the 2005B bonds was replaced with bond proceeds. The City cash funded the 2005A sinking fund reserve account on April 9, 2009. The City closed the Airport Revenue Bonds, Series 2009A transaction on April 14, 2009.

On May 12, 2009, the City and the Water Department priced \$140 million of Water and Wastewater Revenue Bonds, Series 2009A. The bonds will be used to fund capital improvements to the City's water and wastewater systems. The transaction closed May 21, 2009.

The City, in conjunction with PMA, issued \$97.8 million of Lease Revenue Bonds, Series 2009. The proceeds of the bonds will be used to design, construct and equip a youth center facility. The transaction closed on June 30, 2009.

The City and the Water Department restructured \$83.6 million of its outstanding Water and Wastewater Revenue Refunding Bonds, Series 2005B on July 1, 2009. The City replaced the Financial Security Assurance ("FSA") insurance policy with a letter of credit from Bank of America N.A.

The City executed a \$31 million, four-year tax-exempt lease to finance an upgrade to its municipal radio communications system for emergency and normal public safety purposes. This financing closed July 7, 2009.

The PGW 6th Series Revenue Bonds are insured by FSA and had liquidity provided by J.P. Morgan, Wachovia Bank N.A., and Scotia Bank. The liquidity expired in January 2009. All of the 6th Series Revenue Bonds are owned by the banks. The City, together with PGW, plans to refund the 6th Series Revenue Bonds with the Eighth Series Bonds. The variable rate bonds (Eighth Series B, C, D & E) in the amount of \$255 million will be secured by letters of credit from Bank of America, N.A., Wachovia Bank, N.A., Scotia Bank and J.P. Morgan. The remaining bonds will be refunded as fixed rate bonds (Series A) and a portion of the swap related to the 6th Series Revenue Bonds will be terminated, as further described in the forepart of this Official Statement.

The City plans to issue approximately \$275 million of its annual tax and revenue anticipation notes in August 2009.

The City also has outstanding variable rate debt that is insured by FSA which has more recently experienced problems in the market. The \$313.5 million of General Obligation Bonds, Series 2007B are insured by FSA with Dexia as the liquidity provider. The City refunded the 2007B Bonds with the proceeds of the 2009A Bonds and the 2009B Bonds and terminated a portion of the swap related to the 2007B Bonds. The City closed this transaction on August 13, 2009.

The 2003 Variable Rate Series, Water and Wastewater Revenue Refunding Bonds are also insured by FSA insurance with Dexia as the liquidity provider. These bonds have had increases in interest rates and have at times had trouble being remarketed, leading to bonds becoming bank bonds. As of July 30, 2009 none of these bonds were bank bonds. The City, together with the Water Department, is currently evaluating options to best handle potentially restructuring or refunding these bonds.

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Table A-10
City of Philadelphia
City-related Bond Indebtedness
June 30, 2008
(Amounts in Thousands of USD)

	<u>Governmental Fund Types</u>				<u>Enterprise Funds</u>			<u>All Funds Total</u>
	<u>General Fund</u>	<u>Municipal Authority Fund</u>	<u>PICA</u>	<u>Total</u>	<u>Water Fund</u>	<u>Aviation Fund</u>	<u>Total</u>	
<u>Bonded Debt Outstanding, July 1, 2007</u>	<u>1,166,400</u>	<u>195,400</u>	<u>622,500</u>	<u>1,984,300</u>	<u>1,762,300</u>	<u>1,161,400</u>	<u>2,923,700</u>	<u>4,908,000</u>
Increases:								
PAR Value of Bonds Issued:								
General Obligation	697,600	-	214,600	912,200	-	-	-	912,200
Revenue	-	-	-	-	217,500	255,400	255,400	255,400
<u>Total Bonds Sold</u>	<u>697,600</u>	<u>-</u>	<u>214,600</u>	<u>912,200</u>	<u>-</u>	<u>255,400</u>	<u>255,400</u>	<u>1,167,600</u>
Decreases								
Matured Bonds:								
General Obligation	34,200	9,500	37,400	81,100	1,200	-	1,200	82,300
General Obligation Refunded	682,800	-	227,600	910,400	-	-	-	910,400
Revenue	-	-	-	-	91,300	32,600	123,900	123,900
Revenue Refunded	-	-	-	-	-	81,400	81,400	81,400
<u>Total Decrease</u>	<u>717,000</u>	<u>9,500</u>	<u>265,000</u>	<u>991,500</u>	<u>92,500</u>	<u>114,000</u>	<u>206,500</u>	<u>1,198,000</u>
<u>Bonded Debt Outstanding, June 30, 2008</u>	<u>1,147,000</u>	<u>185,900</u>	<u>572,100</u>	<u>1,905,000</u>	<u>1,669,800</u>	<u>1,302,800</u>	<u>2,972,600</u>	<u>4,877,600</u>

Source: Office of Director of Finance.

CITY CAPITAL IMPROVEMENT PROGRAM

The Capital Improvement Program for Fiscal Years 2010-2015 contemplates a total budget of \$7,953,891,000 of which \$2,186,356,000 is to be provided from Federal, Commonwealth, and other sources and the remainder through City funding. The following table shows the amounts budgeted each year from various sources of funds for capital projects. City Council adopted the Capital Improvement Program for Fiscal Years 2010-2015 on May 21, 2009.

Table A-11
City of Philadelphia
Fiscal Years 2010-2015
Capital Improvement Program
(Amounts in Thousands of USD)

CITY FUNDS – TAX SUPPORTED	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2010-2015</u>
Carried-forward Loans	229,502	0	0	0	0	0	229,502
Operating Revenue	38,339	17,439	20,439	17,439	17,439	17,439	128,534
New Loans	63,000	68,020	78,023	88,013	97,944	99,946	494,946
Pre-financed Loans	6,042	1,000	1,000	1,000	1,000	1,000	11,042
PICA Pre-financed Loans	<u>43,017</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>43,017</u>
Tax-supported Subtotal	379,900	86,459	99,462	106,452	116,383	118,385	907,041
CITY FUNDS - SELF-SUSTAINING							
Carried-forward Loans	653,509	0	0	0	0	0	653,509
Operating	146,926	41,961	40,352	40,743	40,134	40,525	350,641
New Loans	<u>496,729</u>	<u>532,113</u>	<u>525,404</u>	<u>582,679</u>	<u>883,025</u>	<u>810,394</u>	<u>3,830,344</u>
Self-Sustaining Subtotal	1,297,164	574,074	565,756	623,422	923,159	850,919	4,834,494
REVOLVING FUNDS	26,000	0	0	0	0	0	26,000
OTHER THAN CITY FUNDS							
Federal *	598,182	84,762	70,048	68,008	77,023	74,458	972,481
Federal Off Budget	96,553	95,859	79,906	81,815	97,600	117,840	569,573
State *	96,650	6,205	5,837	6,897	5,968	6,321	127,878
State Off Budget	20,772	35,902	36,933	35,058	36,799	34,732	200,196
Other Governments *	62,663	0	0	0	0	0	62,663
Other Governments/Off Budget	9,883	11,989	5,435	5,514	5,793	6,081	44,695
Private *	81,670	26,020	26,020	25,020	25,020	25,020	208,770
Private Off Budget	<u>0</u>	<u>100</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>100</u>
Other Than City Funds Subtotal	<u>966,373</u>	<u>260,837</u>	<u>224,179</u>	<u>222,312</u>	<u>248,203</u>	<u>264,452</u>	<u>2,186,356</u>
TOTAL	2,669,437	921,370	889,397	952,186	1,287,745	1,233,756	7,953,891

*Other Than City Funds in FY 2010 contain both New and Carried-Forward amounts as follows:

Federal	New – \$ 250,399	Carried Forward – \$ 347,783
State	New – 15,399	Carried Forward – 81,251
Other Governments	New – 0	Carried Forward – 62,663
Private	New – 5,030	Carried Forward – 76,640

LITIGATION

Generally, judgments and settlements on claims against the City are payable from the General Fund, except for claims against the Water Department, the Aviation Division, and the Gas Works. Claims against the Water Department are paid first from the Water Fund and only secondarily from the General Fund. Claims against the Aviation Division, to the extent not covered by insurance, are paid first from the Aviation Fund and only secondarily from the General Fund. Claims against the Gas Works, to the extent not covered by insurance, are paid first from Gas Works revenues and only secondarily from the General Fund.

The Act of October 5, 1980, P.L. 693, No. 142, known as the "Political Subdivision Tort Claims Act," (the "Tort Claims Act") establishes a \$500,000 aggregate limitation on damages for injury to a person or property arising from the same cause of action or transaction or occurrence or series of causes of action, transactions or occurrences with respect to governmental units in the Commonwealth such as the City. The constitutionality of that aggregate limitation has been repeatedly upheld by the Pennsylvania Supreme Court. In February 1987, an appeal of a decision upholding such constitutionality to the United States Supreme Court was dismissed for want of jurisdiction. However, under Pennsylvania Rule of Civil Procedure 238, delay damages in State Court cases are not subject to the \$500,000 limitation. Moreover, the limit on damages is inapplicable to any suit against the City which does not arise under state tort law such as claims made against the City under Federal civil rights laws.

The aggregate loss resulting from general and special litigation claims was \$30.2 million for Fiscal Year 2001, \$30.0 million for Fiscal Year 2002, \$24.1 million for Fiscal Year 2003, \$24.5 million for Fiscal Year 2004, \$27.5 million for Fiscal Year 2005, \$23.0 million for Fiscal Year 2006, \$26.6 million for Fiscal Year 2007 and \$29.3 million for Fiscal Year 2008. Estimates of settlements and judgments from the General Fund are \$35.0 million, \$24.5 million, \$24.5 million, \$24.5 million, and \$24.5 million for Fiscal Years 2009 through 2013, respectively. In budgeting for settlements and judgments in the annual Operating Budget and projecting settlements and judgments for each Five-Year Plan, the City bases its estimates on past experience and on an analysis of estimated potential liabilities and the timing of outcomes, to the extent a proceeding is sufficiently advanced to permit a projection of the timing of a result. General and special litigation claims are budgeted separately from back-pay awards and similar settlements relating to labor disputes. Usually, some of the costs arising from labor litigation are reported as part of current payroll expenses. For Fiscal Year 2008, payments for claims arising from labor settlements in the General Fund were \$1.11 million of which \$0.85 million was paid from the Indemnities account, and \$0.26 million from the Operating budgets of the affected departments. Actual claims paid out from the General Fund for settlements and judgments averaged \$26.1 million per year over the five years from Fiscal Year 2004 through Fiscal Year 2008.

In addition to routine litigation incidental to performance of the City's governmental functions and litigation arising in the ordinary course relating to contract and tort claims and alleged violations of law, certain special litigation matters are currently being litigated and/or appealed and adverse final outcomes of such litigation could have a substantial or long-term adverse effect on the City's General Fund. These proceedings involve: environmental-related actions and proceedings in which it has been or may be alleged that the City is liable for damages, including but not limited to property damage and bodily injury, or that the City should pay fines or penalties or the costs of response or remediation, because of the alleged generation, transport, or disposal of toxic or otherwise hazardous substances by the City, or the alleged disposal of such substances on or to City-owned property; a class action suit alleging that the City failed to properly oversee management of funds in the deferred compensation plan of City employees; civil rights claims; and a pay dispute with former and current paramedics. The ultimate outcome and fiscal impact, if any, on the City's General Fund of the claims and proceedings described in this paragraph are not currently predictable.

Various claims in addition to the lawsuits described in the preceding paragraph have been asserted against the Water Department and in some cases lawsuits have been instituted. Many of these Water Department claims have been reduced to judgment or otherwise settled in a manner requiring payment by the Water Department. The aggregate loss for Fiscal Year 2003 which resulted from these claims and lawsuits was \$3.9 million, \$2.9 million for Fiscal Year 2004, \$2.4 million for Fiscal Year 2005 \$4.2 million for Fiscal Year 2006, \$2.5 million in Fiscal Year 2007 and \$4.6 million in Fiscal Year 2008. The Water Fund's budget for Fiscal Year 2009 contains an appropriation for Water Department claims in the amount of \$6.5 million, although the current estimate, based on the first three quarters of Fiscal Year 2009 expenditures, is for only \$4.2 million. The Water Fund is the first source of payment for any of the claims against the Water Department.

In addition, various claims have been asserted against the Aviation Division and in some cases lawsuits have been instituted. Many of these Aviation Division claims have been reduced to judgment or otherwise settled in a manner requiring payment by the Aviation Division. The aggregate loss for Fiscal Year 2008 which resulted from these claims and lawsuits was \$1.3 million. The Indemnities budget for Aviation Fund claims for Fiscal Year 2009 contains an appropriation in the amount of \$2.5 million, although the current estimate, based on the first three quarters of fiscal year 2009 expenditures, is for only \$460,000. The Aviation Division is the first source of payment for any of the claims against the Aviation Division.

ADDITIONAL INFORMATION

Current City Practices

It is the City's practice to file its Comprehensive Annual Financial Report ("CAFR"), which contains the audited combined financial statements of the City, with a Repository as soon as practicable after delivery of such report. The CAFR for the City's fiscal year ended June 30, 2008 was deposited with a Repository on February 24, 2009. The CAFR is prepared by the Director of Finance of the City in conformance with guidelines adopted by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants' audit guide, Audits of State and Local Government Units. Upon written request to the Office of the Director of Finance and payment of the costs of duplication and mailing, the City will make available copies of the CAFR for the Fiscal Year ended June 30, 2008. Such a request should be addressed to: Office of the Director of Finance, Municipal Services Building, Suite 1300, 1401 John F. Kennedy Boulevard, Philadelphia, PA 19102. The CAFR is also available online at www.phila.gov/investor, the City's website ("City Website" or "Website"). The City also expects to provide financial and other information from time to time to Moody's Investors Service, Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. and Fitch Ratings, in connection with the securities ratings assigned by those rating agencies to bonds or notes of the City.

The foregoing statement as to filing or furnishing of additional information reflects the City's current practices, but is not a contractual obligation to the holders of the City's bonds or notes.

The City Website contains information in addition to that set forth in the CAFR. The "Terms of Use" statement of the City Website, incorporated herein by this reference, provides, among other things, that the information contained therein is provided for the convenience of the user, that the City is not obligated to update such information, and that the information may not provide all information that may be of interest to investors.

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CITY SOCIOECONOMIC INFORMATION

Introduction

The City includes within its boundaries an area of approximately 130 square miles and a resident population of approximately 1.45 million according to the U.S. Census Bureau, 2006 Population Estimates. The City is in the heart of a nine-county metropolitan area with approximately 5.1 million residents. Air, rail, highway, and water routes provide easy access to the City.

The City is strategically located on the east coast with easy access to markets, resources, government centers, and transportation. The City's metropolitan area is the nation's fourth largest in the retail market with over 2,400 retail stores.

Quality of Life

The City is rich in history, art, architecture, and entertainment. World-class cultural and historic attractions include the Philadelphia Museum of Art (which houses the third largest art collection in the United States), the Philadelphia Orchestra, Academy of Music, Pennsylvania Ballet, the Constitution Center, the Kimmel Center (which had over 1 million people in attendance in 2007), Pennsylvania Academy of Fine Arts, Franklin Institute, Mann Music Center, Opera Company of Philadelphia, and the Rodin Museum. The South Philadelphia sports complex, currently consisting of Lincoln Financial Field, Citizens Bank Park, the Wachovia Spectrum and the Wachovia Center, is home to the Philadelphia 76ers, Flyers, Phillies and Eagles. The City also offers its residents and visitors America's most historic square mile, which includes Independence Hall and the Liberty Bell, as well as Fairmount Park, which spans 8,000 acres and includes Pennypack Park and the country's first zoo.

The City is a center for health, education, and science facilities with the nation's largest concentration of healthcare resources within a 100-mile radius. There are presently more than 30 hospitals, seven medical schools, two dental schools, two pharmacy schools, as well as schools of optometry, podiatry and veterinary medicine, and the Philadelphia Center for Health Care Sciences in West Philadelphia. The City is one of the largest health care and health care education centers in the world, and a number of the nation's largest pharmaceutical companies are located in the Philadelphia area.

The City has the second largest concentration of students on the East Coast with eighty degree granting institutions of higher education and a total enrollment of over 300,000 students. Included among these institutions are the University of Pennsylvania, Temple University, Drexel University, St. Joseph's University, and LaSalle University. Within a short drive from the City are such schools as Villanova University, Bryn Mawr College, Haverford College, Swarthmore College, Lincoln University, and the Camden Campus of Rutgers University. The undergraduate and graduate programs at these institutions help provide a well-educated and trained work force to the Philadelphia community.

Hospitals and Medical Centers

The City also has major research facilities, including those located at its universities, the medical schools, the Wistar Institute, the Fox Chase Cancer Center, and the University City Science Center. The Children's Hospital of Philadelphia (ranked number one in U.S. children's hospitals) has recently completed the construction of a new \$100 million biomedical research facility located within the Philadelphia Center for Health Care Sciences in West Philadelphia. A Comprehensive Cancer Center is also located at the University of Pennsylvania.

Hospitals and Medical Centers: The following table presents the most recent published data regarding hospitals and medical centers in Philadelphia. Due to mergers, consolidations and closures that have occurred or may occur in the future, this table is accurate only as of its publication date.

Table A-12
City of Philadelphia
Hospitals and Medical Centers

(As of October 2008)

<u>Institution</u>	<u>Beds</u>
Albert Einstein	424
Chestnut Hill	143
Frankford ⁽¹⁾	477
Jeane ⁽³⁾	176
Kensington	35
Mercy Hospital of Philadelphia	180
Methodist Hospital Division, TJUH	202
Nazareth	195
Northeastern Temple East	187
Pennsylvania	410
Presbyterian	223
Roxborough Memorial	137
St. Joseph's	146
Veteran's Affairs Medical Ctr Phila	137
Hahnemann University	497
Hosp of the Univ of Pennsylvania	743
Temple ⁽²⁾	746
Thomas Jefferson	694
Children's Hospital of Philadelphia ⁽⁴⁾	431
Fox Chase Cancer Center	100
Girard	106
Kindred - Philadelphia	52
Shriner's	35
St. Agnes Continuing Care	58
St. Christopher's	124
Belmont	147
Fairmount BHS	180
Friends	192
Magee Rehabilitation	96
MossRehab	166

Source: Delaware Valley Healthcare Council of HAP, Monthly Utilization Report-Summary Stats, October 2008

- (1) Frankford includes data for all three divisions — Frankford, Torresdale and Bucks County.
- (2) Temple includes data for Episcopal Hospital.
- (3) Jeanes Hospital Closed NICU Unit as of April 30, 2007 and OB as of May 31, 2007.
- (4) Children's Seashore House is now consolidated into Children's Hospital of Philadelphia's data.

Children's Hospital Expansion. The Children's Hospital of Philadelphia is expanding its research facilities in West Philadelphia. The \$400 million first phase of the new complex is expected to be completed in Fall 2009; the \$500 million second phase has been put on hold for the time being due to market conditions.

University of Pennsylvania. A major new \$302 million cancer research and treatment center, the Center for Advanced Medicine, opened in October 2008. The West Tower of the Center of Advanced Medicine is estimated to be completed in 2010 at a cost of \$370 million and is currently under construction.

The Fox Chase Cancer Center. The Center is a non-profit institution, which is expanding its campus in the northeast section of the City. The Center's 25-year Master Plan is over \$1 billion, providing over 2.7 million square feet of space dedicated to research and patient care. While a planned expansion into Burholme Park is currently the subject of litigation, the Cancer Research Pavilion will open in July 2009 on the current main campus. The project cost is \$100 million. Other projects on the current main campus are being planned at this time.

Demographics

During the ten-year period between 1990 and 2000, the population of the City decreased from 1,585,577 to 1,517,550. During the same period, the population of Pennsylvania increased by 3.4%, less than one-third the national rate of increase.

Table A-13
Population
City, Pennsylvania & Nation

	<u>1990</u>	<u>2000</u>	<u>2008 (est.)</u>	<u>% Change</u> <u>1990-2000</u>	<u>%</u> <u>Change</u> <u>2000-2007</u>
Philadelphia	1,585,577	1,517,550	1,447,395	-4.3%	-4.6%
Pennsylvania	11,881,643	12,281,054	12,448,279	3.4%	1.4%
United States	248,709,873	281,421,906	304,059,724	13.2%	8.0%

Source: U.S. Census Bureau, 2007 Population Estimates, Census 2000, 1990 Census.

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**Table A-13
Population Age Distribution**

Philadelphia County						
Age	1990	% of Total	2000	% of Total	2005- 2007* (est)	% of Total
0-24	563,816	35.6	551,308	36.3	523,318	36
25-44	490,224	30.9	444,774	29.3	402,896	27.7
45-64	290,803	18.3	307,746	20.2	339,409	23.3
65-84	217,913	13.7	186,383	12.3	160,269	11
85 & up	22,801	1.4	27,339	1.8	28,490	2
Total	1,585,577	100	1,517,550	100	1,454,382	100

Pennsylvania						
Age	1990	% of Total	2000	% of Total	2005-2007* (est)	% of Total
0-24	4,021,585	33.8	4,016,670	32.6	3,996,274	32.2
25-44	3,657,323	30.8	3,508,562	28.6	3,212,382	25.9
45-64	2,373,629	20	2,836,657	23.1	3,308,060	26.8
65-84	1,657,270	13.9	1,681,598	13.7	1,614,969	13
85 & up	171,836	1.4	237,567	1.9	269,274	2.2
Total	11,881,643	100	12,281,054	100	12,400,959	100

United States						
Age	1990	% of Total	2000	% of Total	2005-2007* (est)	% of Total
0-24	90,342,198	36.3	99,437,266	35.3	103,110,927	34.5
25-44	80,754,835	32.5	85,040,251	30.2	83,587,234	28
45-64	46,371,009	18.6	61,952,636	22	74,794,039	25
65-84	28,161,666	11.3	30,752,166	11	32,289,322	10.8
85 & up	3,080,165	1.2	4,239,587	1.5	4,975,788	1.7
Total	248,709,873	100	281,421,906	100	298,757,310	100

Source: U.S. Dept. of Commerce, Bureau of the Census.

*2005-2007 American Community Survey 3 year estimates

The Economy

Philadelphia's economy is composed of diverse industries, with virtually all classes of industrial and commercial businesses represented. The City is a major business and personal service center with strengths in insurance, law, finance, health, education, and utilities.

The cost of living in Philadelphia is relatively moderate compared to other major metropolitan areas. The City, as one of the country's education centers, offers the business community a large, diverse, and industrious labor pool.

**Table A-14
Office Rental Rates in Cities
Throughout the United States**

(In \$ Per Square Foot)

	January <u>2004</u>	January <u>2005</u>	May <u>2006</u>	November <u>2006</u>	May <u>2007</u>	May <u>2008</u>	November <u>2008</u>	May <u>2009</u>
Atlanta	23.09	21.92	20.08	20.56	20.16	21.76	21.23	21.29
Chicago	29.97	28.47	23.77	22.97	22.44	24.75	24.78	24.56
Dallas	20.58	19.71	17.43	16.47	17.20	22.96	23.72	23.71
Denver	17.84	17.24	19.03	20.37	22.17	27.15	27.55	26.53
Houston	19.29	18.21	19.15	19.52	21.53	28.92	26.83	24.91
Los Angeles	25.56	26.55	23.12	22.59	23.74	30.52	30.51	29.92
New York	45.51	45.16	55.15	62.07	69.44	103.43	98.08	68.63
Philadelphia	23.24	21.97	22.42	22.96	22.60	24.35	25.26	25.24
Phoenix	20.38	19.39	24.29	26.19	27.32	29.14	29.17	28.23
Portland	20.59	19.65	21.58	22.41	23.00	25.85	27.62	26.99
San Francisco	27.15	27.75	30.62	31.11	35.81	49.71	48.57	39.40
St. Louis	20.52	19.91	21.12	21.75	21.21	22.82	22.42	22.78
Tampa	19.23	18.01	20.54	21.13	22.46	25.30	26.22	26.36
Washington, D.C.	31.05	35.95	42.74	43.58	44.00	51.05	51.26	51.77

Source: CB Richard Ellis, Global Market Rents Report; Global MarketView: Office Occupancy Costs Report.

Employment

The employment and unemployment rates and the total number of jobs within the City are reflected in Tables A-15 and A-16, respectively.

The employment changes within the City principally have been due to declines in the manufacturing sector and the relatively stronger performance of the service economy. The City's and region's economies are diversified, with strong representation in the health care, government, and education sectors but without the domination of any single employer or industry.

In March 2000, the Philadelphia Authority for Industrial Development ("PAID") took ownership of more than 1,000 acres at the site of the former Philadelphia Navy Shipyard, Naval Station. Naval Hospital and Defense Supply Center and has begun to implement aggressive redevelopment activities. To date, at least 47 companies have leased or purchased in excess of 2 million square feet of facilities at the complex, now known as the Philadelphia Naval Business Center ("PNBC"). In addition to this employment, the Navy has retained more than 2 million square feet of facilities. Together, the private and Navy facilities employ more than 7,000 people. Long term plans call for more than 10 million square feet of industrial and commercial space at PNBC, with employment targeted between 15,000-20,000.

Table A-15
Labor Force Data Annual Average
Based on Residency (not seasonally adjusted)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Philadelphia (000)*							
Labor Force	635.2	622.6	619.1	617.7	615.4	614.7	627.2
Employment	588.5	575.7	573.9	576.2	577.3	577.8	582.3
Unemployment	46.6	46.9	45.2	41.4	38.1	37.0	44.9
Unemployment Rate (%)	7.3	7.5	7.3	6.7	6.2	6.0	7.2
Philadelphia PMSA (000)**							
Labor Force	2,898.4	2,879.2	2,893.1	2,924.8	2,954.5	2,948.2	2,986.2
Employment	2,743.1	2,722.4	2,746.1	2,786.6	2,821.7	2,822.8	2,826.3
Unemployment	155.2	156.8	147.1	138.2	132.7	125.4	159.9
Unemployment Rate (%)	5.4	5.4	5.1	4.7	4.5	4.3	5.4
Pennsylvania (000)							
Labor Force	6,218.0	6,145.0	6,205.0	6,257.0	6,290.0	6,287.0	6,395.0
Employment	5,869.0	5,796.0	5,868.0	5,946.0	6,003.0	6,013.0	6,051.0
Unemployment	349.0	349.0	338.0	311.0	287.0	274.0	344.0
Unemployment Rate (%)	5.6	5.7	5.4	5.0	4.6	4.4	5.4
United States (000,000)							
Labor Force	144.9	146.5	147.4	149.3	151.4	153.1	154.3
Employment	136.5	137.7	139.3	141.7	144.4	146.0	145.4
Unemployment	8.4	8.8	8.1	7.6	7.0	7.1	8.9
Unemployment Rate (%)	5.8	6.0	5.5	5.1	4.6	4.6	5.8

Source: Center for Workforce Information and Analysis, PA Dept of Labor and Industry, 2009.

* Philadelphia County

** The Philadelphia PMSA includes Philadelphia-Camden-Wilmington, PA, NJ, DE, MD Metro Stat Area.

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Table A-16
Philadelphia County
Total Monthly Employment and Monthly Unemployment Rates
Based on Residency
2002 – 2008

<u>Month</u>	<u>Total Employment in 000's</u>							<u>Unemployment Rate %</u>						
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
January	589.9	580.5	574.5	576.0	576.4	580.7	582.1	6.9	7.5	7.5	6.9	6.2	6.1	6.7
February	591.3	580.3	574.2	574.3	576.9	580.0	576.6	7.1	7.5	7.3	7.2	6.4	5.9	6.8
March	589.5	579.7	572.8	573.1	577.2	579.4	576.3	7.2	7.3	7.7	7.0	6.3	5.8	6.7
April	589.9	578.9	573.4	575.7	578.0	577.4	580.1	7.4	7.5	7.4	6.8	6.4	5.9	6.8
May	591.2	576.1	570.7	577.5	577.8	576.1	582.2	7.3	7.5	7.5	6.7	6.2	6.0	7.0
June	590.6	575.9	571.5	575.5	578.4	578.2	580.2	7.3	7.7	7.5	6.6	6.2	6.0	7.0
July	588.3	573.4	574.3	577.8	576.0	578.5	577.0	7.5	7.6	7.4	6.4	6.3	6.0	7.0
August	589.2	573.7	573.6	576.6	577.5	578.0	577.7	7.4	7.6	7.3	6.5	6.3	6.0	7.9
September	590.4	573.1	574.6	577.5	577.3	577.2	578.6	7.3	7.7	7.1	6.6	6.1	6.1	7.5
October	586.8	573.1	574.9	576.9	578.7	576.3	579.4	7.4	7.6	7.1	6.5	5.9	6.1	7.7
November	583.5	573.3	576.3	576.5	577.3	577.7	573.6	7.6	7.5	6.9	6.7	6.0	6.0	8.0
December	582.0	570.7	576.0	577.9	576.7	574.0	572.6	7.6	7.4	6.9	6.5	6.0	6.3	8.6

Source: Center for Workforce Information and Analysis, PA Dept of Labor and Industry, 2009 (monthly Seasonally Adjusted Labor Force), Philadelphia County.

Table A-17
Philadelphia City
Non-Farm Payroll Employment*

(Amounts in Thousands)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008**</u>
Total Non-Farm	683.5	671.3	657.9	660.3	662.5	662.4	660.9
Natural Resources, Construction & Mining	12.9	12.3	11.4	12.0	12.4	11.8	11.2
Manufacturing	37.7	34.0	32.6	31.2	29.9	28.3	26.5
Trade, Transportation & Utilities	98.5	95.8	90.9	90.0	88.5	88.0	88.4
Information	17.0	15.9	13.6	13.2	12.8	12.9	12.9
Financial Activities	52.3	50.7	49.0	48.2	47.7	47.1	46.1
Professional & Business Services	82.9	80.9	80.3	82.4	84.2	85.3	84.0
Education & Health Services	181.0	185.3	184.1	186.8	192.2	196.4	202.9
Leisure & Hospitality	54.2	52.9	54.6	56.6	58.0	58.4	57.4
Other Services	29.9	29.0	28.5	28.5	28.2	28.2	28.3
Government	117.1	114.7	113.0	111.4	108.6	105.9	103.2

Source: Bureau of Labor Statistics, 2009.

* Includes persons employed within the City, without regard to residency.

** Preliminary, December 2008.

Table A-18
City of Philadelphia
Largest Employers in Philadelphia
June 30, 2008
(Listed Alphabetically)

Albert Einstein Medical
 Children's Hospital of Philadelphia
 City of Philadelphia
 School District of Philadelphia
 Southeastern Pennsylvania Transportation Authority
 Temple University
 Thomas Jefferson University Hospitals
 United States Postal Service
 University of Pennsylvania
 University of Pennsylvania Hospital

Source: Philadelphia Department of Revenue

Table A-19
Fortune 500
Largest Corporations
With Headquarters in Philadelphia, 2008

<u>Corporation</u>	<u>Type of Industry</u>	<u>Ranking</u>	<u>Revenues</u> <u>(\$ Millions)</u>
Sunoco	Petroleum Refining	41	\$56,652.0
Comcast	Telecommunications	68	\$34,256.0
Cigna	Health Care/Insurance	132	\$19,101.0
ARAMARK	Diversified Outsourcing Services	198	\$13,470.0
Rohm & Haas	Chemical	281	\$9,575.0
Crown Holdings	Metal Products	312	\$8,305.0

Source: Fortune Magazine website, May 2008.

Income

The following table presents data relating to per-capita income for the City, the PMSA, and the United States. It illustrates that, for the past few years, real per-capita income has generally outpaced the urban cost of living index, suggesting that on average, the newly created service jobs have generated positive real income growth for City wage earners.

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TABLE A-20
CONSUMER PRICE INDICES AND MEDIAN HOUSEHOLD EFFECTIVE BUYING INCOME

	<u>1990</u>	<u>2000</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
CPLLI United States ^(a)	130.7	172.2	179.9	184.0	188.9	195.3	201.6	207.3	215.3
CPL U Philadelphia PMSA ^(a)	135.8	176.5	184.9	188.8	196.5	204.2	212.1	216.7	224.1
<i>Buying Income</i> ^(b)									
Philadelphia	\$24,880	\$31,621	\$29,995	\$28,015	\$28,150	\$29,269	\$30,748	\$31,292	\$30,746
Philadelphia Metro Area*	\$33,277	\$47,152	\$43,800	\$41,820	\$42,852	\$44,060	\$45,395	\$46,413	\$46,900
United States	\$27,912	\$37,233	\$38,365	\$38,035	\$38,201	\$39,324	\$39,324	\$40,710	\$41,792

* Statistic is a measure of the Philadelphia, Camden & Wilmington Metropolitan Area.

Source: (a) Consumer Price Index - All Urban Consumers. U.S. Bureau of Labor Statistics.
(b) Sales & Marketing Management's 2008 Survey of Buying Power.

Table A-21
Number of Households by Income Range in Philadelphia County

<u>Income</u>	<u>Number of Households*</u>			<u>Percentage of Households*</u>		
	<u>1990</u>	<u>2000</u>	<u>2005-2007** (est)</u>	<u>1990</u>	<u>2000</u>	<u>2005-2007** (est)</u>
Under \$ 9,999	136,335	109,237	86,260	22.6	18.5	15.5
\$10,000-14,999	59,331	49,035	50,017	9.9	8.3	9.0
\$15,000-24,999	108,405	89,059	75,816	18.1	15.0	13.6
\$25,000-49,999	190,237	171,215	147,471	31.7	29.0	26.4
\$50,000 and over	<u>106,432</u>	<u>171,737</u>	<u>198,421</u>	<u>17.6</u>	<u>29.1</u>	<u>35.5</u>
Total	600,740	590,283	557,985	100.0	100.0	100.0

Source: U.S. Department of Commerce, Bureau of the Census.

* A household includes all the persons who occupy a housing unit.

** 2005-2007 American Community Survey 3 year estimates

Number of Households by Income Range in United States

<u>Income</u>	<u>Number of Households</u> <u>(000's)</u>			<u>Percentage of Households</u>		
	<u>1990</u>	<u>2000</u>	<u>2005-2007* (est)</u>	<u>1990</u>	<u>2000</u>	<u>2005-2007* (est)</u>
Under \$ 9,999	14,214	10,067	8,514	15.5	9.5	7.6
\$10,000-14,999	8,133	6,657	6,429	8.8	6.3	5.8
\$15,000-24,999	16,124	13,536	12,364	17.5	12.8	11.1
\$25,000-49,999	31,003	30,965	28,489	33.7	29.3	25.5
\$50,000 and over	22,519	44,312	55,811	24.5	42.1	50
Total	91,994	105,537	111,609	100.0%	100.0%	100.0%

Source: U.S. Department of Commerce, Economics and Statistics Administration, 2000 Census of Population. Figures may not add due to rounding.

* 2005-2007 American Community Survey 3 year estimates

Retail Sales

The following table reflects taxable sales for Philadelphia from Fiscal Years 1997 to 2008.

Table A-22
Philadelphia
Taxable Retail Sales 1997-2008
(\$000's)

Fiscal Year	Taxable Sales
1997	9,637,833
1998	8,276,083
1999	9,604,970
2000	10,432,800
2001	11,107,100
2002	10,980,914
2003	10,933,524
2004	11,172,231
2005	12,001,439
2006	12,839,137
2007	13,643,582
2008	13,704,958

Source: Figures determined by dividing the Philadelphia local sales tax reported by the Pennsylvania Department of Revenue by the local sales tax rate of 0.01.

Transportation

The residents of the City and surrounding counties are served by a commuter transportation system operated by SEPTA. This system includes two subway lines, a network of buses and trolleys, and a commuter rail network joining Center City and other areas of the City to the airport and to the surrounding counties. A high speed train line runs from southern New Jersey to Center City and is operated by the Delaware River Port Authority. An important addition to the area's transportation system was the opening of the airport high speed line between Center City and the Philadelphia International Airport in 1985. The line places the airport less than 25 minutes from the Center City business district and connects directly with the commuter rail network and the Convention Center, which opened in June 1993. The opening of the commuter rail tunnel in 1984 provided a unified City transportation system linking the commuter rail system, the SEPTA bus, trolley, and subway lines, the high speed line to New Jersey, and the airport high speed line.

Amtrak, SEPTA, Norfolk Southern, CSX Transportation, Conrail and the Canadian Pacific provide inter-city commuter and freight rail services connecting Philadelphia to the other major cities and markets in the United States. More than 100 truck lines serve the Philadelphia area.

The City now has one of the most accessible downtown areas in the nation with respect to highway transportation by virtue of I 95; the Vine Street Expressway (I 676), running east-to-west through the Central Business District between I 76 and I 95; and the "Blue Route" (I 476) in suburban Delaware and Montgomery Counties which connects the Pennsylvania Turnpike and I 95 and thereby feeds into the Schuylkill Expressway (I 76) and thus into Center City Philadelphia.

The Philadelphia International Airport (PHL) and Northeast Philadelphia Airport (PNE) comprise the Philadelphia Airport System (the "Airport System"). The Airport System is owned by the City of Philadelphia and is operated by the Department of Commerce's Division of Aviation. PHL is located 7.2 miles southwest of Center City; and PNE, a smaller reliever airport, is located 10 miles northeast of

Center City. PHL is accessible from major highways within the City and from surrounding communities and SEPTA's Airport rail line. PHL provides its passengers with service on 11 domestic carriers, two of which also provide international service, and 13 regional carriers, while five foreign flag carriers also provide international service. In addition, there are four all-cargo carriers. PHL serves as a key connecting hub for US Airways.

Water and Wastewater Systems

The water and wastewater systems of Philadelphia are owned by the City and operated by the City's Water Department. The water system provides water to the City (130 square mile service area), to Aqua Pennsylvania, Inc., formerly Philadelphia Suburban Water Company, and to the Bucks County Water and Sewer Authority. The City obtains approximately 58 percent of its water from the Delaware River and the balance from the Schuylkill River. The water system serves approximately 472,600 accounts through 3,137 miles of mains, three water treatment plants, 15 pumping stations and provides fire protection through more than 25,000 fire hydrants.

The wastewater system services a total of 360 square miles of which 130 square miles are within the City and 230 square miles are in suburban areas. The total number of accounts is approximately 471,000. The wastewater and stormwater systems contain three water pollution control plants, a biosolids processing facility, 13 pumping stations, and approximately 3,652 miles of sewers. Based on its current NPDES discharge permit, the City is required to achieve effluent limitations that are considered more stringent than those required to achieve secondary treatment levels as defined in the Federal Water Pollution Control Act, as amended.

Municipal Solid Waste Disposal

The City is responsible for collecting solid waste, including recycling, from residential households and some commercial establishments. On average, approximately 3,000 tons of solid waste per day is collected by the City. Municipal solid waste is disposed of through a combination of recycling processing facilities, private and City transfer stations within the City limits, and at various landfills operated outside the City limits. The City significantly reduced its waste disposal costs over the last decade. The current disposal contract, which began July 1, 2005, continues this trend. With three one-year City options, the contract can be extended through Fiscal Year 2012. Disposal rates escalate at a relatively low rate of approximately three percent per year over the contract term, and multiple vendors maximize operational flexibility and efficiencies.

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Housing

While the City's housing market has remained relatively stable, recently home values have gone up, as shown on the table below:

Table A-23
Characteristics of Housing Units

	<u>1990</u>	<u>2000</u>	<u>2005-2007*</u> <u>(est)</u>
Total Housing Units			
Philadelphia County	674,899	661,958	660,244
Pennsylvania	4,938,140	5,249,750	5,451,386
Percent Owner-Occupied			
Philadelphia County	62.0%	59.3%	57.3%
Pennsylvania	70.6%	71.3%	71.7%
Median Value of Owner-Occupied Housing			
Philadelphia County	\$49,400	\$59,700	\$ 117,500
Pennsylvania	\$69,700	\$97,000	\$ 144,100
Number/Average Persons per Housing Unit			
Philadelphia County	2.56	2.65	2.66
Pennsylvania	2.72	2.62	2.59

Source: U.S. Department of Commerce, Bureau of the Census.

*2005-2007 American Community Survey 3 year estimates.

Promoting Economic Development

Mission

The goal of the City's economic development strategy is to create, maintain, and develop: (1) jobs by fostering an improved business environment; (2) increases in population; and (3) enhanced quality of life within the City of Philadelphia—all in order to grow the City's tax base.

Background

In response to the national recession, in 2009 the City is poised to launch several reforms aimed at enhancing its competitive position. By reorienting economic development services to provide transparency and better address customer service needs, Philadelphia will strive to become the business location of choice. This new business climate, coupled with recent cultural additions, neighborhood reinvestment and a renewed sense of civic pride, is designed to enhance Philadelphia's position as a world-class city.

Philadelphia's Competitive Advantages

Philadelphia's competitive advantages as a business location are based on size, strategic location, relative affordability, cultural and recreational amenities, and its growing strength in key knowledge industries. The City of Philadelphia, the fifth-largest city in the nation as of the last official census with the third largest downtown population, is at the center of the sixth largest metropolitan region. Our region includes the fourth largest retail sales market in the nation, as well as a diverse network of business suppliers and complementary industries.

Accessibility

Philadelphia is in a key position to access regional and international markets, due to the transportation infrastructure centered here, including Philadelphia International Airport, AMTRAK's Northeast Corridor service, major interstate highway access, regional SEPTA service and the port. The capacity of Philadelphia's transportation infrastructure is demonstrated by its median commuting time, which is 19 percent lower than the national metropolitan average. Recent analysis has shown that employees also benefit: Commuters to suburban firms, nearly all of whom drive to work, spend over \$6,200 per year in vehicle expenses. By contrast, 70 percent of downtown office workers use public transit to get to work, and the annual cost of a SEPTA regional rail pass is just \$2,172. In addition, 37 percent of downtown residents walk to work, the highest percentage of any major American city.

Culture

As a major urban center with a rich historical legacy, Philadelphia is increasingly gaining national recognition for its cultural and recreational advantages, which include the many tourism assets concentrated within city limits. Independence National Historical Park, the Philadelphia Art Museum, and the Franklin Institute, as well as recent developments, such as the construction of the stunning Kimmel Center for the Performing Arts and the National Constitution Center, are increasingly drawing national attention. The development of new first-class sports facilities, as well as continued access and development along the City's Delaware and Schuylkill River waterfronts, adds to this array.

Affordability

Philadelphia remains affordable when compared to its peers, as noted in the chart below.

Cost of Living 2008 (Third Quarter)

Index	Philadelphia, PA	Washington-Arlington – Arlington, DC-VA	Boston, MA	New York (Manhattan), NY	National Average
Composite (100%)	124.1	137.7	133.7	220.3	100.0

Source: Council for Community and Economic Research ACCRA Cost of Living Index

The Council for Community and Economic Research determines "Cost of Living" by weighing various living expenses including: cost of groceries, housing, utilities, transportation and health. The national average cost for each index area is set at "100", and the indices for each place are then calculated based upon their relation to that average. With lower composite indices indicating lower cost of living, Philadelphia's composite index of 124.1 is an indication of how our region matches up to other east coast peer metropolitan regions.

Educational Attainment

Philadelphia captures a significant portion of the region's educational employment and enrollment because of its major colleges and universities. The City houses 40 percent of all students during their studies, and the Philadelphia region retains a strong share of its graduates (55 percent) and an even greater share of graduates who are originally from the region (82 percent). The region retains 26 percent of non-native graduates, based on a survey of the class of 2005. On average, the region's workforce over age 25 is better educated (with four-year college degrees) than those in other metropolitan areas across the U.S. (32 percent, compared to 27 percent). At the same time, the City has one of the lowest educational attainment rates in the nation, with only 20.7 percent of its 25-years-or-older population possessing a bachelor's degree or higher in 2006.

Real Estate Market

Despite challenges in the national economy, Philadelphia's central business district ("CBD"), encompassing 42.2 million rentable square feet, shows stable office market conditions. The strength of the market is driven by the continued expansion of the city's major healthcare and educational institutions, which are less likely to be impacted by the slowdown, and the growth of Comcast Corporation. Recent developments in the financial services market offer both retention risks and attraction opportunities for Philadelphia. Significant downsizing among law firms and other professional services businesses pose the greatest challenge to the office market.

On the recovery side, Cushman & Wakefield's market forecast names Boston, Philadelphia, Washington, DC and Seattle as places where markets "will be in a recovery-ready mode in 2010.". The Center City office market has seen positive results in recent years, with 1 million square feet of net absorption in 2006, 992,000 square feet in 2007 and approximately 876,000 square feet of positive net absorption in 2008. Philadelphia's CBD boasted a direct vacancy rate of under 9% for the sixth quarter in a row as of the first quarter of 2009. The overall vacancy rate, including the sublease market which has seen a slight increase in activity but is still below national levels, is at 10.2%. The CBD experienced 130,000 square feet of leasing activity year to date. As building owners make substantial capital investments and 'trophy' locations are in demand, Class A asking rental rates in the CBD have risen from \$25.85 in 2006 to \$27.52 per square foot in the first quarter of 2009. A concerted attraction and retention campaign involving the combined efforts of the City, PIDC, the Center City District, the Greater Philadelphia Chamber of Commerce, and the Commonwealth has sustained these market conditions.

Amidst the national slowdown in real estate, Philadelphia's single-family property market remains consistent but is showing some signs of strain due to threats of increased foreclosures and a stagnant buyers market. However, the rental real estate market continues to be positioned favorably. Unburdened by a glut of speculative multifamily projects outstripping tenant demand, Philadelphia has maintained a low apartment vacancy rate and has fared well when compared to other regions.

Major Industry Sectors

When compared to the average sector concentration in Pennsylvania counties, Philadelphia has a higher concentration of employment in six sectors, as noted in the chart below.

Philadelphia Industry Concentrations Compared to Pennsylvania

<u>Industry</u>	<u>Pennsylvania</u>	<u>Philadelphia County</u>
Education and Health Services	1.34	2.27
Financial Activities	0.97	1.22
Other Services	0.98	1.06
Professional and Business Services	0.91	0.99
Leisure and Hospitality	0.87	0.94
Information	0.82	0.90
Trade, Transportation, and Utilities	0.99	0.69
Manufacturing	1.10	0.44
Construction	0.80	0.33
Unclassified	0.01	0.02
Natural Resources and Mining	0.55	0.00

Source BLS: 2007 Location Quotient, 2006 Quarterly Census of Employment and Wages Data. Ratio of analysis-industry employment in the analysis area to base-industry employment in the analysis area divided by the ratio of analysis-industry employment in the base area to base-industry employment in the base area.

Philadelphia has maintained an above-average concentration of employment in Education and Health Services, Financial Activities, Other Services, Professional Business Services, Leisure and Hospitality as well as Information Services. The employment base has undergone a gradual shift over the last decade, most notably marked by growth in leisure/hospitality and education/health services sector employment.

Despite a continued rise in unemployment over the past year, the overall gap between local and national unemployment has shrunk considerably due to deteriorating market conditions brought on by the nation's financial crisis.

As indicated in the chart below, until this year's economic downturn the City has consistently had an unemployment rate between 1.4 to 1.9 percent higher than the national average.

Year	U.S.	Pennsylvania	Philadelphia	% Difference between U.S. and Phila
1997	4.9%	5.1%	6.8%	1.9%
1998	4.5%	4.6%	6.2%	1.7%
1999	4.2%	4.4%	6.1%	1.9%
2000	4.0%	4.2%	5.6%	1.6%
2001	4.7%	4.8%	6.1%	1.4%
2002	5.8%	5.6%	7.3%	1.5%
2003	6.0%	5.7%	7.5%	1.5%
2004	5.5%	5.4%	7.3%	1.8%
2005	5.1%	5.0%	6.7%	1.6%
2006	4.6%	4.7%	6.3%	1.7%
2007	4.6%	4.4%	6.0%	1.4%
2008	5.8%	5.5%	7.2%	1.4%
2009*	8.3%	8.1%	9.5%	1.2%

Source: Bureau of Labor Statistics (BLS). 2008.

*2009 Preliminary estimate based on 4 month average (Jan. - Apr.)

The jobs report is mixed. As shown in the chart below, the local economy has reflected a trend toward growth in particular sectors. Overall job growth in the City has decreased slightly in 2008 and continues to be sluggish.

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Cluster Employment Data: City of Philadelphia
2003-2009
(in thousands)

Sector	2003	2004	2005	2006	2007	2008	2009*	% Change from 2003-2009*	Average Annual % Change
Construction & Mining	12.3	11.4	12	12.6	11.8	12.2	10.4	-15%	-2.1%
Manufacturing	34	32.6	31.2	30	28.3	27.3	25.4	-25%	-3.5%
Trade, Transportation, & Utilities	95.8	90.9	90	88.6	88.0	87.5	85.1	-11%	-1.5%
Information	15.9	13.6	13.2	12.7	12.9	12.3	11.8	-26%	-3.7%
Financial Activities	50.7	49	48.2	47.6	47.1	46.3	45.3	-11%	-1.5%
Professional & Business Services	80.9	80.3	82.4	84.1	85.3	85.5	81.4	1%	.1%
Education & Health Services	185.3	184.1	186.8	192	196.4	201.1	202.7	9%	1.2%
Leisure & Hospitality	52.9	54.6	56.6	57.6	58.4	57.8	55.7	5%	.7%
Other Services	29	28.5	28.5	28.2	28.2	28.1	27.7	-4%	-0.6%
Government	114.7	113	111.4	108.4	105.9	104.5	104.2	-9%	-1.2%
Total	671.5	658	660.3	661.8	662.4	662.5	649.7		

Source: Bureau of Labor Statistics.

Note: All years have been restated based on current BLS data, retrieved 5.22.2009 from data.bls.gov.

* 2009 Preliminary estimates based on 3 month average (Jan. – March.)

While the ongoing economic crisis has dampened employment growth across virtually every sector of the economy, "Philadelphia is coping better than many other urban areas throughout the U.S.," according to a recent economic report published by the Center City District. Much of this can be attributed to the City's diverse employment base and its avoidance of speculative real estate and high-risk financial activities that swept through the country following the "Technology Bust" of 2001.

The sector of Philadelphia's economy which has remained most insulated from the current recession has been Education and Health Services, capturing a 9% growth rate since 2003. The City, in its strategic plan for economic development and job growth, has identified the "Eds and Meds", along with Professional and Business Services, and Leisure and Hospitality, as targeted growth sectors that will drive the City's recovery process and position it for continued long-term growth.

The Education sector not only provides stable support to the local economy, but also generates a steady supply of potential "Knowledge Industry" workers. In the knowledge industry, which relies on the supply of new college graduates, companies apply emerging technologies to deliver high-quality, knowledge-based services. The knowledge industry includes sectors as diverse as financial services, engineering, health care, insurance, law, life sciences, printing, publishing, and academia. In a 2009 report published by the Milken Institute, the Greater Philadelphia region's life sciences industry earned the number one ranking of the study's "current impact" category by directly employing 94,400 workers and generating \$7.7 billion in direct revenue in 2008. These advantages equip Philadelphia and the region to continue to build its knowledge industries.

While Philadelphia has a strong core of knowledge-based industries, the City must capitalize on these advantages to ensure future growth and dynamism. Within the knowledge economy is another

sector of great importance to Philadelphia and the region, the life sciences, which includes health care, research, biotechnology, and pharmaceuticals. Philadelphia is capitalizing on the region's opportunity to become an incubator for research generated by life sciences and educational institutions. Several sites now foster incubator opportunities, including the Philadelphia Navy Yard, the Science Center in West Philadelphia, and the west bank of the Schuylkill River bordered by the University of Pennsylvania, Children's Hospital of Pennsylvania and Drexel University.

Philadelphia's economy enjoys a large market share of for-profit creative industry companies which are technology-driven, known as businesses representing the "creative economy." A subset of the knowledge industry, the sector includes architecture, communications, design and merchandising, digital media, engineering, fashion design, graphic arts, information technology, interior and industrial design, marketing, music, film and video production, multimedia design, photography, planning product design and software development. Philadelphia supports several initiatives with the goal of increasing employment in this sector and fostering population growth in the City as a result.

Philadelphia International Airport

Philadelphia International Airport served 31.8 million passengers, including 4.0 million international travelers, in calendar year 2008. In 2007, PHL ranked seventeenth in the nation in terms of total passengers and is presently the tenth busiest in the world for aircraft operations, according to data reported by Airports Council International North America. The regional economic impact of the Airport is \$14 billion annually. PHL opened a new commuter terminal in 2001, a new international terminal in May 2003, and recently completed the extension of Runway 17-35 to increase airfield capacity.

In 2005, the Airport issued three series of Airport Revenue Bonds which included \$125 million in fixed-rate Series 2005A bonds, \$41 million in variable-rate Series 2005B bonds and \$189.5 million in variable-rate Series 2005C bonds. Proceeds of the 2005A and B bonds have enabled the Airport to undertake critical infrastructure projects, such as expansion of Terminals D and E, improvements to Terminal A East, expansion of security checkpoints at Terminals B and C, and resurfacing of Runway 9R-27L. Proceeds of the 2005C bonds were used to refund the Airport's Series 1995A revenue bonds.

In August of 2007, the City issued the 2007A Bonds and the 2007B Bonds. Proceeds from the 2007A Bonds provide funding for several new capital projects including international terminal gate expansion, design work for the expansion of Terminal F, design of a new in-line baggage system for Terminal B/C, and an infrastructure improvement program. The 2007B Bonds refunded the Series 1997B Airport Revenue Bonds.

Philadelphia Industrial Development Corporation

Philadelphia Industrial Development Corporation (PIDC) is a private, not-for-profit Pennsylvania corporation, founded in 1958 by the City of Philadelphia and the Greater Philadelphia Chamber of Commerce to promote economic development throughout the City. The many programs provided by PIDC include (i) direct mortgage funding in a subordinate position at reduced interest rates for fixed asset improvement to companies who intend to build or expand in Philadelphia; (ii) tax-exempt bond financing to eligible borrowers through the Philadelphia Authority for Industrial Development (PAID); (iii) offering of fully improved parcels of land for sale in more than a dozen designated industrial parks and districts across the City; and (iv) offering of development assistance and project management to a range of Philadelphia's development and non-profit corporations.

Financing Programs

PIDC offers a variety of Financing Programs to assist economic development for all segments of the Philadelphia market. Primary categories include:

PIDC Loan Programs: Largely funded by federal, state, and local government sources, PIDC loan programs generally offer subordinated financing and below-market rates which encourage investment in Philadelphia. Specific terms and uses vary and may cover infrastructure costs, land acquisition, building construction, machinery/equipment purchase, or working capital. During 2008, PIDC settled 37 loan transactions and provided approximately \$55 million of funding to projects valued at \$237 million.

PAID Bond Program: PIDC also manages the Philadelphia Authority for Industrial Development (PAID). PAID issues, as a conduit, tax-exempt bonds for qualified manufacturing and not-for-profit and other projects. PAID is also a conduit for taxable issues. During calendar year 2008, PAID settled 25 bond issues for \$389.8 million in financing and total project costs of \$419.3 million.

Real Estate Services

On behalf of the City of Philadelphia, PIDC is responsible for acquiring, improving and selling industrial and commercial land in strategic locations throughout the City. Over the years, PIDC has successfully leveraged economic development on more than 2,000 acres of such land.

- Industrial Land: PIDC parcels are competitively priced, zoned for immediate development, environmentally clean, and fully improved with roads and utilities. Many of these sites are located in established Northeast, West, and Southwest Philadelphia industrial park settings with excellent access to transportation and workforce. Others are situated in redeveloping commercial neighborhood corridors.
- Most of PIDC's properties are in designated incentive areas, which include specific entitlements to tax abatements, low interest loans and other benefits. Of particular note are the Keystone Opportunity Zones (KOZs), which abate business taxes for varying terms.
- Public Property Sales: In 2005, PIDC entered into an agreement with the City's Department of Public Property to market the City's surplus real estate throughout Philadelphia. During 2008, PIDC completed 8 different transactions with a combined sale price of \$5.996 million. Since this effort began, PIDC has completed the sale of 27 properties resulting in approximately \$14 million for the City's General Fund.
- Developer Selection: When demand is present, PIDC also manages developer selection and sales of key real estate assets utilizing conventional RFQ/RFP methodology. Currently, PIDC is developing a handful of RFQ/RFP documents for sites that are likely to be in demand when the real estate market rebounds.
- In summary, PIDC closed 12 land sales, totaling 44.3 acres in 2008. This level of activity is consistent with 2008 and represents the impacts of the overall slowdown in the national and regional economy. In Fiscal Year 2009, PIDC working along with the City of Philadelphia's Commerce Department and the City Planning Commission will complete a study of Philadelphia's industrial land inventory, characteristics, and projected demand to develop a new industrial land policy to serve as a guide for the nature, location and scale of industrial land acquisition and development for the foreseeable future.

The Navy Yard

During the past decade, the United States Department of Defense has downsized significantly in the Philadelphia area, resulting in substantial excess real estate in the city. PIDC is responsible for converting these former military properties to civilian use, and many of the dispositions realized during 2003-2006 included development sites from this portfolio.

Located on the Delaware River at the south end of Broad Street, The Navy Yard is the largest former Defense Department asset, with 1,000 acres and 6.5 million square feet of existing industrial and office space. Since the ownership transfer in March 2000, PIDC has been responsible for planning, operations and development of this massive property.

Initial emphasis was on upgrading roads and utilities systems with over \$25 million of infrastructure investment. Development of the Aker Philadelphia Shipyard, a \$300 million state-of-the-art facility, was funded by federal, state, and local sources. Successful leasing and development efforts have resulted in more than 80 companies and three Navy operations occupying more than 4.5 million square feet of space and employing more than 7,000 people. In September 2004, PIDC and the City released an updated Navy Yard Master Plan, which focuses on mixed use development on 400 acres east of Broad Street and envisions over \$2 billion of private investment in office, research, retail, residential, and recreational projects. To date, major progress was achieved in implementation of the Master Plan:

- **Industrial Anchors:** The Navy Yard continues to be a vital industrial and manufacturing center, with the Aker Philadelphia Shipyard as a major anchor activity. Aker employs 1,300 in its commercial shipbuilding operation and is in the midst of \$2 billion worth of ship orders. This robust activity also supports a number of supplier and related industrial and manufacturing companies located at The Navy Yard. The US Navy also retains significant industrial facilities to support its foundry and propeller shop with nearly 800 employees. Building on the skilled workforce and range of industrial supplier companies located at The Navy Yard, an affiliate of Boston Ship repair leased a dry-dock, pier and related facilities in 2007 and commenced ship repair in 2008. Also in 2007, Tasty Baking Company announced plans for, and began construction on, a new 350,000 SF bakery and distribution center at The Navy Yard. This facility will be operational in 2009. This facility, along with an additional 200,000 SF of speculative flex and industrial space, is being developed in the Navy Yard Commerce Center by Liberty Property Trust and Synterra Partners.
- **Navy Yard Corporate Center:** In 2003, PIDC selected a team led by Liberty Property Trust and Synterra Partners to develop 72 acres with 1.4 million square feet of Class A office space. Liberty/Synterra has developed three buildings, (i) a 77,000-square-foot, multi-tenant speculative building which is now 100 percent leased, (ii) a 47,000 square foot build-to-suit headquarters for Unique Industries and (iii) a 95,000 square foot office building currently under construction. The third building will be a multi-tenant building to include Tasty Baking Company's corporate headquarters as the anchor tenant and will open in 2009 with more than 70% of the space now leased..
- **Additional Corporate Office Activity:** The Navy Yard's shift from a federal, industrial property to a private sector business park with corporate/research future has defined itself in recent years with a combination of headquarters relocations by Vitetta Architects and Engineers, Unique Industries, and Barthco International. In 2006, Urban Outfitters, a major retailer of clothing, furnishings and accessories completed its \$115 million corporate campus, an award-winning historic conversion of approximately 300,000 SF of former industrial facilities now housing more than 900 employees.
- **Research and Development:** In addition to the development of general corporate office facilities, The Navy Yard has established an important market segment in technology and R&D activity. This activity is anchored by the Naval Ship Systems Engineering Station, an 1,800 person federal research lab that houses the Navy's premier research organization focusing on power, energy, fuel cells, propulsion, IT and systems integration. In order to complement and expand this research base, the Commonwealth designated the Navy Yard as a Keystone Innovation Zone (KIZ), providing access to variety of state incentives for

technology development. The KIZ team led by PIDC includes the U.S. Navy, Penn State University, the Delaware Valley Industrial Resource Center (DVIRC), the City of Philadelphia and the Ben Franklin Technology Partners of Southeastern Pennsylvania. Early initiatives of the KIZ have resulted in Penn State establishing a Navy Yard location for its graduate level engineering program; the relocation of Ben Franklin Technology Partners' Corporate Office to The Navy Yard; the development of the Building 100 Innovation Center by Ben Franklin, DVIRC and PIDC to house early stage technology companies focused on power and energy related research; and a cadre of 12 KIZ related companies with offices at The Navy Yard. PIDC and Penn State have also prepared initial plans for a \$70 million, 120,000 SF Energy Engineering and Technology Innovation Center that will provide Penn State with a major research presence at The Navy Yard.

The Navy Yard also supports a significant and growing life sciences community. In 2004, AppTec Laboratory Services, a Minneapolis based provider of contract testing and manufacturing services to the pharmaceutical sector, developed a new, 75,000 SF office and lab facility at The Navy Yard. Established with approximately 40 employees initially, AppTec now has more than 260 employees at The Navy Yard. In 2008, WuXi Pharmaceuticals acquired AppTec and now houses its North American contract testing operation at The Navy Yard. Phoenix IP Ventures, an intellectual property Merchant Bank focused in the life sciences area, established its corporate headquarters at The Navy Yard, where it also houses operations for its growing base of companies.

Additional Projects under Construction

The following table lists additional projects currently under construction in the City for the City/Public sector.

**Table A-25
Projects under Construction**

Project	Estimated Cost
City Hall Exterior Renovation Project	\$90,000,000
Presidents House	\$8,400,000
Robin Hood Dell Restoration	\$5,500,000
Emergency Standby Generators	\$4,600,000
Herron & Gambrel Playground Improvements	\$2,600,000
Philadelphia Industrial Correctional Center Security Upgrade Project	\$ 2,100,000
Fire Point Source Capture	\$ 11,000,000
Waterworks Dredging Enhancement	\$1,000,000

Source: Office of Budget and Program Evaluation, January 2009

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APPENDIX D

SUMMARIES OF THE ACT AND LEGISLATION AUTHORIZING THE ISSUANCE OF THE BONDS

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APPENDIX D

SUMMARIES OF THE ACT AND LEGISLATION AUTHORIZING THE ISSUANCE OF THE BONDS

The following are summaries of certain provisions of The First Class City Revenue Bond Act, as amended and supplemented (the "Act"), the General Gas Revenue Bond Ordinance of 1975, as amended and supplemented (the "1975 General Ordinance") and the General Gas Works Revenue Bond Ordinance of 1998, as amended and supplemented (the "1998 General Ordinance"), which generally authorize the issuance of Gas Works Revenue Bonds (1975 General Ordinance) and Gas Works Revenue Bonds (1998 General Ordinance), respectively. Also summarized herein is the Ninth Supplemental Ordinance to the 1998 General Ordinance (the "Ninth Supplemental Ordinance"), which authorizes the issuance of the Gas Works Revenue Refunding Bonds, Eighth Series (1998 General Ordinance) (the "Eighth Series Bonds"). The summaries are not, and should not be regarded as, complete statements of the provisions of this legislation or of the portions thereof summarized. Reference is made to the Act, the 1975 General Ordinance, the 1998 General Ordinance and the Ninth Supplemental Ordinance, copies of which are available from the Office of the Director of Finance, 1300 Municipal Services Building, 1401 John F. Kennedy Boulevard, Philadelphia, Pennsylvania 19102, for the complete terms and provisions thereof. Certain terms used in this summary are defined below. Other terms used herein are defined in the Act, the 1975 General Ordinance, the 1998 General Ordinance and the Ninth Supplemental Ordinance and, unless otherwise stated, shall have the meanings set forth therein.

THE FIRST CLASS CITY REVENUE BOND ACT (Act 234 of the General Assembly of the Commonwealth Approved October 18, 1972, P.L. 955; 53 P.S. §§ 15901-24)

General Authorization; Definitions; Bonds to be Special Obligations

The Act is intended to provide a comprehensive authorization to The City of Philadelphia, Pennsylvania (the "City") and any other Pennsylvania city of the first class to issue revenue bonds ("Bonds") to finance various types of projects or to refund previously issued Bonds and certain other bonds, as more fully described herein under "Refunding."

Project is defined as any buildings, structures, facilities or improvements of a public nature, the related land, rights or leasehold estates in land, and the related furnishings, machinery, apparatus or equipment of a capital nature, which the City is authorized to own, construct, acquire, improve, lease as lessor or lessee, operate, maintain or support; any item of construction, acquisition or extraordinary maintenance or repair thereof, the City's share of the cost of any of the foregoing or any combination thereof undertaken jointly with others; and any combination of the foregoing or any undivided portion of the cost of any of the foregoing as may be designated a project by the City for financing purposes and in respect of which the City may reasonably be expected to receive Project Revenues.

Project Revenues is defined as, in respect of a Project, all rents, rates, tolls or charges imposed or charged for the use or product of or services generated from the Project to the

ultimate users or customers thereof, all payments under bulk contracts with municipalities, government instrumentalities or other bulk users, all subsidies or payments payable by federal, state or local governments or governmental agencies on account of the cost of operation of, or the payment of the principal of or interest on moneys borrowed to finance the cost of the Project, and may include reasonable estimates of all interest on and profits from investment of moneys derived from the foregoing.

Bonds issued under the Act are required to be secured by and payable solely from Project Revenues and by any reserve funds which may be created or funded in connection with the Bonds. The Bonds are not permitted to pledge the credit or taxing power of the City, to create a debt or charge against the tax or general revenues of the City, or to create a lien against any City property of the City other than the Project Revenues pledged therefor. The obligations represented by the Bonds do not constitute a debt of the City, and are excluded from the calculation of the City's debt-incurring capacity under the Pennsylvania Constitution.

Estimate of Future Revenues in Ordinance

The Act requires a finding to be made in the ordinance authorizing the issuance of the Bonds that the pledged Project Revenues will be sufficient to pay any prior parity charges on such pledged Project Revenues and the principal of and interest on the Bonds. This finding is to be based on a report of the chief fiscal officer of the City filed with the City Council and supported by appropriate schedules and summaries. The report of the chief fiscal officer of the City may be based on the final report of the head of the department or agency of the City having jurisdiction over the project involved or on certificates of a registered engineer engaged by the City to compile relevant data.

For the purpose of calculating projected annual Project Revenues for each year, the Act provides that: (i) only those rents, rates, tolls or charges to the general public shall be included which, under an appropriate ordinance, resolution or rate schedule duly adopted and in full force and effect as of the date of calculation will be reasonably collectible in such year under the schedule or rate of rents, rates, tolls or charges which are or will be in effect during such year, or which may be imposed by administrative action without further legislation; (ii) only those bulk payments shall be included which may be imposed under subsisting legislation or which are provided under subsisting agreements or are the subject of an expression of intent by the prospective obligor deemed reliable by the chief fiscal officer of the City; and (iii) only those governmental subsidies or payments shall be included which, under existing legislation, are subject to reasonably precise calculation and, unless stated in such legislation or authorization to be of an annual or more frequently recurring nature, are payable in such year.

Details of Bonds and City Covenants

The Act provides that the ordinance authorizing the issuance of the Bonds shall state the aggregate amount of Bonds to be issued and determine, or designate officers of the City to determine, the form and details of the Bonds. Subject to applicable constitutional provisions, the City may include in its bond ordinance various covenants with bondholders, including covenants governing the segregation, custody, investment and disbursement of construction funds, the imposition, collection, custody and disbursement of Project Revenues, the operation and

maintenance, replaced and insurance of the Project, the establishment, segregation, maintenance, custody, investment and disbursement of sinking funds and other special funds, accounts and reserves, the issuance of additional priority or parity Bonds, the redemption of Bonds, the rights and remedies of obligees upon default, and such other provisions as the City deems necessary or desirable in the interest of or for the protection of the City or of such bondholders. Under the Act, such covenants, terms and provisions of the bond ordinance constitute contractual obligations of the City subject to modification (with such limitations as may be specified in the bond ordinance) by agreement with a majority in interest of the bondholders or such larger portion thereof as may be provided in the bond ordinance.

Sinking Fund

The Act requires that the bond ordinance shall provide for the establishment and maintenance of a sinking fund or shall designate a previously established sinking fund for the payment of the principal of and interest on the Bonds as the same become due and payable or upon redemption and for the payment of State taxes, if any, assumed by the City to be paid on the Bonds. Payment into such sinking fund shall be made in annual or more frequent installments commencing not later than one year subsequent to the completion of the Project in respect of Bonds issued for construction or acquisition of the Project, and in all other cases, not later than one year subsequent to the date of the Bonds, and shall be sufficient to pay or accumulate for payment all principal of and interest on the Bonds for which the sinking fund is established and all State taxes, if any, assumed by the City to be paid on such Bonds, as and when the same shall become due and payable. The sinking fund and any other funds or accounts established by the bond ordinance shall be managed by the chief fiscal officer of the City and moneys therein, to the extent not currently required, shall be invested, subject to limitations established by the bond ordinance and the Act. Interest and profits from investment of moneys in the sinking fund and other funds shall be added to such fund and may be applied in reduction of or to complete required deposits to the sinking fund. Excess moneys in the sinking fund shall be repaid to the City for its general purposes or as otherwise provided in the bond ordinance. All moneys deposited in the sinking fund are subject to a perfected security interest for the Bonds for which the sinking fund is established until properly disbursed.

Refunding

Bonds outstanding under the Act or other bonds issued for purposes for which Bonds are issuable under the Act, whether issued before or after the effective date of the Act, may be refunded by Bonds issued under the Act and such refunding Bonds are subject to the same protections and provisions required for the issuance of an original issue of Bonds, provided that the last stated maturity date of the refunding Bonds is not later than ten years after the last stated maturity date of the bonds to be refunded. The principal of and interest to payment or redemption date and redemption premium payable, if any, in respect of bonds to be refunded will no longer be deemed to be outstanding obligations of the City (i) when the City shall have deposited with a bank, bank and trust company or trust company funds represented by demand deposits, interest-bearing time accounts, savings deposits, certificates of deposit or specified noncallable obligations of the United States or of the Commonwealth of Pennsylvania (provided such deposits or accounts are insured or secured as public deposits with securities having at all times a market value exclusive of accrued interest equal to the principal amount thereof), which

are sufficient to effect, and are irrevocably pledged to, the redemption or payment of such bonds. and, (ii) when the City shall have duly called the Bonds for redemption and shall have met all notice requirements or given irrevocable instruction to give such notice.

Validity of Proceedings; Suits and Limitations Thereon

Prior to the delivery of Bonds, the City must file with the Court of Common Pleas of Philadelphia County (the "Court") a transcript of the proceedings authorizing the issuance of such Bonds. If no action asserting the invalidity of such proceedings is brought on or before the twentieth day following the date of recording of the transcript, the validity of the proceedings, the City's right to issue such Bonds authorized thereby, the lawful nature of the purpose for which such Bonds are issued, and the validity and enforceability of such Bonds in accordance with their terms may not thereafter be inquired into judicially, in equity, at law, or by civil or criminal proceedings, or otherwise, either directly, or collaterally, except where a constitutional question is involved.

Negotiable Instruments

The Act provides that Bonds issued thereunder shall have all the qualities and incidents of securities under Article 8 of the Uniform Commercial Code of the Commonwealth of Pennsylvania and shall be negotiable instruments.

Exemption from State Taxation

The Commonwealth pledges with the Holders from time to time of Bonds issued under the Act that such Bonds and the interest thereon shall at all times be free from taxation within and by the Commonwealth of Pennsylvania, but this exemption does not extend to underwriting profits or to gift, succession or inheritance taxes or any other taxes not levied directly on the Bonds, the receipt of income therefrom or the realization of gains on the sale therefrom. Profits, gains or income derived from the sale, exchange or other disposition of the Bonds are subject to state and local taxation within the Commonwealth of Pennsylvania.

Defaults and Remedies

If the City should fail to pay or cause to be paid the principal of or interest on any Bond as the same shall become due, the Act permits the Holder of any such Bond, subject to the limitations described below, to recover the amount due in an action in assumpsit the court of common pleas of the county. However, a judgment rendered in favor of the bondholder in such an action is limited to assessments, revenues, rates, rents, tolls and charges from the Project which are pledged for the payment of such Bond. The Holders of 25% in aggregate principal amount of any series of Bonds then outstanding which are in default, whether because of failure of timely payment which is not cured within 30 days or failure of the City to comply with any other provisions of the Bonds or any bond ordinance, may appoint a trustee to represent the Holders of all such Bonds, and such representation shall be exclusive for the purposes provided in the Act. Such trustee may and, upon written request of the Holders of 25% in aggregate principal amount of such Bonds then outstanding, and on being furnished with indemnity satisfactory to it, shall take one or more of the following actions which, if taken, shall preclude similar action, whether previously or subsequently initiated, by individual Holders of Bonds: (1)

enforce, by proceedings at law or in equity, all rights of the Holders of the Bonds, including the right to require the City to impose and collect pledged rents, rates, tolls and charges or to require the City to carry out any other agreements with the Holders of such Bonds; (2) bring suit on the Bonds with the same effect as a suit by any Holder of the Bonds; (3) bring suit in equity to require the City to account as if it were a trustee of an express trust for the holders of such Bonds for all pledged Project Revenues received and/or to enjoin any acts or things which may be unlawful or in violation of the rights of the Holders of any Bonds; and (4) after 30 days' written notice to the City and subject to any limitations in the bond ordinance, declare the unpaid principal of all Bonds issued pursuant to the 1998 General Ordinance to be immediately due and payable, together with interest thereon at the rates stated in the Bonds until final payment, and, upon the curing of all defaults, to annul such declaration and its consequences. The court, in cases of extreme hardship, may provide for the payment of sums levied in five or less annual installments with interest at a rate sufficient to cover the interest accruing on the Bonds. In any suit, action or proceeding by or on behalf of Holders of defaulted Bonds, the fees and expenses of a trustee, including operating costs of a Project and reasonable counsel fees, which are allowed by the court shall be deemed additional principal due on the Bonds and shall be paid in full from any recovery prior to any distribution to the Holders of the Bonds. (The 1998 General Ordinance limits any such recovery to Project Revenues.) The trustee shall make distribution of any sums so collected in accordance with the Act.

Refunding With General Obligation Bonds

Upon certification by the City's chief fiscal officer that Project Revenues for the payment of Bonds have become insufficient to meet the requirements of the ordinance or ordinances under which the Bonds were issued, the City Council is empowered, but not required, subject to applicable Pennsylvania constitutional debt limitations, to authorize the issuance and sale of general obligation refunding bonds of the City without limitation as to rate of interest and in such principal amount as may be required, together with other available funds to pay and redeem such Bonds, including principal, interest to the date fixed for redemption or payment and redemption premium, if any.

THE 1975 GENERAL ORDINANCE
Ordinance of City Council Approved
May 30, 1975 - Bill No. 1871
(the "1975 General Ordinance")

Pursuant to the authorization contained in the Act; the City has enacted the 1975 General Ordinance. The City has made a pledge of, and has granted a security interest in all Project Revenues and all accounts, contract rights and general intangibles representing Project Revenues for the security and payment of all Bonds issued under the 1975 General Ordinance.

Definitions Under the 1975 General Ordinance

Act means The First Class City Revenue Bond Act approved October 18, 1974 (Act No. 234, 53 P.S. §15901 to 15924) as from time to time amended. The words and phrases which are defined in the Act shall have such defined meaning when used in the 1975 General Ordinance.

Bond or Bonds means any gas works revenue bond of the City issued and outstanding pursuant to the Act under the 1975 General Ordinance and any supplemental ordinance thereto and shall include installment bonds, temporary bonds and interim certificates.

Bondholder means the Holder of any bearer bond and the registered owner of any registered bond and the term Holder, or Holders unless the context otherwise requires, shall be deemed to include the registered owners of any bond or bonds as well as the Holders of bearer bonds.

City means the City of Philadelphia, Pennsylvania.

City Charges are defined to be the proportionate charges for services performed for the Gas Works by all officers, departments, boards or commissions of the City which are contained in the computation of Operating Expenses of the Gas Works including, without limitation, the expenses of the Gas Commission and the base payments to the City contained in the agreement between the City and the manager of the Gas Works and all other payments made to the City from Project Revenues.

Director of Finance means the chief financial, accounting and budget officer of the City as established by the Philadelphia Home Rule Charter.

Fiscal Agent means the bank named as such in the 1975 General Ordinance.

Fiscal Year is defined as the fiscal year for the Gas Works provided in any ordinance of the City from time to time enacted and, if no other Fiscal Year is established by ordinance, it shall mean the fiscal year of the City.

Gas Works means all property, real and personal, owned by the City and used in the acquisition or manufacture, storage and distribution of natural, liquefied, synthetic or manufactured gas or in the maintenance, management or administration thereof, and also means, as the context may require, the business entity managed by the Manager.

Manager means The Philadelphia Facilities Management Corporation currently managing the Gas Works pursuant to an ordinance of City Council approved December 29, 1972, setting forth the Agreement between the City and The Philadelphia Facilities Management Corporation, or its successor or such other person, corporation, board, commission or department of the City, which may be designated by ordinance to manage the Gas Works.

Net Operating Expenses are defined to be Operating Expenses exclusive of City Charges.

Operating Expenses are defined to be all costs and expenses of the Gas Works necessary and appropriate to operate and maintain the Gas Works in good operable condition during each Fiscal Year including, without limitation, the manager's fee, salaries and wages, purchases of service by contract, costs of materials, supplies and expendable equipment, maintenance costs, costs of any property or the replacement thereof or for any work or project related to the Gas Works which does not have a probable useful life of at least five years, pension and welfare plan and workmen's compensation requirements, provision for claims, refunds and uncollectible receivables and for City Charges, all in accordance with generally acceptable municipal

accounting principles consistently applied, but shall exclude depreciation and interest and sinking fund charges.

Project Revenues are defined to include all rents, rates and charges imposed or charged by the City upon the owners or occupants of properties connected to, and upon all users of gas distributed by the Gas Works and all other revenues derived from the Gas Works (the Project Revenues) as such term is defined in the Act, and all accounts, contract rights and general intangibles representing the Project Revenues and in each case, the proceeds of the foregoing.

Rate Covenant means the rate covenant contained in subsection (b) of Section 4.03 of the 1975 General Ordinance.

Series when applied to Bonds means collectively all of the Bonds of a given issue authorized by Supplemental Ordinance as provided therein and may also mean, if appropriate, a subseries of any series if, for any reason, the City should determine to divide any series into one or more subseries of Bonds.

Sinking Fund means the Gas Works Revenue Bond Sinking Fund established by Section 6.01 of the 1975 General Ordinance.

Sinking Fund Depository means the bank named as such in Section 6.02 of the 1975 General Ordinance or its successor.

Sinking Fund Reserve means the Sinking Fund Reserve established by Section 6.04 of the 1975 General Ordinance.

Supplemental Ordinance means an ordinance supplemental to the 1975 General Ordinance enacted pursuant to the Act and the 1975 General Ordinance by the Council of the City authorizing the issuance of a series of Bonds.

Security

The City has pledged, pursuant to the 1975 General Ordinance, for the security and payment of all Bonds issued under the 1975 General Ordinance and has granted a lien on and security interest in, all Project Revenues.

Priority in Application of Project Revenues

Prior to default, the 1975 General Ordinance establishes the following priorities in the application of Project Revenues during each Fiscal Year.

- (a) to Net Operating Expenses;
- (b) to required payments into the Sinking Fund established under the 1975 General Ordinance to pay the principal of and interest on all Bonds issued under the 1975 General Ordinance and to accumulate, or to restore any deficiency in the Sinking Fund Reserve;

(c) to the payment of general obligation bonds, which have been adjudged to be self-liquidating on the basis of expected revenues from the Gas Works:

(d) to the payment of interest and sinking fund charges of other general obligation debt incurred for the Gas Works; and

(e) to the payment of City Charges, including any Base Payment due to the City.

The 1998 General Ordinance and the 2005 Note Ordinance establish a priority in application of Gas Works Revenues that modifies the application after item Second above (see the priority in application under the summary of the 1998 General Ordinance that follows).

The balance of the Project Revenues in any Fiscal Year may, upon the approval of the Gas Commission, be paid to the City, provided that in a given Fiscal Year the balance so paid does not exceed the amount of earnings on the Sinking Fund Reserve transferred and paid to the Gas Work's operating funds during the same Fiscal Year. The 1975 General Ordinance does not require the segregation of revenues upon their collection prior to default.

Rate Covenant

The Rate Covenant requires the City, at a minimum, to impose, charge and collect in each Fiscal Year such gas rates and charges as shall, together with all other Project Revenues to be received in such Fiscal Year, equal not less than the greater of:

First: The sum of:

(A) all Net Operating Expenses payable during such Fiscal Year;

(B) 150% of the amount required to pay Sinking Fund requirements for the principal of and interest on all Bonds issued and outstanding under the 1975 General Ordinance which will become due and payable during such Fiscal Year; and

(C) the amount, if any, required to be paid into the Sinking Fund Reserve during such Fiscal Year, or

Second: The sum of:

(A) all Net Operating Expenses payable during such Fiscal Year; and

(B) all Sinking Fund deposits required during such Fiscal Year in respect of all outstanding Bonds and in respect of all outstanding general obligation bonds issued for improvements to the Gas Works and all amounts, if any, required during such Fiscal Year to be paid into the Sinking Fund Reserve.

Additional Covenants

The City further covenants that: (1) it will pay or cause to be paid from the Project Revenues the principal of, premium, if any, and interest on all Bonds as the same shall become due and payable; (2) it will continuously maintain in good condition and operate the Gas Works; and (3) it will not, in any Fiscal Year, pay from Project Revenues any City Charges or deposit from the Project Revenues in the general sinking fund of the City any sinking fund charges in respect of general obligation bonds of the City unless, prior to or concurrently with such payment, it shall satisfy all Sinking Fund requirements on Bonds outstanding under the 1975 General Ordinance for such Fiscal Year.

Report Requirements

The City shall file with the Fiscal Agent not later than 120 days after the close of each Fiscal Year a report of the operation of the Gas Works, including specified financial data, showing compliance with the Rate Covenant and accompanied by a certificate of the manager of the Gas Works that the Gas Works are in good operating condition and a certificate of the Director of Finance that, as of the date of such report, the City has complied with all covenants and requirements of the 1975 General Ordinance and Supplemental Ordinances. Copies of such reports will be available, for a period of ten (10) years, to bondholders and may be inspected and copied at all reasonable times by bondholders or their representatives.

General Obligation Bonds - Junior Lien Revenue Bonds

The City reserves the right to finance Gas Works Projects by issuing general obligation bonds or revenue bonds, under authorization other than the 1975 General Ordinance and Supplemental Ordinances, for the payment of which Project Revenues may be pledged, provided that such pledge is subject and subordinate to the prior payments in each Fiscal Year of all Sinking Fund requirements of all Bonds issued under the 1975 General Ordinance.

Conditions of Issuing Bonds

Prior to the issuance of any series of Bonds, the Council of the City shall adopt an ordinance supplemental to the 1975 General Ordinance meeting the requirements of the 1975 General Ordinance.

Prior to the issuance of any series of Bonds under the 1975 General Ordinance, the Director of Finance shall, in addition to the filing requirements of Section 12 of the Act, file with the Fiscal Agent a transcript of the proceedings authorizing the issuance of such series of Bonds which shall include (i) a certified copy of the 1975 General Ordinance (unless previously so filed); (ii) a certified copy of the Supplemental Ordinance; (iii) an executed or certified copy of the report of the Director of Finance required by subsection (a) of Section 8 of the Act; (iv) an executed copy of the opinion of the City Solicitor required by subsection (b) of Section 8 of the Act; and (v) an executed copy of the Engineer's report required pursuant to the terms of the 1975 General Ordinance; and (vi) a certificate of the Director of Finance that there is no default in the payment of the principal of, interest on, or premiums, if any, payable in respect of any Bonds, that the amounts currently on deposit in the Sinking Fund Reserve meet the requirements of the 1975 General Ordinance with respect thereto, that the report for the latest completed Fiscal Year

of the City was in compliance with the Rate Covenant as therein shown, and that the City is currently in compliance with the Rate Covenant and all other covenants contained in the 1975 General Ordinance and all Supplemental Ordinances; and thereupon the proper officers of the City and the Fiscal Agent shall be authorized to execute and deliver the Bonds so authorized, to receipt for the purchase price thereof and to execute and deliver on behalf of the City the usual closing statements, affidavits and certificates.

Sinking Fund and Sinking Fund Reserve

A Gas Works Revenue Bond Sinking Fund is established for the benefit of all Bonds issued under the 1975 General Ordinance which shall be held in an account separate and apart from all other accounts of the City. On or before each interest and principal payment date for the Bonds, the Director of Finance shall deposit in the Sinking Fund from Project Revenues the amount sufficient, together with interest and profits on investments held therein, to pay the principal of and interest on the Bonds due and payable on such interest or principal payment date. The 1975 General Ordinance authorizes the appointment, in accordance with legal procedures, of one or more banks to act as Fiscal Agent and/or paying agent for all Bonds or for any series of Bonds issued thereunder and reserves to the City the right to appoint other or additional banks from time to time. The Fiscal Agent for any particular series will act as registrar and Sinking Fund Depository for that series. The moneys in the Sinking Fund are required to be secured, and invested and reinvested under management of the Director of Finance.

The Sinking Fund Reserve is established as a separate account in the Sinking Fund and is to be held by the Sinking Fund Depository in an amount equal to the maximum amount required in any Fiscal Year to pay the debt service on the Bonds. The Sinking Fund Reserve shall be funded from either (i) the proceeds of each series of Bonds in a series becoming due and payable in such Fiscal Year or (ii) the accumulation of Project Revenues over a period of not more than six Fiscal Years.

The moneys and investments (valued at market) in the Sinking Fund Reserve shall be maintained in an amount equal at all times to the maximum principal and interest requirements in any subsequent Fiscal Year of all Bonds issued and outstanding under the 1975 General Ordinance; provided, however, that the Supplemental Ordinance authorizing the issuance of any such series may provide for the funding of such amount from Project Revenues over a period of not more than six Fiscal Years after the issuance and delivery of such Bonds. If at any time the moneys in the Sinking Fund, other than in the Sinking Fund Reserve, are insufficient to pay when due the principal of (and premium, if any) or interest on any Bond or Bonds, the Sinking Fund Depository shall withdraw from the Sinking Fund Reserve and pay to the Fiscal Agent the amount of such deficiency. If, by reason of such withdrawal or for any other reason, there shall be a deficiency in the Sinking Fund Reserve, the City covenants to restore such deficiency by daily deposits of at least 50% of Project Revenues.

Transfer of Income on Sinking Fund Reserve

The 1975 General Ordinance provides that all interest and income earned on moneys held in the Sinking Fund Reserve may, to the extent not required to comply with the requirements of

the 1975 General Ordinance relating to the Sinking Fund Reserve, be transferred to the operating funds of the Gas Works to be applied as Project Revenues in accordance with the terms of the 1975 General Ordinance. To the extent that in any Fiscal Year a balance remains in the Project Revenues, such balance, upon approval of the Gas Commission, may be paid to the City, provided that in a given Fiscal Year such balance does not exceed the amount of Sinking Fund Reserve Earnings transferred to the operating funds during the same Fiscal Year.

Remedies; Limitations on Liabilities of City

In addition to the remedies provided by the Act, if the City shall fail or neglect to make deposits into the Sinking Fund, including the Sinking Fund Reserve, in the amounts and at the times required by the 1975 General Ordinance or if, for any reason, moneys in the Sinking Fund shall be insufficient to pay debt service on any Bonds, the City shall, immediately and without notice, deposit to the Sinking Fund, on a daily basis 50% of all pledged Project Revenues, or such greater percentage thereof as the Director of Finance shall determine, so long as the default or deficiency shall continue. The 1975 General Ordinance provides that all remedies are enforceable only against pledged Project Revenues and investments thereof, and that no decree or judgment against the City on action brought under the provisions of the 1975 General Ordinance shall order, or be construed to permit, the occupation, attachment, seizure or sale upon execution of any other property of the City.

Amendments

The 1975 General Ordinance and any Supplemental Ordinance may be amended without the consent of any bondholders (1) to cure ambiguities, formal defects or omissions, or (2) to grant to bondholders or any trustee therefor additional rights, remedies, powers or security, or (3) to comply with mandatory provisions of state or federal law or with permissive provisions of such law which do not substantially impair the security or right to payment of bondholders. The 1975 General Ordinance and any Supplemental Ordinance may be amended in such other respects as may be authorized by 67% in principal amount of the Holders of Bonds outstanding and affected, but no alteration of the amount, rate or time of payment, respectively, of the principal thereof or the interest thereon or of the redemption provisions may be made without the consent of the Holders of all Bonds outstanding and affected.

Amendments Not Affecting Outstanding Bonds

The 1975 General Ordinance or any part thereof may be amended and the foregoing covenants (including the Rate Covenant) may be rescinded, amended or supplemented by further covenants and agreements, from time to time by Supplemental Ordinance, but no such amendments or further provisions, terms, covenants or agreements contained in a Supplemental Ordinance, other than those permitted by and adopted pursuant to 8.01 of the 1975 General Ordinance governing amendments generally, which shall be inconsistent with, or would impair a prior covenant in, the 1975 General Ordinance as at the time amended or supplemented, shall become effective until all Bonds, the Holders of which are entitled to the protection of, or to force compliance with, such prior provisions or covenants, shall cease to be outstanding.

THE 1998 GENERAL ORDINANCE
Ordinance of City Council Approved
May 8, 1998 — Bill No. 980232
(the “1998 General Ordinance”)

Pursuant to the authorization contained in the Act, the City has enacted the 1998 General Ordinance. The City has made a pledge of, and has granted a security interest in, all Gas Works Revenues and all accounts, contract rights and general intangibles representing Gas Works Revenues for the security and payment of all Bonds issued under the 1998 General Ordinance.

Definitions Under the 1998 General Ordinance

Accreted Value means, with respect to any Capital Appreciation Bond, as of any specified date, the Original Value of such Bond, plus interest accreted on such Bond to such date, all as may be provided in an applicable Supplemental Ordinance.

Act means The First Class City Revenue Bond Act approved October 18, 1972 (Act No. 234, 53 P.S. § 15901 to 15224), as from time to time amended. The words and phrases which are defined in the Act shall have such defined meanings when used in the 1998 General Ordinance.

Bond or Bonds means any Gas Works revenue bond or note of the City issued and outstanding pursuant to the Act under the 1998 General Ordinance and any Supplemental Ordinance.

Bond Counsel means any firm of nationally recognized bond counsel acceptable to the City.

Bondholder or Holder means the registered owner of any Bond.

Bond Register means the list of the names and addresses of Bondholders and the principal amounts and numbers of the Bonds held by them maintained by the Fiscal Agent on behalf of the City.

Bond Year for any Series of Bonds means each one-year period (or shorter period from the date of issue) that ends at the close of business on the date in the calendar year that is selected by the City as permitted under the Code. If no day is selected by the City before the earlier of the final maturity date of the Series of Bonds or the date that is five (5) years after the issue date, the Bond Year with respect to such Series of Bonds shall end on each anniversary of the issue date and on the final maturity date.

Business Day means a day other than a Saturday, Sunday or holiday on which the Fiscal Agent is authorized or required to be closed under applicable state or federal law.

Capital Appreciation Bonds means any Bonds issued under the 1998 General Ordinance which do not pay interest until maturity or until a specified date prior to maturity, but whose Original Value accretes periodically to the amount due on the maturity date.

City means The City of Philadelphia, Pennsylvania.

City Charges means the proportionate charges, if any, for services performed for the Gas Works by all officers, departments, boards or commissions of the City which are contained in the computation of operating expenses of the Gas Works, including, without limitation, the expenses of the Gas Commission, and also means the base payments to the City contained in the Management Agreement and all other payments made to the City from Gas Works Revenues.

City Controller means the head of the City's auditing department as provided by the Philadelphia Home Rule Charter.

City Solicitor means the head of the City's law department as provided by the Philadelphia Home Rule Charter.

Code means the Internal Revenue Code of 1986, as amended, or any successor legislation, and the regulations and published rulings promulgated thereunder or applicable thereto.

Credit Facility means any letter of credit, standby bond purchase agreement, line of credit, surety bond, insurance policy or other insurance commitment or similar agreement (other than a Qualified Swap or an Exchange Agreement) that is provided by a commercial bank, insurance company or other institution, with a current long term rating (or whose obligations thereunder are guaranteed by a financial institution with a long term rating) from Moody's and S&P not lower than "A."

Credit Facility Issue or issuer of a Credit Facility means each issuer of a Credit Facility then in effect, and its successors. References to the Credit Facility Issuer shall be read to mean the issuer of the Credit Facility applicable to a particular Series of Bonds or each issuer of a Credit Facility, as the context requires.

Debt Service Requirements means, for a specified period, the sum of (i) the principal of (whether at maturity or pursuant to mandatory redemption) and interest (other than capitalized interest) on Outstanding Bonds payable during the period and (ii) all net amounts due and payable by the City under Qualified Swaps and Exchange Agreements during the period. For purposes of estimating Debt Service Requirements for any future period, (i) any Option Bond outstanding during such period shall be assumed to mature on the stated maturity date thereof, except that the principal amount of any Option Bond tendered for payment and cancellation before its stated maturity date shall be deemed to accrue on the date required for payment pursuant to such tender; (ii) Debt Service Requirements on Bonds for which the City has entered into a Qualified Swap or an Exchange Agreement shall be calculated assuming that the interest rate on such Bonds shall equal the stated fixed or variable rate payable by the City on the Qualified Swap or Exchange Agreement or, if applicable and if greater than such stated rate, the applicable rate for any Bonds issued in connection with the Qualified Swap or Exchange Agreement adjusted, in the case of variable rate obligations, as provided in Section 4.03(b); and (iii) Debt Service Requirements with respect to Variable Rate Bonds shall be subject to adjustments as permitted by Section 4.03(b) of the 1998 General Ordinance.

Director of Finance means the chief financial, accounting and budget officer of the City as established by the Philadelphia Home Rule Charter, including a person acting as Director of Finance under applicable law.

Exchange Agreement means, with respect to a Series of Bonds, or any portion thereof to the extent from time to time permitted by applicable law, any interest exchange agreement, interest rate swap agreement, currency swap agreement or other contract or agreement, other than a Qualified Swap, authorized, recognized and approved by a Supplemental Ordinance as an Exchange Agreement and providing for payments to and from an entity whose senior long term debt obligations, other senior unsecured long term obligations, or claims paying ability or whose obligations under an Exchange Agreement are guaranteed by an entity whose senior long term debt obligations, other senior unsecured long term obligations or claims paying ability, are rated not less than A3 by Moody's, A- by S&P or A- by Fitch, or the equivalent thereof by any successor thereto as of the date the Exchange Agreement is entered into, which payments are calculated by reference to fixed or variable rates and constituting a financial accommodation between the City and the counterparty.

Fiscal Agent means any bank, bank and trust company or trust company named as such in Section 6.02 of the 1998 General Ordinance or its successor.

Fiscal Year means the fiscal year of the Gas Works.

Fitch means Fitch IBCA, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns and if such corporation shall for any reason no longer perform the functions of a securities rating agency, "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency designated by the City. Whenever rating categories of Fitch are specified in the 1998 General Ordinance, such categories shall be irrespective of gradations within a category.

Gas Commission means the Gas Commission provided for by the Philadelphia Home Rule Charter as presently constituted or hereafter reconstituted in accordance with law.

Gas Works means all property, real and personal, owned by the City and used in the acquisition or manufacture, storage and distribution of natural, liquefied, synthetic or manufactured gas or in the maintenance, management or administration thereof and all activities ancillary and related thereto, and also means, as the context may require, the business entity managed by the Manager.

Gas Works Revenues means all operating and nonoperating revenues of the Gas Works derived from its activities and assets involved in the supply, manufacture, storage and distribution of gas, including all rents, rates and charges imposed or charged by the City upon the owners or occupants of properties connected to, and upon all users of, gas distributed by the Gas Works and all other revenues derived therefrom and all other income derived by the City from the Gas Works. Revenues derived from activities unrelated to the supply, manufacture, storage and distribution of gas or assets related thereto shall not be included in Gas Works Revenues, provided that the Gas Works receives fair payment for the use of gas related assets and personnel of the Gas Works used in such activities, which payments shall be included in Gas Works

Revenues. In particular, Gas Works Revenues shall not include revenues from enterprises or functions not related to gas activities (e.g., activities involving the supply, generation or distribution of electricity). Gas Works Revenues shall not include those portions of the Gas Works' rents, rates and charges which are securitized and sold pursuant to Section 4.03(b) of the 1998 General Ordinance. Gas Works Revenues may be divided into separate components in one or more Supplemental Ordinances and any Series of Bonds issued thereafter may be limited as to source of payment to one or more of such components as provided in the Supplemental Ordinance authorizing the particular Series of Bonds.

Government Obligations means any of the following which are noncallable and which at the time of investment are legal investments under the Act for the moneys proposed to be invested therein:

(a) direct general obligations of, or obligations the payment of principal of and interest on which are *unconditionally* guaranteed as to full and timely payment by, the United States of America;

(b) direct obligations and fully guaranteed certificates of beneficial interest of the Export-Import Bank of the United States; consolidated debt obligations and letter of credit-backed issues of the Federal Home Loan Banks; participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation; debentures of the Federal Housing Administration; mortgage-backed securities (except stripped mortgage securities which are valued greater than par on the portion of unpaid principal) and senior debt obligations of the Federal National Mortgage Association; participation certificates of the General Services Administration; guaranteed mortgage-backed securities and guaranteed participation certificates of the Government National Mortgage Association; guaranteed participation certificates and guaranteed pool certificates of the Small Business Administration; debt obligations and letter of credit-backed issues of the Student Loan Marketing Association; local authority bonds of the U.S. Department of Housing & Urban Development; guaranteed Title XI financings of the U.S. Maritime Administration; or

(c) obligations issued by the Resolution Funding Corporation pursuant to the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (the "FIRRE Act"), (i) the principal of which obligations is payable when due from payments of the maturing principal of non-interest bearing direct obligations of the United States of America which are issued by the Secretary of the Treasury and deposited in the Funding Corporation Principal Fund established pursuant to the FIRRE Act, and (ii) the interest on which obligations, to the extent not paid from other specified sources, is payable when due by the Secretary of the Treasury pursuant to the FIRRE Act.

Independent means a person who is not a salaried employee or elected or appointed official of the City; provided, however, that the fact that such person is retained regularly by or transacts business with the City shall not make such person an employee within the meaning of this definition.

Interim Debt means any bond anticipation notes or other temporary borrowing which the City anticipates permanently financing with Bonds or other long term indebtedness under the 1998 General Ordinance or otherwise.

Management Agreement means the Agreement dated December 29, 1972 between the City and the Manager for the management and operation of the Gas Works, as presently or hereafter amended, or any successor agreement which may be entered into by the City pertaining to the management of the Gas Works.

Manager means Philadelphia Facilities Management Corporation, currently managing the Gas Works pursuant to the Management Agreement, or its successor or such other person, corporation, board, commission or department of the City which may be designated by the City to manage the Gas Works.

Mayor means the Mayor of the City.

Moody's means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and if such corporation shall for any reason no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the City. Whenever rating categories of Moody's are specified in the 1998 General Ordinance, such categories shall be irrespective of gradations.

Net Operating Expenses means Operating Expenses exclusive of City Charges.

1975 Ordinance means the General Gas Works Revenue Bond Ordinance of 1975, as amended.

Office of the Fiscal Agent means the corporate trust office of the Fiscal Agent designated by the Fiscal Agent.

Operating Expenses means all costs and expenses of the Gas Works necessary and appropriate to operate and maintain the Gas Works in good operable condition during each Fiscal Year, and shall include, without limitation, the Manager's fee, salaries and wages, purchases of service by contract, costs of materials, supplies and expendable equipment, maintenance costs, costs of any property or the replacement thereof or for any work or project, related to the Gas Works, which does not have a probable useful life of at least five years, pension and welfare plan and workmen's compensation requirements, provision for claims, refunds and uncollectible receivables and for City Charges, all in accordance with generally accepted municipal accounting principles consistently applied, but shall exclude depreciation and interest and sinking fund charges. Operating Expenses shall not include Unrelated Expenses.

Option Bond means any Bond which by its terms may be tendered by and at the option of the Holder thereof for payment by the City prior to its stated maturity date or the maturity date of which may be extended by and at the option of the Holder thereof.

Ordinance means the 1998 General Ordinance, as from time to time amended.

Original Value, with respect to a Series of Bonds issued as Capital Appreciation Bonds, means the principal amount paid by the initial purchasers thereof on the date of original issuance.

Outstanding, when used with reference to the Bonds, means, as of any particular date, all Bonds which have been authenticated and delivered under the 1998 General Ordinance, except:

(a) Bonds canceled after purchase in the open market or because of payment or redemption prior to maturity;

(b) Bonds for the payment or redemption of which sufficient moneys shall have been theretofore deposited with the Fiscal Agent (whether upon or prior to the maturity or redemption date of any such Bonds), provided that, if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in Section 5.02 of the 1998 General Ordinance or arrangements satisfactory to the Fiscal Agent shall have been made therefor, or waiver of such notice satisfactory in form to the Fiscal Agent shall have been filed with the Fiscal Agent; and

(c) Bonds in lieu of which or, in substitution for which others have been authenticated and delivered under Section 3.04 of the 1998 General Ordinance.

(d) Bonds paid with the proceeds of any Credit Facility shall be Outstanding until the issuer of such Credit Facility has been reimbursed for the amount of the payment or has presented the Bonds for cancellation.

Philadelphia Home Rule Charter means the Philadelphia Home Rule Charter, as amended or superseded by any new home rule charter, adopted pursuant to authorization of the First Class City Home Rule Act approved April 21, 1949, P.L. 665 §1 et seq. (53 P.S. §13101 et seq.).

Prior Obligations means the obligations of the Gas Works to The Philadelphia Municipal Authority existing on the date of adoption of the 1998 General Ordinance.

Qualified Escrow Securities means funds which are represented by (i) demand deposits, interest-bearing time accounts, savings deposits or certificates of deposit, but only to the extent such deposits or accounts are fully insured by the Federal Deposit Insurance Corporation or any successor United States governmental agency, or to the extent not insured, fully secured and collateralized by Government Obligations having a market value (exclusive of accrued interest) at all times at least equal to the principal amount of such deposits or accounts, (ii) if at the time permitted under the Act, obligations of any state or political subdivision thereof or any agency or instrumentality of such state or political subdivision for which cash, Government Obligations or a combination thereof have been irrevocably pledged to or deposited in a segregated escrow account for the payment when due of principal or redemption price of and interest on such obligations, and any such cash or Government Obligations pledged and deposited are payable as to principal or interest in such amounts and on such dates as may be necessary without reinvestment to provide for the payment when due of the principal or redemption price of and interest on such obligations, and such obligations are rated by any Rating Agency in the highest rating category assigned by such Rating Agency to obligations of the same type, or (iii) noncallable Government Obligations. In each case such funds (i) are subject to withdrawal,

mature or are payable at the option of the Holder at or prior to the dates needed for disbursement, provided such deposits or accounts, whether deposited by the City or by such depository, are insured or secured as public deposits with securities having at all times a market value exclusive of accrued interest equal to the principal amount thereof, (ii) are irrevocably pledged for the payment of such obligations and (iii) are sufficient, together with the interest to the disbursement date payable with respect thereto, if also pledged, to meet such obligations in full.

Qualified Swap or Swap Agreement means, with respect to a Series of Bonds or any portion thereof, any financial arrangement that (i) is entered into by the City with an entity that is a Qualified Swap Provider at the time the arrangement is entered into; (ii) provides that (a) the City shall pay to such entity an amount based on the interest accruing at a fixed rate on an amount equal to the principal amount of the Outstanding Bonds of such Series or portion thereof, and that such entity shall pay to the City an amount based on the interest accruing on a principal amount initially equal to the same principal amount as such Bonds, at either a variable rate of interest or a fixed rate of interest computed according to a formula set forth in such arrangement (which need not be the same as the actual rate of interest borne by the Bonds) or that one shall pay to the other any net amount due under such arrangement or (b) the City shall pay to such entity an amount based on the interest accruing on the principal amount of the Outstanding Bonds of such Series or portion thereof at a variable rate of interest as set forth in the arrangement and that such entity shall pay to the City an amount based on interest accruing on a principal amount equal to the same principal amount of such Bonds at a variable rate of interest or a fixed rate of interest computed according to a formula set forth in such arrangement (which need not be the same as the actual rate of interest borne by the Bonds) or that one shall pay to the other any net amount due under such arrangement; and (iii) which has been designated in writing to the Fiscal Agent by the City as a Qualified Swap with respect to such Bonds.

Qualified-Swap Provider means, with respect to a Series of Bonds, an entity whose senior long term debt obligations, other senior unsecured long term obligations or claims paying ability, or whose payment obligations under a Qualified Swap are guaranteed by an entity whose senior long term debt obligations, other senior unsecured long term obligations or claims paying ability, are rated (at the time the subject Qualified Swap is entered into) at least as high as Aa by Moody's and AA by S&P, or the equivalent thereof by any successor thereto.

Rate Covenant means the rate covenant contained in subsection (b) of Section 4.03 of the 1998 General Ordinance.

Rating Agency means Moody's, S&P or Fitch, to the extent that any of such rating services have issued a credit rating on any of the Outstanding Bonds or, upon discontinuance of any of such rating services, such other nationally recognized rating service or services if any such rating service has issued a credit rating on any of the Outstanding Bonds.

Rebate Amount means the amount with respect to a Series of Bonds, which is required to be paid to the United States of America, as of any computation date, in compliance with the restrictions imposed by Section 148(1) of the Code.

S & P means Standard & Poor's Ratings Services, a corporation organized and existing under the laws of the State of New York, its successors and assigns, and if such corporation shall for any reason no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the City. Whenever rating categories of S&P are specified in the 1998 General Ordinance, such categories shall be irrespective of gradations within a category.

Senior Bonds means Bonds which shall be first in right of payment and as to which the coverage requirement under the Rate Covenant shall be 150%.

Series, when applied to Bonds, means collectively all of the Bonds of a given issue authorized by Supplemental Ordinance as provided in Article IV of the 1998 General Ordinance and may also mean, if appropriate, a subseries of any such issue if, for any reason, the City should determine to divide any such issue into one or more subseries of Bonds.

Sinking Fund means the 1998 Ordinance Gas Works Revenue Bond Sinking Fund established by Section 6.01 of the 1998 General Ordinance.

Sinking Fund Depositary means the Fiscal Agent or any other bank, bank and trust company or trust company appointed as such by the City.

Sinking Fund Reserve means the Sinking Fund Reserve established by Section 6.04 of the 1998 General Ordinance.

Sinking Fund Reserve Requirement means, with respect to all Bonds secured by the Sinking Fund Reserve, an amount equal to the greatest amount of Debt Service Requirements payable in any Fiscal Year (except that such Debt Service Requirements will be computed as if any Qualified Swap did not exist and the Debt Service Requirements attributable to any Variable Rate Bonds may be based upon the fixed rate of interest as set forth in the Supplemental Ordinance for such Bonds), determined as of any particular date.

Subordinate Bonds means those Bonds which shall be subordinate in right of payment to Senior Bonds and as to which the coverage requirement under the Rate Covenant shall be 100%.

Supplemental Ordinance means an ordinance supplemental to the 1998 General Ordinance enacted pursuant to the Act and the 1998 General Ordinance by the Council of the City authorizing the issuance of a Series of Bonds.

Uncertificated Bond means any Bond which is fully registered as to principal and interest and which is not represented by an instrument.

Unrelated Expenses means expenses unrelated to the supply, manufacture, storage and distribution of gas or assets related thereto.

Variable Rate Bond means any Bond, the rate of interest on which is subject to change prior to maturity and cannot be determined in advance of such change.

Concerning the Bonds

Bonds may be issued in one or more series as the City may from time to time determine by supplemental ordinance (each a "Supplemental Ordinance"). The 1998 General Ordinance provides for the method of setting the details and terms of the Bonds authorized by such Supplemental Ordinance. The 1998 General Ordinance sets forth the general form and content of Bonds, the manner of making payment of principal, interest and premium, the requirements governing such payments, the rules regarding registration, transfer and exchange of Bonds, and general provisions governing redemption and the effect thereof. The 1998 General Ordinance authorizes the issuance of definitive and temporary Bonds, provides for the execution of the Bonds and provides for the issuance of Bonds to replace mutilated, destroyed, lost or stolen Bonds. The 1998 General Ordinance authorizes the issuance of Bonds in book-entry form.

Purposes For Which Bonds May Be Issued, Conditions of Issuance, Engineering Report

Bonds may be issued to (1) pay the cost of projects related to the Gas Works, (2) reimburse any City fund from which such costs shall have been paid or advanced, (3) fund any such cost for which the City shall have outstanding bond anticipation notes or other obligations, (4) refund any bonds of the City issued for the foregoing purposes under the Act, (5) refund any general obligation bonds of the City issued for the foregoing purposes, or (6) finance anything else relating to the Gas Works permitted under the Act.

The City covenants that so long as any Bonds shall remain outstanding, no Bonds will be issued under the 1998 General Ordinance or any ordinance supplemental thereto unless the financial report of the City's chief fiscal officer, required by the Act, is filed with the City Council in connection with such issuance. Such report may be given in reliance on an engineering report of an Independent consulting engineer or an Independent firm of consulting engineers, in either case having broad experience in the design and analysis of the operation of gas works or gas distribution systems of the magnitude and scope of the Gas Works and a favorable reputation for competence in such field. The report must set forth the qualifications of the engineers and must contain a statement that the engineers have made an investigation of the physical properties and of the books and records of the Gas Works, as they deemed necessary.

On the basis of such investigation, the engineering report must contain the same matters, statements and opinions as are required to be contained in the report of the chief fiscal officer to the City Council, supported by appropriate schedules and summaries, namely: (1) a brief description of the project or projects for which the Bonds are to be issued; (2) a statement identifying the sources from which the pledged revenues are to be derived; (3) a statement that, on the basis of actual, if appropriate, and estimated future annual financial operations of the project or projects from which the pledged project revenues are to be derived, the project or projects will, in the opinion of the engineers, yield pledged project revenues over the amortization period of such Bonds sufficient to meet the payment or deposit requirements of all expenses of operation, maintenance, repair and replacement of the Project, reserve requirements, debt service of all Bonds outstanding for which Project Revenues are pledged, any State taxes assumed by the City to be paid on such Bonds and surplus requirements fixed by the 1998 General Ordinance or the Supplemental Ordinance authorizing the issuance of any Series of Bonds, and (4) that the project revenues upon which the preceding statements are based comply

with the definition of "Project Revenues" contained in the Act. The 1998 General Ordinance also requires that the engineering report state that the Gas Works rents, rates and charges, on the basis of which the foregoing statements are made, are currently and will be sufficient to comply with the Rate Covenant and that the Gas Works are in good operating condition or that adequate steps are being taken to make them so.

Prior to the issuance of the Bonds, a transcript of the proceedings authorizing the issuance of the Bonds, including the engineering report, if any, shall be filed with the Fiscal Agent.

Security

The City pledges, pursuant to the 1998 General Ordinance, for the security and payment of all Bonds issued under the 1998 General Ordinance and thereby grants a lien on and security interest in, all Gas Works Revenues, all accounts, contract rights and general intangibles representing the Gas Works Revenues and all funds and accounts established under the 1998 General Ordinance, and in each case, the proceeds of the foregoing, except as limited for a Series of Bonds in the Supplemental Ordinance authorizing the issuance of such Series of Bonds; provided, however, that the pledge of the 1998 General Ordinance may also be for the benefit of the provider of a Credit Facility, Qualified Swap or Exchange Agreement, or any other person who undertakes to provide moneys for the account of the City for the payment of principal or redemption price, of and interest on any Series of Bonds on an equal and ratable basis with the related Series of Bonds, to the extent provided by any Supplemental Ordinance.

Subordinate Bonds shall be subordinate to Senior Bonds in right of payment of principal, premium, if any, and interest. Senior Bonds and Subordinate Bonds shall not have any preference, priority or distinction as to lien or otherwise, except as otherwise provided in the 1998 General Ordinance or in a Supplemental Ordinance, over any other Senior Bonds or Subordinate Bonds, respectively.

Priority in Application of Gas Works Revenues

The 1998 General Ordinance provides that all Gas Works Revenues as and when collected in each Fiscal Year shall be applied in order of priority, to the extent then payable,

First: to Net Operating Expenses then payable;

Second: to debt service on bonds issued under the 1975 Ordinance and amounts required to be paid into the sinking fund reserve under the 1975 Ordinance;

Third: to debt service on Senior Bonds, payments (other than termination payments) due to the issuers of Qualified Swaps and Exchange Agreements related to Senior Bonds and payments due in respect of obligations of the Gas Works to The Philadelphia Municipal Authority existing on the date of adoption of the 1998 General Ordinance;

Fourth: payments due to issuers of Credit Facilities related to Senior Bonds;

Fifth: to debt service on Subordinate Bonds and payments due in respect of obligations of the Gas Works on a parity with Subordinate Bonds (including notes issued under the City's General Inventory and Receivables Gas Works Revenue Note Ordinance of 1993, or any similar ordinance, and amounts payable to the provider of a Credit Facility in respect of such notes) and payments (other than termination payments) due to the issuers of Qualified Swaps and Exchange Agreements related to Subordinate Bonds;

Sixth: to payments due to issuers of Credit Facilities related to Subordinate Bonds;

Seventh: to required payments of the Rebate Amount to the United States;

Eighth: to replenishment of any deficiency in the Sinking Fund Reserve;

Ninth: to payment of general obligation bonds of the City adjudged to be self-liquidating from Gas Works Revenues;

Tenth: to debt service on other general obligation bonds issued for the Gas Works; and

Eleventh: to the payment of City charges and any other proper purpose of the Gas Works (including any termination payments to issuers of Qualified Swaps and Exchange Agreements) except Unrelated Expenses.

The 1998 General Ordinance does not require the segregation of revenues upon their collection.

Rate Covenant

The Rate Covenant requires the City, at a minimum, to impose, charge and collect in each Fiscal Year such gas rates and charges as shall, together with all other Gas Works Revenues to be received in such Fiscal Year, equal not less than the greater of:

- (i) all Net Operating Expenses payable during such Fiscal Year;
- (ii) all principal of and interest on bonds issued and outstanding under the 1975 Ordinance payable during such Fiscal Year and amounts required to be paid into the sinking fund reserve under the 1975 Ordinance during such Fiscal Year;
- (iii) 150% of the amount required to pay all Sinking Fund deposits required during such Fiscal Year in respect of all Outstanding Senior Bonds and 100% of the amounts payable in respect of the Prior Obligations during such Fiscal Year;

(iv) the amount required to pay Sinking Fund deposits required during such Fiscal Year in respect of all Outstanding Subordinate Bonds and other obligations of the Gas Works on a parity with Subordinate Bonds payable during such Fiscal Year;

(v) the amount, if any, required to be paid into the Sinking Fund Reserve during such Fiscal Year;

(vi) the Rebate Amount required to be paid to the United States during such Fiscal Year; and

(vii) the amounts required to be paid to the issuers of Credit Facilities and the providers of Qualified Swaps and Exchange Agreements during such Fiscal Year; or

(B) The sum of:

(i) all Net Operating Expenses payable during such Fiscal Year;

(ii) all principal of and interest on bonds issued and outstanding under the 1975 Ordinance payable during such Fiscal Year and amounts required to be paid into the sinking fund reserve under the 1975 Ordinance during such Fiscal Year;

(iii) all Sinking Fund deposits required during such Fiscal Year in respect of all Outstanding Bonds and all amounts payable in respect of obligations of the Gas Works which are on a parity with any of the Bonds and in respect of general obligation bonds issued for improvements to the Gas Works and all amounts, if any, required during such Fiscal Year to be paid into the Sinking Fund Reserve;

(iv) the Rebate Amount required to be paid to the United States during such Fiscal Year; and

(v) the amounts required to be paid to the issuers of Credit Facilities and the providers of Qualified Swaps and Exchange Agreements during such Fiscal Year.

For purposes of estimating Sinking Fund deposits with respect to Interim Debt and Variable Rate Bonds, the City shall be entitled to assume that (1) Interim Debt will be amortized over a period of up to the maximum term permitted by the Act, but not in excess of the useful life of the assets to be financed, on an approximately level debt service basis and bear interest at the average interest rate on bonds of a similar maturity and credit rating (without any credit enhancement) as the Bonds Outstanding under the 1998 General Ordinance and (2) Variable Rate Bonds will bear interest at a rate equal to the average interest rate on such Variable Rate Bonds during the period of twenty-four (24) consecutive calendar months immediately preceding the date of calculation or during such shorter period that such Variable Rate Bonds have been Outstanding.

The Gas Commission is authorized and directed, without further authorization, to impose and charge and to collect, or cause to be collected, rents, rates and charges which shall be sufficient in each Fiscal Year to comply with the foregoing Rate Covenant.

Notwithstanding the requirements of Section 4.03(b) of the 1998 General Ordinance and the pledge under Section 4.02 thereof, the City may, at such time as there are no bonds outstanding under the 1975 Ordinance, pursuant to a Supplemental Ordinance, securitize and sell that portion of the Gas Works rents, rates and charges which relate to assets which are designated as non-performing by the Gas Commission and as to which the Gas Commission has designated specific rents, rates or charges; provided that prior to any such securitization and sale the City delivers to the Fiscal Agent (1) an Engineer's report including a statement that, for the three year period following such securitization and sale, the Gas Works rents, rates and charges (excluding those securitized and sold) are currently and will be sufficient to comply with the Rate Covenant set forth in Section 4.03(b) of the 1998 General Ordinance applied as if the percentage in subsection A(iii) thereof were 175% rather than 150% and (2) an opinion of Bond Counsel that such securitization and sale will not adversely affect the exclusion from gross income for Federal income tax purposes of interest on any Outstanding Bonds the interest on which is intended to be so excluded. Proceeds received from any such securitization and sale shall be excluded from Gas Works Revenues in all calculations relating to the Rate Covenant and, notwithstanding any provision of the 1998 General Ordinance to the contrary, may be used to redeem or refund obligations issued to finance the related assets designated as non-performing.

Additional Covenants

The City further covenants that (1) it will pay or cause the Fiscal Agent or any paying agent appointed by the City to pay from the Gas Works Revenues deposited in the Sinking Fund the principal of, and premium, if any, and interest on, all Bonds as the same shall become due and payable; (2) it will continuously maintain in good condition and continuously operate the Gas Works; and (3) it will not in any Fiscal Year pay from the Gas Works Revenues any City Charges or deposit from the Gas Works Revenues in the general sinking fund of the City any sinking fund charges in respect of general obligation bonds of the City unless prior thereto or concurrently therewith all sinking fund charges then payable in respect of Outstanding Bonds shall have been deposited in the Sinking Fund, all amounts then payable in respect of obligations of the Gas Works which are on a parity with Bonds shall have been paid, all amounts then payable to issuers of Credit Facilities and providers of Qualified Swaps and Exchange Agreements shall have been paid and all deposits then required to the Sinking Fund Reserve shall have been made.

Report Requirements

The City shall file with the Fiscal Agent not later than 120 days after the close of each Fiscal Year a report of the operation of the Gas Works, including specified financial data, showing compliance with the Rate Covenant and accompanied by a certificate of the Manager of the Gas Works that the Gas Works are in good operating condition and a certificate of the Director of Finance that, as of the date of such report, the City has complied with all covenants of the 1998 General Ordinance and all Supplemental Ordinances. Copies of such reports will be

available to Bondholders for a period of ten (10) years and may be inspected and copied at all reasonable times by Bondholders or their representatives.

General Obligation Bonds - Junior Lien Revenue Bonds

The City reserves the right to finance improvements to the Gas Works by issuing (1) its general obligation bonds or (2) under authorization other than the 1998 General Ordinance and Supplemental Ordinances, obligations for the payment of which Gas Works Revenues may be pledged, subject and subordinate in each Fiscal Year to the prior payment from such revenues of all principal, premium, interest and sinking fund requirements payable during such Fiscal Year under the 1998 General Ordinance.

Conditions of Issuing Bonds

Prior to the issuance of any Series of Bonds, the Council of the City shall adopt an ordinance supplemental to the 1998 General Ordinance meeting the requirements of the 1998 General Ordinance.

Prior to the issuance of any Series of Bonds under the 1998 General Ordinance, the Director of Finance shall, in addition to the filing requirements of Section 12 of the Act, file with the Fiscal Agent a transcript of the proceedings authorizing the issuance of such Series of Bonds which shall include (i) a certified copy of the 1998 General Ordinance (unless previously so filed); (ii) a certified copy of the Supplemental Ordinance; (iii) an executed or certified copy of the report of the Director of Finance required by subsection (a) of Section 8 of the Act; (iv) an executed copy of the opinion of the City Solicitor required by subsection (b) of Section 8 of the Act; and (v) an opinion of Bond Counsel to the effect that (1) the Series of Bonds has been duly issued for a permitted purpose under the Act and under the 1998 General Ordinance, (2) all conditions precedent to the issuance of the Series of Bonds pursuant to the Act and the 1998 General Ordinance have been satisfied, (3) the Series of Bonds has been duly authorized, executed and delivered and constitutes the legal, valid and binding obligation of the City and (4) if the interest on the Series of Bonds is intended to be excluded from gross income for Federal income tax purposes, interest on the Series of Bonds will be so excluded; and thereupon the proper officers of the City and the Fiscal Agent shall be authorized to execute and deliver the Bonds so authorized, to receipt for the purchase price thereof and to execute and deliver on behalf of the City the usual closing statements, affidavits and certificates.

Sinking Fund and Sinking Fund Reserve

The Sinking Fund was established for the benefit and security of the Holders of all Bonds issued under the 1998 General Ordinance. The Sinking Fund shall be held in an account or accounts separate and apart from all other accounts of the City. The City covenants and the Director of Finance is directed to deposit in the Sinking Fund from Gas Works Revenues in each Fiscal Year such amounts as will, together with interest and profits on investments held therein, be sufficient to accumulate therein (exclusive of amounts in the Sinking Fund Reserve), on or before each interest and principal payment date of the Bonds, the amounts required to pay the principal of and interest on the Bonds then becoming due and payable. The 1998 General Ordinance authorizes the appointment, in accordance with legal procedures, of one or more

banks to act as Fiscal Agent and/or paying agent for all Bonds or for any series of Bonds issued thereunder and reserves to the City the right to appoint other or additional banks from time to time. The Fiscal Agent for any particular series will act as registrar and Sinking Fund Depository for that series. The moneys in the Sinking Fund are required to be secured, and invested and reinvested under management of the Director of Finance.

The Sinking Fund Depository shall, on direction of the Director of Finance, or if for any reason s/he should fail to give such direction, on the direction of the Fiscal Agent, liquidate investments, if necessary, and pay over from the Sinking Fund in cash to the Fiscal Agent not later than the due date thereof the full amount of the principal, interest on, and premium, if any, payable upon redemption of Bonds. Any excess moneys in the Sinking Fund, including any excess amount in the Sinking Fund Reserve, shall be transferred to the operating accounts of the Gas Works.

The Sinking Fund Reserve is established as a separate account in the Sinking Fund and is to be held by the Sinking Fund Depository as part of the Sinking Fund, but for which a separate account shall be maintained. Unless otherwise provided in the applicable Supplemental Ordinance, the City shall, under direction of the Director of Finance, deposit in the Sinking Fund Reserve from the proceeds of sale of each Series of Bonds issued under the 1998 General Ordinance and/or Gas Works Revenues an amount which, together with other amounts in the Sinking Fund Reserve, will cause the amount in the Sinking Fund Reserve to equal the Sinking Fund Reserve Requirement. The money and investments (valued at market) in the Sinking Fund Reserve and amounts which can be drawn under Credit Facilities held for the Sinking Fund Reserve shall be held and maintained in an amount equal to the Sinking Fund Reserve Requirement.

In lieu of a deposit to the Sinking Fund Reserve or in substitution for amounts in the Sinking Fund Reserve, the City may provide one or more letters of credit or other Credit Facilities in the same aggregate amount issued by a provider or providers whose credit facilities are such that bonds secured by such credit facilities are rated in one of the three highest rating categories by Moody's or S&P, provided that (1) in the case of a substitution for moneys in the Sinking Fund Reserve, an opinion of Bond Counsel is delivered to the Fiscal Agent that such substitution will not adversely affect the exclusion from gross income for Federal income tax purposes of interest on the Bonds the interest on which is intended to be so excluded, (2) each such Credit Facility permits the Fiscal Agent to make a draw thereon up to the principal amount thereof if the Sinking Fund Reserve is needed to cover a shortfall in the Sinking Fund and other moneys in the Sinking Fund Reserve are insufficient and (3) each such Credit Facility provides that a draw will be made thereon to replenish the Sinking Fund Reserve on the expiration thereof unless the City has otherwise made such deposit to the Sinking Fund Reserve or has obtained another Credit Facility meeting the above requirements.

If, at any time and for any reason, the moneys in the Sinking Fund, other than in the Sinking Fund Reserve, shall be insufficient to pay as and when due, the principal of, and premium, if any, and interest on, any Bond or Bonds secured by the Sinking Fund Reserve, the Sinking Fund Depository is authorized pursuant to the 1998 General Ordinance and directed to withdraw from the Sinking Fund Reserve and to draw on Credit Facilities held for the Sinking Fund Reserve and pay over to the Fiscal Agent the amount of such deficiency. If by reason of

such withdrawal (including draws on any Credit Facilities held to satisfy the Sinking Fund Reserve Requirement) or for any other reason there shall be a deficiency in the Sinking Fund Reserve, the City covenants pursuant to the 1998 General Ordinance to restore such deficiency (either by a deposit of funds or the reinstatement of the cash limits of Credit Facilities) within twelve months. The Sinking Fund Reserve shall be valued by the Sinking Fund Depository promptly after any withdrawal from the Sinking Fund Reserve or any other event indicating a possible deficiency in the Sinking Fund Reserve and on August 31 of each Fiscal Year.

The Sinking Fund shall be a consolidated fund for the equal and proportionate benefit of the Holders of all Bonds from time to time Outstanding under the 1998 General Ordinance and may be invested and reinvested on a consolidated basis. The principal of and interest on and profits (and losses if any) realized on investments in the Sinking Fund shall be allocated pro rata for the Series of Bonds or the specific Bonds in respect of which such investments were made without distinction or priority, but moneys (and the investments thereof) specifically deposited for the payment of any particular installment of principal, interest (including capitalized interest) or premium in respect of particular Bonds shall be held and applied exclusively to the payment of such particular principal, interest or premium.

Remedies; Limitations on Liabilities of City

If the City shall fail or neglect to pay or to cause to be paid the principal of, or the redemption premium, if any, or the interest on, any Bond, whether at stated maturity or upon call for prior redemption, or if the City, after written notice to it, shall fail or neglect to make any payment owed by it to the provider of a Credit Facility, a Qualified Swap or an Exchange Agreement provided with respect to the Bonds and such provider gives the Fiscal Agent written notice of such failure or neglect, or if the City shall fail to comply with any provision of the Bonds or with any covenant of the City contained in the 1998 General Ordinance or an applicable Supplemental Ordinance, then, under and subject to the terms and conditions stated in the Act, the Holder or Holders of any Bond or Bonds shall be entitled to all of the rights and remedies provided in the Act, including the appointment of a trustee; provided, however, that the remedy provided in Section 20(b)(4) of the Act may be exercised only upon the failure of the City to pay, when due, principal and redemption price of (including principal due as a result of a scheduled mandatory redemption) and interest on a Series of Bonds. Upon the occurrence of an event of default specified above, the Fiscal Agent shall, within thirty (30) days, give written notice thereof by first class mail to all Bondholders.

Any decree or judgment for the payment of money against the City by reason of default under the 1998 General Ordinance shall be enforceable only against the Gas Works Revenues, amounts in the Sinking Fund Reserve and other amounts which may be specifically pledged therefor and investments thereof and no decree or judgment against the City upon an action brought under the 1998 General Ordinance shall order or be construed to permit the occupation, attachment, seizure, or sale upon execution of any other property of the City.

Amendments

The 1998 General Ordinance and any Supplemental Ordinance may be further supplemented, modified or amended: (a) to cure any ambiguity, formal defect or omission

therein; (b) to make such provisions in regard to matters or questions arising thereunder which shall not be inconsistent with the provisions thereof and which shall not adversely affect the interests of Bondholders; (c) to grant to or confer upon Bondholders or a trustee, if any, for the benefit of Bondholders any additional rights, remedies, powers, authority or security that may be lawfully granted or conferred; (d) to incorporate modifications requested by any Rating Agency to obtain or maintain a credit rating on any Series of Bonds; (e) to comply with any mandatory provision of state or federal law or with any permissive provision of such law or regulation which does not substantially impair the security or right to payment of the Bonds, but no amendment or modification shall be made with respect to any Outstanding Bonds to alter the amount, rate or time of payment, respectively, of the principal thereof or the interest thereon or to alter the redemption provisions thereof without the written consent of the Holders of all affected Outstanding Bonds; and (f) except as aforesaid, in such other respect as may be authorized in writing by the Holders of a majority in principal amount (using Accreted Value in the case of Capital Appreciation Bonds) of the Bonds Outstanding and affected. The written authorization of Bondholders of any supplement to or modification or amendment of the 1998 General Ordinance or any Supplemental Ordinance need not approve the particular form of any proposed supplement, modification or amendment but only the substance thereof.

Closure of the 1975 Ordinance

After the adoption of the 1998 General Ordinance, the City shall not issue any bonds under the 1975 Ordinance except to refund bonds issued under the 1975 Ordinance or to replace bonds issued thereunder which have been mutilated, destroyed, lost or stolen as provided therein or in substitution for bonds issued thereunder upon transfer or exchange as provided therein.

Any refunding bonds issued under the 1975 Ordinance shall include in the title of such bonds a designation indicating that such bonds relate to the 1975 Ordinance in order to distinguish such bonds from Bonds issued under the 1998 General Ordinance.

Deposit of Funds for Payment of Bonds

When interest on, and principal or redemption price (as the case may be) of, all Bonds issued under the 1998 General Ordinance, and all amounts owed under any Credit Facility, Qualified Swap and Exchange Agreement entered into under the 1998 General Ordinance (other than termination payments), have been paid, or there shall have been deposited with the Fiscal Agent an amount, evidenced by moneys or Qualified Escrow Securities the principal of and interest on which, when due, will provide sufficient moneys to fully pay the Bonds at the maturity date or date fixed for redemption thereof, and all amounts owed under any Credit Facility, Qualified Swap and Exchange Agreement entered into under the 1998 General Ordinance (other than termination payments), the pledge and grant of security interest in the Gas Works Revenues made under the 1998 General Ordinance shall cease and terminate, and the Fiscal Agent and any other depository of funds and accounts established under the 1998 General Ordinance shall turn over to the City or to such person, body or authority as may be entitled to receive the same all balances remaining in any funds and accounts established thereunder.

If the City deposits with the Fiscal Agent moneys or Qualified Escrow Securities sufficient to pay the principal or redemption price of any particular Bond or Bonds becoming

due, either at maturity or by call for redemption or otherwise, together with all interest accruing thereon to the due date, interest on such Bond or Bonds shall cease to accrue on the due date and all liability of the City with respect to such Bond or Bonds shall likewise cease, except as provided in the following paragraph. From and after such deposit, such Bond or Bonds shall be deemed not to be Outstanding under the 1998 General Ordinance and the Holder or Holders thereof shall have recourse solely and exclusively to the funds so deposited for any claims of whatsoever nature with respect to such Bond or Bonds, and the Fiscal Agent shall hold such funds in trust for the Holder or Holders of such Bond or Bonds.

Moneys deposited with the Fiscal Agent pursuant to the preceding paragraphs which remain unclaimed two (2) years after the date payment thereof becomes due shall, upon written request of the City, if the City is not at the time to the knowledge of the Fiscal Agent (the Fiscal Agent having no responsibility to independently investigate) in default with respect to any covenant in the 1998 General Ordinance or the Bonds, be paid to the City, and the Holders of the Bond for which the deposit was made shall thereafter be limited to a claim against the City; provided, however, that before making any such payment to the City, the Fiscal Agent shall, at the expense of the City, publish in a newspaper of general circulation published in the City, a notice that said moneys remain unclaimed and that, after a date named in said notice, which date shall not be less than thirty (30) days after the date of publication of such notice, the balance of such moneys then unclaimed will be paid to the City.

THE NINTH SUPPLEMENTAL ORDINANCE
Ordinance of City Council
Approved June 3, 2009
Bill No. 090322
(the "Ninth Supplemental Ordinance")

The Ninth Supplemental Ordinance authorizes the Mayor, the City Controller and the City Solicitor (the "Bond Committee"), or a majority of them, on behalf of the City, to borrow, by the issuance and sale of Gas Works Revenue Bonds, Eighth Series (1998 General Ordinance) of the City (the "Eighth Series Bonds"), which may be issued in one or more subseries, designated "Eighth Series Bonds" and consecutively thereafter by letter designation and in one or more subseries within each such subseries, and with such relative priorities as the Bond Committee may deem desirable, pursuant to the Act and the 1998 General Ordinance, a sum or sums which in the aggregate shall not exceed the aggregate principal amount of \$450,000,000. The Eighth Series Bonds shall be sold at public or private sale and shall contain such terms and provisions as are determined by a majority of the Bond Committee to be in the best interests of the City and are not inconsistent with the provisions of the Ninth Supplemental Ordinance, the Act, the 1998 General Ordinance or any applicable law.

If a majority of the Bond Committee determines it to be in the best interests of the City, the Eighth Series Bonds may be issued in book-entry form; and in such event a majority of the Bond Committee shall also select a securities depository (the "Depository") for the Eighth Series Bonds. If a majority of the Bond Committee determines it to be in the best interests of the City, the City may obtain Credit Facilities in the form of credit enhancement and liquidity for all or a portion of the Eighth Series Bonds. If a majority of the Bond Committee determines that the entry by the City into one or more Qualified Swap Agreements, or the modification of an

existing Qualified Swap Agreement, will assist the City in more effectively managing its interest costs or interest rate exposure, the City may enter into one or more Qualified Swap Agreements with respect to all or a portion of the Eighth Series Bonds, or one or more amendments to an existing Qualified Swap Agreement with respect to the Eighth Series Bonds and/or the Bonds to which such Qualified Swap Agreement to be amended relates, or may enter into one or more amendments to an existing Qualified Swap Agreement to relate all or a portion thereof to all or a portion of a different series of outstanding Gas Works Revenue Bonds and designate in writing to the Fiscal Agent that such Qualified Swap Agreements constitute Qualified Swaps, in accordance with the requirements of the 1998 General Ordinance and the Ninth Supplemental Ordinance. The Eighth Series Bonds shall mature or be subject to mandatory redemption in such principal amounts and on such date or dates and at such rate or rates (including, without limitation, variable, adjustable or convertible rates), as shall be determined by a majority of the Bond Committee. A majority of the Bond Committee is authorized to take any and all other actions as may be necessary or appropriate in connection with the consummation of the transactions contemplated herein.

The Eighth Series Bonds are authorized to be issued under the Ninth Supplemental Ordinance in an aggregate principal amount up to Four Hundred Fifty Million Dollars (\$450,000,000.00); provided that, if any of the Eighth Series Bonds are to be sold at discounts which are in lieu of periodic interest, the aggregate principal amount of the Eighth Series Bonds which may be issued under the Ninth Supplemental Ordinance shall be increased to reflect such discounts, as long as the aggregate gross proceeds to the City from the sale of the Eighth Series Bonds shall not exceed Four Hundred Fifty Million Dollars (\$450,000,000.00), plus accrued interest, if any; provided further, that the Eighth Series Bonds, or an portion thereof, may be sold at a premium so long as the aggregate principal amount of the Eighth Series Bonds does not exceed Four Hundred Fifty Million Dollars (\$450,000,000.00) .

The Ninth Supplemental Ordinance provides that the Eighth Series Bonds shall not pledge the City's credit or taxing power, create any debt or charge against the tax or general revenues of the City or create any lien against any property of the City other than the revenues pledged by the 1998 General Ordinance.

The Ninth Supplemental Ordinance provides that the Eighth Series Bonds shall be issued for the purpose of providing funds for any or all of the following purposes: (i) the refunding or redeeming of all or any portion of the outstanding City of Philadelphia, Pennsylvania, Gas Works Revenue Bonds, Sixth Series (1998 Ordinance), upon such terms and in such amounts as shall be determined by the Director of Finance (the "Sixth Series Bonds"); (ii) providing funds in order to make a payment (the "Termination Payment") to terminate, in whole or in part, the Qualified Swap (the "Sixth Series Swap") entered into with respect to the Sixth Series Bonds pursuant to a Qualified Swap Agreement (the "Sixth Series Swap Agreement"); (iii) paying the costs of issuing the Eighth Series Bonds and any required deposits to the Sinking Fund Reserve; and (iv) paying any other Project Costs (as defined in the Act).

The City covenants in the Ninth Supplemental Ordinance that the proceeds of the Eighth Series Bonds which remain available for the payment of the costs of refunding of the Sixth Series Bonds, after payment of the Termination Payment, the financing costs, and the required payment into the Sinking Fund Reserve, shall be deposited, held in and disbursed from a special

account of the Sinking Fund or the escrow fund to be established pursuant to the Escrow Agreement (defined below).

The City authorizes the redemption of the Sixth Series Bonds, in whole or in part, in accordance with the terms of the 1998 General Ordinance and the Sixth Series Bonds and further authorizes the Bond Committee or the Director of Finance, if it is determined to be necessary, to enter into an Escrow Deposit Agreement (the "Escrow Agreement") providing, among other things, for the deposit and investment of all or a portion of the Eighth Series Bond proceeds and any other available funds of the City in amounts sufficient, together with interest thereon, if any, to defease such Sixth Series Bonds so that such Sixth Series Bonds shall be deemed to be not outstanding under the 1998 General Ordinance and providing for payment of the Sixth Series Bonds at maturity or redemption, as applicable, including all interest payable on such Sixth Series Bonds to such maturity or redemption dates, as applicable. All interest and income earned, if any, on the investment of such proceeds (except for amounts to be rebated to the United States), which is not required for the refunding or redemption of the Sixth Series Bonds, pending expenditure for the aforesaid purposes may be transferred to and deposited in the operating funds of the Gas Works and applied as Gas Works Revenues in accordance with the 1998 General Ordinance.

Based on the report of the Director of Finance of the City required by the Act, the Ninth Supplemental Ordinance determined that the pledged Gas Works Revenues (as defined in the 1998 General Ordinance) will be sufficient to comply with the rate covenant contained in the 1998 General Ordinance and also to pay all costs, expenses and payments required to be paid therefrom in their order and priority stated in the 1998 General Ordinance.

The City covenants in the Ninth Supplemental Ordinance that, as long as any of the Eighth Series Bonds shall remain outstanding, all pledged Gas Works Revenues shall be deposited and held in and disbursed from one or more unsegregated accounts of the Gas Works which shall be separate from and not commingled with the consolidated cash account of the City or any other account of the City not held exclusively for Gas Works purposes. Such pledged Gas Works Revenues shall be held for the security and payment of the Eighth Series Bonds and all Bonds issued under the 1998 General Ordinance to the extent, and to be applied in the order of priority, set forth in the 1998 General Ordinance. This covenant shall not be construed to require the establishment of any Gas Works account segregated from any other Gas Works accounts except as provided in the Ninth Supplemental Ordinance or as otherwise required by the 1998 General Ordinance.

The City covenants that as long as any Eighth Series Bonds shall remain unpaid, it shall make payments or cause payments to be made out of its 1998 Gas Works Revenue Bond Sinking Fund created under the 1998 General Ordinance at such times and in such amounts as shall be sufficient for the payment of the interest thereon and the principal thereof when due; provided, however, that whenever the City shall be required to deposit moneys with the Fiscal Agent for the mandatory redemption of any of the Eighth Series Bonds, such obligation may be satisfied, in whole or in part, by the delivery by the City to the Fiscal Agent of a principal amount of Eighth Series Bonds of the maturity required to be redeemed for cancellation prior to the date specified for such redemption.

The Ninth Supplemental Ordinance authorizes the Director of Finance to make such elections under the Internal Revenue Code of 1986, as amended (the "Code"), and Treasury Regulations promulgated thereunder with respect to the Eighth Series Bonds and to take such actions on behalf of the City with respect to the investment of the proceeds of the Eighth Series Bonds as is deemed advisable, and the Director of Finance or any member of the Bond Committee is authorized to make such covenants as may be necessary or advisable in order that the Eighth Series Bonds shall not be "arbitrage bonds" as defined in the Code.

Subject to the determination by a majority of the Bond Committee and as required by the 1998 General Ordinance, the Ninth Supplemental Ordinance authorizes the Director of Finance to enter into an amendment to the Sixth Series Swap Agreement, provided that the Sixth Series Swap Agreement, as so amended, shall continue to constitute a Qualified Swap Agreement, as such term is defined in the 1998 General Ordinance, with respect to the Sixth Series Bonds under the Eighth Series Bonds and/or relate to all or a portion of the outstanding Gas Works Revenue Bonds Fifth Series A-2, as authorized and permitted pursuant to the 1998 General Ordinance.

Subject to the determination by a majority of the Bond Committee and as required by the 1998 General Ordinance, the Director of Finance is hereby authorized to enter into one or more interest rate swap transactions consisting of a Master Agreement, Schedule and one or more Confirmations (collectively, the "Eighth Series Swap"), collectively constituting a Qualified Swap Agreement, with respect to the Eighth Series Bonds, and/or the Sixth Series bonds and/or relate to all or a portion of the outstanding Gas Works Revenue Bonds Fifth Series A-2, as authorized and permitted pursuant to the 1998 General Ordinance.

In accordance with and as permitted by the 1998 General Ordinance, the pledge and grant of a lien on and security interest in, all Gas Works Revenues, all accounts, contract rights and general intangibles representing the Gas Works Revenues and all funds and accounts established under the 1998 General Ordinance (except for the Sinking Fund and the Sinking Fund Reserve), and in each case, the proceeds of the foregoing, shall be for the benefit of the provider of the Sixth Series Swap, the provider of the Eighth Series Swap and the provider of a Credit Facility securing any payments of the City to be made pursuant to the Sixth Series Swap and/or the Eighth Series Swap (collectively, "Swap Credit Facilities"), all to the extent and in the manner as provided therein.

All of the provisions of the 1998 General Ordinance relating to Qualified Swaps, except to the extent limited to the Ninth Supplemental Ordinance, with respect to the Sinking Fund and the Sinking Fund Reserve, shall apply to the Sixth Series Swap, as amended, the Eighth Series Reserve, and to payments due from the City to the providers of the Sixth Series Swap, as amended, the Eighth Series Swap and the Swap Credit Facilities.

APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

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APPENDIX E

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (“Disclosure Agreement”) is executed and delivered as of August 20, 2009 by and between The City of Philadelphia, Pennsylvania (“City”) and Digital Assurance Certification, L.L.C., as dissemination agent (the “Dissemination Agent”), in connection with the issuance by the City of its \$58,285,000 City of Philadelphia, Pennsylvania Gas Works Revenue Refunding Bonds, Eighth Series A (1998 General Ordinance) (the “Eighth Series A Bonds” or the “Bonds”).

The Eighth Series A Bonds are being issued by the City under the provisions of The First Class City Revenue Bond Act, Act No. 234 of the General Assembly of the Commonwealth of Pennsylvania approved October 18, 1972, P.L. 955, as amended (the “Act”), and the General Gas Works Revenue Bond Ordinance of 1998 (Bill No. 980232, approved May 30, 1998) (“1998 General Ordinance”), as amended and supplemented from time to time and, in particular, as supplemented by the Ninth Supplemental Ordinance (Bill No. 090322, approved June 3, 2009) (collectively, the “1998 General Ordinance”). Certain matters concerning the Eighth Series A Bonds have been determined pursuant to the 1998 General Ordinance by the Bond Committee of the City, consisting of the Mayor, the City Controller and the City Solicitor (“Bond Committee”), and acting by at least a majority thereof, in an authorization dated August 13, 2009 (“Eighth Series A Bond Authorization”).

In consideration of the mutual covenants, promises and agreements contained herein and intending to be legally bound hereby, the parties hereto agree as follows:

Section 1. Definitions

In this Disclosure Agreement and any agreement supplemental hereto (except as otherwise expressly provided or unless the context clearly requires otherwise) terms defined in the recitals hereto shall have such meanings throughout this Disclosure Agreement, and, in addition, the following terms shall have the meanings specified below:

“Annual Financial Information” shall mean the financial information or operating data with respect to the City and PGW delivered at least annually pursuant to Section 3 hereof, substantially similar to the type set forth in Appendix “A” attached hereto and in accordance with the Rule. The financial statements comprising the Annual Financial Information are prepared according to accounting methods and procedures which conform to generally accepted accounting principles for governmental units as prescribed by the Government Accounting Standards Board.

“Business Day” or “Business Days” shall mean any day other than a Saturday or Sunday or, in the City, a legal holiday or a day on which banking institutions are authorized by law or contract to remain closed or a day on which the Dissemination Agent is closed.

“Disclosure Representative” shall mean the Director of Finance of the City, the City Treasurer or such other official or employee of the City as the Director of Finance or the City Treasurer shall designate in writing to the Dissemination Agent.

“EMMA” shall mean the Electronic Municipal Market Access System maintained by the MSRB.

“Fiscal Agent” shall mean US. Bank National Association, as Fiscal Agent for the Bonds.

“Material Event” shall mean any of the events listed in Section 4(a) of this Disclosure Agreement, if material within the meaning of the Rule.

“MSRB” shall mean the Municipal Securities Rulemaking Board.

“Official Statement” shall mean the Official Statement dated August 13, 2009, relating to the Eighth Series A Bonds.

“Participating Underwriters” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with their purchase and reoffering of the Bonds.

“PGW” means the Philadelphia Gas Works of the City of Philadelphia.

“Registered Owner” or “Owners” shall mean the person or persons in whose name a Bond is registered on the books of the City maintained by the Fiscal Agent in accordance with the 1998 General Ordinance, the Ninth Supplemental Ordinance and the Bonds. For so long as the Bonds shall be registered in the name of the Securities Depository or its nominee, the term “Registered Owners” shall also mean and include, for the purposes of this Disclosure Agreement, the owners of book-entry credits in the Bonds evidencing an interest in the Bonds; provided, however, that the Dissemination Agent shall have no obligation to provide notice hereunder to owners of book-entry credits in the Bonds, except those who have filed their names and addresses with the Dissemination Agent for the purposes of receiving notices or giving direction under this Disclosure Agreement.

“Repository” shall mean each nationally recognized municipal securities information repository under the Rule. The Securities and Exchange Commission has designated EMMA as the sole Repository effective as of July 1, 2009. Any information filed in connection with this Disclosure Agreement shall be filed with EMMA at <http://emma.msb.org/>, and any future Repository as may be required under the Rule.

“Rule” shall mean Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, as such rule may be amended from time to time.

“Securities Depository” shall mean The Depository Trust Company, New York, New York, or its nominee, Cede & Co., or any successor thereto appointed pursuant to the General Ordinances.

All words and terms used in the Disclosure Agreement and defined above or elsewhere herein shall have the same meanings as set forth in the Bond Authorization, if defined therein, or in the 1998 General Ordinance, if defined therein.

Section 2. Authorization and Purpose of Disclosure Agreement

This Disclosure Agreement is authorized to be executed and delivered by the City pursuant to Section 12 of the Eighth Series A Bond Authorization in order to assist the Participating Underwriters into complying with the requirements of the Rule.

Section 3. Provision of Annual Financial Information

(a) Within 240 days of the close of each fiscal year of the City, commencing with the fiscal year ending June 30, 2009, the Disclosure Representative shall file with the Dissemination Agent, Annual Financial Information for such fiscal year. The Dissemination Agent shall promptly upon receipt thereof file the Annual Financial Information with each Repository. The Annual Financial Information will be in the form of the City's Comprehensive Annual Financial Report and, to the extent such information is not included therein, will include the other information set forth on Appendix A, and will contain unaudited financial statements if audited financial statements are not available.

(b) As soon as audited financial statements for the City are available, commencing with the audited financial statements for the fiscal year ending June 30, 2009, the Disclosure Representative shall file the audited financial statements with the Dissemination Agent. The Dissemination Agent shall promptly upon receipt thereof file the audited financial statements with each Repository.

Section 4. Material Events

(a) The City agrees that it shall provide through the Dissemination Agent, in a timely manner, to each Repository, notice of any of the following events with respect to the Bonds if material within the meaning of the Rule (each a "Material Event"):

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers or their failure to perform;
- (6) Adverse tax opinions or events affecting the tax-exempt status of the Bonds;

- (7) Modifications to the rights of the Holders of the Bond Holders;
- (8) Bond calls;
- (9) Defeasances;
- (10) Release, substitution or sale of property securing repayment of the Bonds;
and
- (11) Rating changes.

The foregoing eleven (11) events are quoted from the Rule. No mandatory redemption shall be deemed a Material Event.

(b) Whenever the City concludes that a Material Event has occurred, the Disclosure Representative shall promptly notify the Dissemination Agent in writing of such occurrence, specifying the Material Event. Such notice shall instruct the Dissemination Agent to file a notice of such occurrence with each Repository. Upon receipt, the Dissemination Agent shall promptly file such notice with each Repository. In addition, the Dissemination Agent shall promptly file with each Repository notice of any failure by the City or the Dissemination Agent to timely file the Annual Financial Information as provided in Section 3 hereof, including, any failure by the City or the Dissemination Agent to provide the Annual Financial Information on or before the date specified in Section 3(a) hereof. Any filing with each Repository shall be accompanied by a form provided by the Disclosure Representative to the Dissemination Agent.

(c) Notwithstanding the foregoing, the Dissemination Agent shall, promptly after obtaining actual knowledge of an event listed in clauses (a) (1), (3), (4), (5), (8), or (9) notify the Disclosure Representative of the occurrence of such event and shall, within three (3) Business Days of giving notice to the Disclosure Representative, file notice of such occurrence with each Repository unless the Disclosure Representative gives the Dissemination Agent written instructions not to file such notice because the event has not occurred or the event is not material within the meaning of the Rule.

(d) The Dissemination Agent shall prepare an affidavit of mailing for each notice delivered pursuant to clauses (b) and (c) of this Section 4 and shall deliver such affidavit to the City no later than three (3) Business Days following the date of delivery of such notice.

(e) The Dissemination Agent shall request the return from each Repository, of written acknowledgment or receipt of any notice delivered to each Repository. Upon the return of all completed acknowledgments of a notice, the Dissemination Agent shall prepare an affidavit of receipt specifying the date and hour of receipt of such notice by each recipient to the extent such information has been provided to the Dissemination Agent. Such affidavit of receipt shall be delivered to the City no later than three (3) Business Days following the date of receipt by the Dissemination Agent of the last completed acknowledgment.

Section 5. Amendment; Waiver

(a) Notwithstanding any other provision of this Disclosure Agreement, the City and the Dissemination Agent may amend the Disclosure Agreement or waive any of the provisions hereof, provided that no such amendment or waiver shall be executed by the parties hereto or effective unless:

(i) the amendment or waiver is made in writing and in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in identity, nature or status of the City or the governmental operations conducted by the City;

(ii) the Disclosure Agreement, as amended by the amendment or waiver, would have been the written undertaking contemplated by the Rule at the time of original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(iii) the amendment or waiver does not materially impair the interests of the Registered Owners of the Bonds.

(b) Evidence of compliance with the conditions set forth in clause (a) of this Section 5 shall be satisfied by the delivery to the Dissemination Agent of an opinion of counsel having recognized experience and skill in the issuance of municipal securities and federal securities law, acceptable to both the City and the Dissemination Agent, to the effect that the amendment or waiver satisfies the conditions set forth in clauses (a) (i), (ii), and (iii) of this Section 5.

(c) Notice of any amendment or waiver containing an explanation of the reasons therefor shall be given by the Disclosure Representative to the Dissemination Agent upon execution of the amendment or waiver and the Dissemination Agent shall promptly file such notice with each Repository. The Dissemination Agent shall also send notice of the amendment or waiver to each Registered Owner including owners of book-entry credits in the Bonds who have filed their names and addresses with the Fiscal Agent.

Section 6. Other Information; Duties Under the General Ordinances or the Bond Authorizations

(a) Nothing in this Disclosure Agreement shall preclude the City from disseminating any other information with respect to the City or the Bonds, using the means of communication provided in this Disclosure Agreement or otherwise, in addition to the Annual Financial Information and the notices of Material Events specifically provided for herein, nor shall the City be relieved of complying with any applicable law relating to the availability and inspection of public records. Any election by the City to furnish any information not specifically provided for herein in any notice given pursuant to this Disclosure Agreement or by the means of communication provided for herein shall not be deemed to be an additional contractual undertaking and the City shall have no obligation to furnish such information in any subsequent notice or by the same means of communication.

(b) Nothing in this Disclosure Agreement shall relieve the Dissemination Agent of any of its duties and obligations under the 1998 General Ordinances, the Ninth Supplemental Ordinance or the Bond Authorization.

(c) Except as expressly set forth in this Disclosure Agreement, the Dissemination Agent shall have no responsibility for any continuing disclosure to the Registered Owners, the MSRB, or any Repository.

Section 7. Default

(a) In the event that the City or the Dissemination Agent fails to comply with any provision of this Disclosure Agreement, the Dissemination Agent or any Registered Owner of the Bonds shall have the right, by mandamus, suit, action or proceeding at law or in equity, to compel the City or the Dissemination Agent to perform each and every term, provision and covenant contained in this Disclosure Agreement. The Dissemination Agent shall be under no obligation to take any action in respect of any default hereunder unless it has received the direction in writing to do so by the Registered Owners of at least 25% of the outstanding principal amount of a series of the Bonds and if, in the Dissemination Agent's opinion, such action may tend to involve expense or liability, unless it is also furnished with indemnity and security for expenses satisfactory to it.

(b) A default under the Disclosure Agreement shall not be or be deemed to be an Event of Default under the Bonds, the 1998 General Ordinances, the Ninth Supplemental Ordinance, the Bond Authorization, the Act or any other agreement related thereto and the sole remedy in the event of a failure of the City or the Dissemination Agent to comply with the provisions hereof shall be the action to compel performance described in Section 7(a) above.

Section 8. Concerning the Dissemination Agent

(a) The Dissemination Agent accepts and agrees to perform the duties imposed on it by this Disclosure Agreement, but only upon the terms and conditions set forth herein. The Dissemination Agent shall have only such duties in its capacity as are specifically set forth in this Disclosure Agreement. The Dissemination Agent may execute any powers hereunder and perform any duties required of it through attorneys, agents, and other experts, officers, or employees, selected by it, and the written advice of such counsel or other experts shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon. The Dissemination Agent shall not be answerable for the default or misconduct of any attorney, agent, expert or employee selected by it with reasonable care. The Dissemination Agent shall not be answerable for the exercise of any discretion or power under this Disclosure Agreement or liable to the City or any other person for actions taken hereunder, except for its own willful misconduct or negligence.

(b) The City shall pay the Dissemination Agent reasonable compensation for its services hereunder, and also all its reasonable expenses and disbursements, including reasonable fees and expenses of its counsel or other experts, as shall be agreed upon by the Dissemination Agent and the City. Nothing in this Section 8(b) shall be deemed to constitute a waiver of

governmental immunity by the City. The provisions of this paragraph shall survive termination of this Disclosure Agreement.

(c) The Dissemination Agent may act on any resolution, notice, telegram, request, consent, waiver, certificate, statement, affidavit, or other paper or document which it in good faith believes to be genuine and to have been passed or signed by the proper persons or to have been prepared and furnished pursuant to any of the provisions of this Disclosure Agreement; and the Dissemination Agent shall be under no duty to make any investigation as to any statement contained in any such instrument, but may accept the same as conclusive evidence of the accuracy of such statement in the absence of actual notice to the contrary. The Dissemination Agent shall be under no obligation to institute any suit, or to take any proceeding under this Disclosure Agreement, or to enter any appearance or in any way defend in any suit in which it may be made a defendant, or to take any steps in the execution of the duties hereby created or in the enforcement of any rights and powers hereunder, until it shall be indemnified by the Registered Owners to its satisfaction against any and all costs and expenses, outlays and counsel fees and expenses and other reasonable disbursements, and against all liability; the Dissemination Agent may, nevertheless, begin suit or appear in and defend suit, or do anything else in its judgment proper to be done by it as Dissemination Agent, without indemnity.

(d) All documents, reports, notices, statements, information and other materials provided to the MSRB under this Section shall be provided in an electronic format and accompanied by identifying information as prescribed by the MSRB.

Section 9. Term of Disclosure Agreement

This Disclosure Agreement shall terminate upon (1) payment or provision for payment in full of the Bonds, or (2) repeal or rescission of Section (b)(5) of the Rule; or (3) a final determination that Section (b)(5) of the Rule is invalid or unenforceable.

Section 10. Beneficiaries

This Disclosure Agreement shall inure solely to the benefit of the City, the Dissemination Agent and the Registered Owners from time to time of the Bonds and nothing herein contained shall confer any right upon any other person.

Section 11. Notices

Any written notice to or demand may be served, presented or made to the persons named below and shall be sufficiently given or filed for all purposes of this Disclosure Agreement if deposited in the United States mail, first class postage prepaid or in a recognized form of overnight mail, or by telecopy with confirmation of receipt, addressed:

(a) To the Dissemination Agent at:

DAC, Digital Assurance Certification LLC
390 North Orange Avenue, Suite 1750
Orlando, FL 32801
Attention: Jenny Emami
Fax: (407) 515-6513

(b) To the City or the Disclosure Representative at:

City of Philadelphia
Office of the Director of Finance
Municipal Services Building
1401 J.F.K. Boulevard
Philadelphia, PA 19102
Attention: Director of Finance
Fax: (215) 568-1947; or

City of Philadelphia
Office of the City Treasurer
Municipal Services Building
1401 J.F.K. Boulevard
Philadelphia, PA 19102
Attention: City Treasurer
Fax: (215) 686-3815

(c) To the MSRB at:

Municipal Securities Rulemaking Board
1900 Duke Street, Suite 600
Alexandria, VA 22314
Attention: CDI
Fax: (703) 683-1930

(d) To the Repository at <http://emma.msrb.org/>

or such other addresses as may be designated in writing to all parties hereto.

Section 12. No Personal Recourse

No personal recourse shall be had for any claim based on this Disclosure Agreement against any member, officer, or employee, past, present or future, of the City (including without limitation, the Disclosure Representative), or of any successor body as such, either directly or through the City or any such successor body, under any constitutional provision, statute or rule of law or by the enforcement of any assessment or penalty or otherwise.

Section 13. Controlling Law

The laws of the Commonwealth of Pennsylvania shall govern the construction and interpretation of this Disclosure Agreement.

Section 14. Removal and Resignation of the Dissemination Agent

The City has appointed the Dissemination Agent as exclusive Dissemination Agent under this Disclosure Agreement. The City may, upon thirty days' written notice to the Dissemination Agent and the Fiscal Agent, replace or appoint a successor Dissemination Agent. Upon termination of the Dissemination Agent's services as Dissemination Agent, whether by notice of the City or the Dissemination Agent, the City agrees to appoint a successor Dissemination Agent or, alternately, agrees to assume all responsibilities of Dissemination Agent under this Disclosure Agreement for the benefit of the Holders of the Bonds. Notwithstanding any replacement or appointment of a successor, the City shall remain liable until payment in full for any and all sums owed and payable to the Dissemination Agent. The Dissemination Agent may resign at any time by providing thirty days' prior written notice to the City.

Section 15. Successors and Assigns

All of the covenants, promises and agreements contained in this Disclosure Agreement by or on behalf of the City or by or on behalf of the Dissemination Agent shall bind and inure to the benefit of their respective successors and assigns, whether so expressed or not.

Section 16. Headings for Convenience Only

The descriptive headings in this Disclosure Agreement are inserted for convenience of reference only and shall not control or affect the meaning or construction of any of the provisions hereof.

Section 17. Counterparts

This Disclosure Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be an original, but such counterparts shall together constitute but one and the same instrument.

Section 18. Entire Agreement

This Disclosure Agreement sets forth the entire understanding and agreement of the City and the Dissemination Agent with respect to the matters herein contemplated and no modification or amendment of or supplement to this Disclosure Agreement shall be valid or effective unless the same is in writing and signed by the parties hereto.

IN WITNESS WHEREOF, THE CITY OF PHILADELPHIA, PENNSYLVANIA, has caused this Disclosure Agreement to be executed by the Director of Finance and DIGITAL ASSURANCE CERTIFICATION, L.L.C., as Dissemination Agent, has caused this Disclosure Agreement to be executed by one of its duly authorized officers all as of the day and year first above written.

THE CITY OF PHILADELPHIA,
PENNSYLVANIA

By: _____
Rob Dubow
Director of Finance

DIGITAL ASSURANCE CERTIFICATION, L.L.C,
as Dissemination Agent

By: _____
Authorized Officer

APPENDIX "A"

1. Commencing with the fiscal year ending June 30, 2009, a copy of the Comprehensive Annual Financial Report ("CAFR") which contains the audited combined financial statements of the City prepared by the office of the Director of Finance of the City in conformance with guidelines adopted by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants' audit guide, Audits of State and Local Government Units, and

2. Commencing with the Fiscal Year of the Philadelphia Gas Works ending August 31, 2009, to the extent such information is not contained in the CAFR, an update of the information set forth in the financial statements of the Philadelphia Gas Works for the Fiscal Years ended August 31, 2007 and August 31, 2008, included in Appendix A to the Official Statement.

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APPENDIX F

FORMS OF OPINIONS OF CO-BOND COUNSEL

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PROPOSED FORM OF OPINIONS OF CO-BOND COUNSEL

_____, 2009

Re: \$58,285,000 City of Philadelphia, Pennsylvania
Gas Works Revenue Refunding Bonds, Eighth Series A (1998 General Ordinance)

To The Purchasers of the Within-Described Bonds:

We have acted as Co-Bond Counsel to the City of Philadelphia, Pennsylvania ("City") in connection with the authorization, issuance and sale by the City of its Gas Works Revenue Refunding Bonds, Eighth Series A (1998 General Ordinance) ("Eighth Series A Bonds").

The Eighth Series A Bonds are issued under and pursuant to provisions of: (i) the Constitution of the Commonwealth of Pennsylvania ("Commonwealth"); (ii) the First Class City Revenue Bond Act, approved October 18, 1972 (P.L. 955), Act No. 234 ("Act"); (iii) the City of Philadelphia General Gas Works Revenue Bond Ordinance of 1998, as amended (Bill No. 980232) ("1998 General Ordinance"); (iv) the Ninth Supplemental Ordinance to the General Ordinance (Bill No. 090322), enacted by the Council of the City ("City Council") on May 21, 2009 and approved by the Mayor of the City on June 3, 2009 ("Ninth Supplemental Ordinance"); and (v) a Bond Authorization of the Bond Committee of the City, comprised of the Mayor, the City Controller and the City Solicitor, acting by a majority thereof ("Bond Committee"), dated August 13, 2009 ("Bond Authorization"). This opinion is being rendered pursuant to Section 4.06 of the 1998 General Ordinance. Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the 1998 General Ordinance or the Ninth Supplemental Ordinance.

Concurrently with the issuance of the Eighth Series A Bonds, the City is issuing its \$105,000,000 Gas Works Revenue Refunding Bonds, Eighth Series B (1998 General Ordinance) (the "Eighth Series B Bonds"), \$50,000,000 Gas Works Revenue Refunding Bonds, Eighth Series C (1998 General Ordinance) (the "Eighth Series C Bonds"), \$50,000,000 Gas Works Revenue Refunding Bonds, Eighth Series D (1998 General Ordinance) (the "Eighth Series D Bonds") and \$50,000,000 Gas Works Revenue Refunding Bonds, Eighth Series E (1998 General Ordinance) (the "Eighth Series E Bonds" and, together with the Eighth Series A Bonds, the Eighth Series B Bonds, the Eighth Series C Bonds and the Eighth Series D Bonds, the "Eighth Series Bonds").

The Eighth Series Bonds are being issued by the City to provide funds for any or all of the following purposes: (i) redeeming all or any portion of the outstanding City of Philadelphia, Pennsylvania, Gas Works Revenue Bonds, Sixth Series (1998 Ordinance), upon such terms and in such amounts as shall be determined by the Director of Finance (the "Sixth Series Bonds"); (ii) providing the funds in order to make a payment (the "Termination Payment") to terminate, in whole or in part, the Qualified Swap (the "Sixth Series Swap") entered into with respect to the

Sixth Series Bonds pursuant to a Qualified Swap Agreement (the "Sixth Series Swap Agreement"); and (iii) paying the costs of issuing the Eighth Series Bonds and any required deposits to the Sinking Fund Reserve.

The Eighth Series A Bonds, together with all Senior Bonds presently Outstanding under the 1998 General Ordinance and any parity obligations hereafter issued under the 1998 General Ordinance (collectively, "1998 Ordinance Senior Bonds"), are equally and ratably payable solely from and secured solely by a lien on and security interest in, all Gas Works Revenues, all accounts, contract rights and general intangibles representing Gas Works Revenues and all funds and accounts established under the 1998 General Ordinance. Pursuant to the 1998 General Ordinance, all 1998 Ordinance Senior Bonds are subordinate in right of payment and security to bonds issued under the City's General Gas Works Revenue Bond Ordinance of 1975.

As Co-Bond Counsel, we have examined: (a) the relevant provisions of the Constitution of the Commonwealth; (b) the Act; (c) the 1998 General Ordinance; (d) the Ninth Supplemental Ordinance; (e) the Bond Authorization; and (f) certain statements, certifications, affidavits and other documents and matters of law as we have deemed necessary to enable us to render the opinion set forth below, including, without limitation, a certification of officials of the City and of the Philadelphia Gas Works ("PGW") having responsibility for issuing the Eighth Series A Bonds ("Tax Compliance Certificate"), intended to satisfy certain provisions of the Internal Revenue Code of 1986, as amended ("Code"), and applicable Treasury Regulations, and the other documents and instruments listed on the Closing Index filed with U.S. Bank National Association, as Fiscal Agent, on the date of delivery of the Eighth Series A Bonds. We have also examined a fully executed and authenticated Eighth Series A Bond.

In rendering the opinion set forth below, we have relied upon the genuineness, accuracy and completeness of all documents, records, certifications and other instruments examined including, without limitation, the authenticity of all signatures appearing thereon. We have also relied, in the opinion set forth below, upon the opinion of the City Solicitor as to all matters of fact and law set forth therein. We have not made any independent examination in rendering this opinion other than the examination referred to above. Our opinion is therefore qualified in all respects by the scope of that examination.

Except with respect to Paragraph 5 below, our opinion is given only with respect to the laws of the Commonwealth of Pennsylvania as enacted and construed on the date hereof.

Based upon and subject to the foregoing and subject to the qualifications hereinafter set forth, we are of the opinion that:

1. The City is authorized under the provisions of the Constitution and laws of the Commonwealth to perform its obligations under the 1998 General Ordinance, the Ninth Supplemental Ordinance and the Eighth Series A Bonds and to issue the Eighth Series A Bonds for the purposes set forth in the Ninth Supplemental Ordinance.

2. The City has duly and properly authorized the issuance of the Eighth Series A Bonds.

3. The Eighth Series A Bonds have been duly executed, authenticated, issued and delivered, and are the legal, valid and binding obligations of the City, enforceable in accordance with the terms thereof, except as enforcement may be affected by bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other similar laws or legal or equitable principles affecting the enforcement of creditors' rights.

4. Under the laws of the Commonwealth as presently enacted and construed, interest on the Eighth Series A Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax and the Eighth Series A Bonds are exempt from personal property taxes in Pennsylvania; however, any profits, gains or income derived from the sale, exchange or other disposition of the Eighth Series A Bonds will be subject to Commonwealth taxes and local taxes within the Commonwealth.

5. Under existing statutes, regulations, rulings and court decisions, assuming that the City complies with its covenants relating to certain requirements of the Code, interest on the Eighth Series A Bonds will not be includible in the gross income of the holders thereof for federal income tax purposes, is exempt from individual and corporate federal alternative minimum tax ("AMT"), and is not includible in adjusted current earnings for purposes of corporate AMT.

In rendering this opinion, we have assumed compliance by the City with its covenants contained in the 1998 General Ordinance, the Ninth Supplemental Ordinance, the Bond Authorization and the Tax Compliance Certificate that are intended to comply with the provisions of the Code relating to actions to be taken by the City in respect of the Eighth Series A Bonds after the issuance thereof to the extent necessary to effect or maintain the exclusion of interest on the Eighth Series A Bonds from gross income for federal income tax purposes. These covenants relate to, *inter alia*, the use and investment of proceeds of the Eighth Series A Bonds and the rebate to the United States Treasury of specified arbitrage earnings, if required. Failure to comply with such representations and covenants could result in the interest on the Eighth Series A Bonds becoming includible in gross income for federal income tax purposes from the date of issuance of the Eighth Series A Bonds.

We call to your attention that the Eighth Series A Bonds are special obligations of the City payable solely from and secured solely by the Gas Works Revenues and amounts in the

To The Purchasers of the Within-Described Bonds

_____, 2009

Page 4

Sinking Fund, including the Sinking Fund Reserve established under the 1998 General Ordinance. The Eighth Series A Bonds are not general obligations of the City and do not pledge the full faith, credit or taxing power of the City or create any debt or charge against the general revenues of the City or create a lien against property of the City other than Gas Works Revenues.

We express no opinion as to any matter not set forth in the numbered paragraphs herein. This opinion is given as of the date hereof and we assume no obligation to supplement this opinion to reflect changes in law that may hereafter occur or changes in facts or circumstances that may hereafter come to our attention. Without limiting the generality of the foregoing, we express no opinion herein with respect to, and assume no responsibility for, the accuracy, adequacy or completeness of the Preliminary Official Statement or the Official Statement prepared in respect of the Eighth Series A Bonds, and make no representation that we have independently verified the contents thereof.

Very truly yours,

CITY OF PHILADELPHIA, PENNSYLVANIA • GAS WORKS REVENUE REFUNDING BONDS, EIGHTH SERIES A (1998 GENERAL ORDINANCE)



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In the opinion of Co-Bond Counsel, under existing statutes, regulations, rulings, and court decisions, assuming that the City complies with covenants relating to certain requirements of the Internal Revenue Code of 1986, as amended, interest on the Bonds will not be includable in the gross income of the holders thereof for federal income tax purposes, is exempt from individual and corporate federal alternative minimum tax ("AMT"), and is not includable in adjusted current earnings for purposes of corporate AMT. Under the laws of the Commonwealth of Pennsylvania, as enacted and construed on the date hereof, interest on the Bonds is exempt from Pennsylvania personal income tax and the Bonds are exempt from Pennsylvania personal property taxes. See "TAX MATTERS" herein.



\$255,000,000
CITY OF PHILADELPHIA, PENNSYLVANIA
GAS WORKS REVENUE REFUNDING BONDS
EIGHTH SERIES
(1998 GENERAL ORDINANCE)
CONSISTING OF:

\$105,000,000
GAS WORKS REVENUE
REFUNDING BONDS
EIGHTH SERIES B
(1998 GENERAL ORDINANCE);

\$50,000,000
GAS WORKS REVENUE
REFUNDING BONDS
EIGHTH SERIES C
(1998 GENERAL ORDINANCE);

\$50,000,000
GAS WORKS REVENUE
REFUNDING BONDS
EIGHTH SERIES D
(1998 GENERAL ORDINANCE);

\$50,000,000
GAS WORKS REVENUE
REFUNDING BONDS
EIGHTH SERIES E
(1998 GENERAL ORDINANCE)

Dated: Date of Delivery

Due: August 1, 2031

The City of Philadelphia, Pennsylvania, Gas Works Revenue Refunding Bonds, Eighth Series (1998 General Ordinance) in the original aggregate principal amount of \$255,000,000, consisting of \$105,000,000 of the Eighth Series B Bonds (the "Eighth Series B Bonds"); \$50,000,000 of the Eighth Series C Bonds (the "Eighth Series C Bonds"); \$50,000,000 of the Eighth Series D Bonds (the "Eighth Series D Bonds") and \$50,000,000 of the Eighth Series E Bonds (the "Eighth Series E Bonds," and together with the Eighth Series B Bonds, the Eighth Series C Bonds and the Eighth Series D Bonds, the "Bonds") are issued pursuant to the Act, the 1998 General Ordinance the Ninth Supplemental Ordinance and the Bond Authorization (as such terms are defined herein). The Bonds are issuable as fully registered bonds in denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof. The Bonds will bear interest at an initial rate to be established by the respective Remarketing Agent for the applicable series of Bonds from their date of delivery to and including the first subsequent Weekly Rate Calculation Date. Thereafter, for each Weekly Rate Period, the Bonds will bear interest at the Weekly Rate determined by the Remarketing Agent for the applicable series of Bonds in accordance with the procedures detailed herein (See "DESCRIPTION OF THE BONDS - Description of the Bonds in the Weekly Mode"). Each series of the Bonds may, at the option of the City, subject to certain conditions, be converted in whole or in part to a Daily Mode, Term Mode or Fixed Mode as described herein. The Bonds, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company ("DTC"), which will act as securities depository for the Bonds. Purchases of the beneficial ownership interests in the Bonds will be made in book-entry only form. Purchasers will not receive certificates representing their ownership interests in the Bonds during the period in which Cede & Co. is the owner of the Bonds, as nominee of DTC. References herein to the bondholders, Holders and registered owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Bonds. See "DESCRIPTION OF THE BONDS - Book-Entry Only System."

This Official Statement in general describes the Bonds only during the period that such Bonds bear interest at the Weekly Rate. If the Bonds are converted from a Weekly Mode to another Mode, information regarding the new Mode will be provided to prospective purchasers.

The principal and redemption price of the Bonds are payable at the corporate trust office of U.S. Bank National Association, as Fiscal Agent and Sinking Fund Depository for the Bonds (the "Fiscal Agent"), in Philadelphia, Pennsylvania, at the times and in the amounts set forth herein. While the Bonds bear interest in the Weekly Mode, interest is payable on the first Business Day of each month commencing September 1, 2009, by check mailed by the Fiscal Agent to the persons in whose names the Bonds are registered on the Business Day immediately preceding each interest payment date. So long as DTC or its nominee, Cede & Co., is the registered owner of the Bonds, principal of and interest on the Bonds are payable directly to Cede & Co. for redistribution to Participants and in turn to Beneficial Owners as described herein. For so long as any purchaser is the Beneficial Owner of Bonds, such purchaser must maintain an account with a broker or dealer who is, or acts through, a Participant to receive payment of the principal of and interest on such Bonds.

The Bonds are subject to optional redemption and mandatory redemption prior to maturity as described herein. The Bonds are also subject to optional and mandatory tender while in the Weekly Mode, as set forth herein.

THE BONDS DO NOT PLEDGE THE CREDIT OR TAXING POWER OF THE CITY OF PHILADELPHIA ("CITY") OR CREATE ANY DEBT OR CHARGE AGAINST THE TAX OR GENERAL REVENUES OF THE CITY OR CREATE A LIEN AGAINST ANY CITY PROPERTY OTHER THAN CERTAIN REVENUES AND FUNDS OF THE PHILADELPHIA GAS WORKS ("PGW" OR "GAS WORKS") REFERRED TO HEREIN.

THE BONDS SHALL BE ISSUED ON A PARITY WITH OTHER SENIOR 1998 ORDINANCE BONDS ISSUED UNDER THE 1998 GENERAL ORDINANCE BUT SHALL BE SUBORDINATED IN RIGHT OF PAYMENT AND SECURITY TO ALL BONDS ISSUED AND OUTSTANDING UNDER THE 1975 GENERAL ORDINANCE (AS DEFINED HEREIN), AS DESCRIBED IN THIS OFFICIAL STATEMENT.

The proceeds of the Bonds, together with other available monies and the proceeds of the Eighth Series A Bonds (as hereinafter defined) are being used for the purpose of providing funds for any or all of the following purposes: (i) the current refunding of all of the outstanding City of Philadelphia, Pennsylvania, Gas Works Revenue Bonds (1998 General Ordinance) Sixth Series (the "Refunded Bonds"); (ii) paying the costs of terminating a portion of the Swap Agreement (as such term is defined herein) for the Refunded Bonds; and (iii) paying the costs of issuing the Bonds and the Eighth Series A Bonds and any required deposits to the Sinking Fund Reserve established under the 1998 General Ordinance (collectively, the "2009 Project").

From the date of delivery of the Eighth Series B Bonds, until August 19, 2011, (unless earlier terminated or extended as described herein), while the Eighth Series B Bonds are in the Weekly Mode the principal and up to fifty-two (52) days' interest on the Eighth Series B Bonds when and as the same shall be due and payable, and payment of the purchase price of the Eighth Series B Bonds tendered for purchase, as described herein, will be paid by the Fiscal Agent using funds drawn under an irrevocable, direct pay letter of credit, issued for the benefit of the Eighth Series B Bonds provided by Wachovia Bank, National Association (the "Eighth Series B Credit Provider") subject to certain terms and conditions as described herein and in a Reimbursement, Credit and Security Agreement dated as of August 20, 2009 entered into between the City and the Eighth Series B Credit Provider (the "Eighth Series B Reimbursement Agreement") (see "SUMMARY OF CERTAIN PROVISIONS OF THE EIGHTH SERIES B CREDIT FACILITY AND THE EIGHTH SERIES B REIMBURSEMENT AGREEMENT" herein):



WACHOVIA

From the date of delivery of the Eighth Series C Bonds, until August 19, 2011, (unless earlier terminated or extended as described herein), while the Eighth Series C Bonds are in the Weekly Mode the principal and up to fifty-two (52) days' interest on the Eighth Series C Bonds when and as the same shall be due and payable, and payment of the purchase price of the Eighth Series C Bonds tendered for purchase, as described herein, will be paid by the Fiscal Agent using funds drawn under an irrevocable, direct pay letter of credit, issued for the benefit of the Eighth Series C Bonds provided by The Bank of Nova Scotia, acting through its New York Agency (the "Eighth Series C Credit Provider") subject to certain terms and conditions as described herein and in a Reimbursement, Credit and Security Agreement dated as of August 20, 2009 entered into between the City and the Eighth Series C Credit Provider (the "Eighth Series C Reimbursement Agreement") (see "SUMMARY OF CERTAIN PROVISIONS OF THE EIGHTH SERIES C CREDIT FACILITY AND THE EIGHTH SERIES C REIMBURSEMENT AGREEMENT" herein):



Scotiabank

From the date of delivery of the Eighth Series D Bonds, until August 19, 2011, (unless earlier terminated or extended as described herein), while the Eighth Series D Bonds are in the Weekly Mode the principal and up to fifty-two (52) days' interest on the Eighth Series D Bonds when and as the same shall be due and payable, and payment of the purchase price of the Eighth Series D Bonds tendered for purchase, as described herein, will be paid by the Fiscal Agent using funds drawn under an irrevocable, direct pay letter of credit, issued for the benefit of the Eighth Series D Bonds provided by Bank of America, N.A. (the "Eighth Series D Credit Provider") subject to certain terms and conditions as described herein and in a Reimbursement, Credit and Security Agreement dated as of August 20, 2009 entered into between the City and the Eighth Series D Credit Provider (the "Eighth Series D Reimbursement Agreement") (see "SUMMARY OF CERTAIN PROVISIONS OF THE EIGHTH SERIES D CREDIT FACILITY AND THE EIGHTH SERIES D REIMBURSEMENT AGREEMENT" herein):

Bank of America



From the date of delivery of the Eighth Series E Bonds, until August 19, 2011, (unless earlier terminated or extended as described herein), while the Eighth Series E Bonds are in the Weekly Mode the principal and up to fifty-two (52) days' interest on the Eighth Series E Bonds when and as the same shall be due and payable, and payment of the purchase price of the Eighth Series E Bonds tendered for purchase, as described herein, will be paid by the Fiscal Agent using funds drawn under an irrevocable, direct pay letter of credit, issued for the benefit of the Eighth Series E Bonds provided by JPMorgan Chase Bank, National Association (the "Eighth Series E Credit Provider") subject to certain terms and conditions as described herein and in a Reimbursement, Credit and Security Agreement dated as of August 20, 2009 entered into between the City and the Eighth Series E Credit Provider (the "Eighth Series E Reimbursement Agreement") (see "SUMMARY OF CERTAIN PROVISIONS OF THE EIGHTH SERIES E CREDIT FACILITY AND THE EIGHTH SERIES E REIMBURSEMENT AGREEMENT" herein) (the "Eighth Series E Credit Provider", together with the Eighth Series B Credit Provider, the Eighth Series C Credit Provider and the Eighth Series D Credit Provider, the "Credit Providers"):



JPMorgan Chase

On the date of issuance of the Bonds (the "Issue Date"), the City expects to issue its Gas Works Revenue Refunding Bonds, Eighth Series A (1998 General Ordinance) (the "Eighth Series A Bonds"). Proceeds of the Eighth Series A Bonds, together with other available monies and the proceeds of the Bonds, will be applied to fund the 2009 Project. Upon the issuance of the Eighth Series A Bonds and the Bonds, the Refunded Bonds will no longer be outstanding. The issuance and delivery of the Bonds is conditioned on the issuance and delivery of the Eighth Series A Bonds on the Issue Date.

The Eighth Series A Bonds will be offered pursuant to a separate Official Statement and will be sold by the City, on the same date as the Bonds, pursuant to a separate bond purchase agreement. This Official Statement only provides information with respect to the Eighth Series B Bonds, the Eighth Series C Bonds, the Eighth Series D Bonds and the Eighth Series E Bonds.

THE COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. PROSPECTIVE INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

The Bonds are offered when, as and if issued and accepted by the Underwriters, subject to the prior sale, withdrawal, or modification of the offer without notice, and subject to the approval as to the legality of the issuance of the Bonds by Blank Rome LLP and Andre C. Dessent, P.C., Co-Bond Counsel, both of Philadelphia, Pennsylvania. Certain legal matters will be passed upon for the Underwriters by Saul Ewing LLP and Kelly, Monaco and Naples, LLP both of Philadelphia, Pennsylvania, Co-Counsel to the Underwriters. Certain legal matters will be passed upon for the City of Philadelphia by the City of Philadelphia Law Department. Certain legal matters will be passed upon for Philadelphia Gas Works by the Office of General Counsel of the Philadelphia Gas Works and by Eckert Seamans Cherin and Mellott, LLC of Harrisburg, Pennsylvania. Certain legal matters will be passed upon for the Credit Providers by Duane Morris LLP, Philadelphia, Pennsylvania, counsel to the Credit Providers. It is anticipated that the Bonds will be available for delivery through the facilities of DTC in New York, New York on or about August 20, 2009.

Eighth Series B Bonds & Eighth Series C Bonds
WELLS FARGO SECURITIES

Eighth Series D Bonds
MERRILL LYNCH & CO.

Eighth Series E Bonds
J.P. MORGAN

MATURITY SCHEDULE

\$255,000,000
CITY OF PHILADELPHIA, PENNSYLVANIA
GAS WORKS REVENUE REFUNDING BONDS
EIGHTH SERIES
(1998 GENERAL ORDINANCE)
CONSISTING OF:

\$105,000,000	\$50,000,000	\$50,000,000	50,000,000
GAS WORKS REVENUE REFUNDING BONDS EIGHTH SERIES B (1998 GENERAL ORDINANCE);	GAS WORKS REVENUE REFUNDING BONDS EIGHTH SERIES C (1998 GENERAL ORDINANCE);	GAS WORKS REVENUE REFUNDING BONDS EIGHTH SERIES D (1998 GENERAL ORDINANCE);	GAS WORKS REVENUE REFUNDING BONDS EIGHTH SERIES E (1998 GENERAL ORDINANCE)

\$105,000,000
Gas Works Revenue Refunding Bonds
Eighth Series B
(1998 General Ordinance)
Consisting of:

<u>Due (August 1)</u>	<u>Initial Period</u>	<u>Initial Interest Rate</u>	<u>Initial Reset Date</u>	<u>Interest Period Payment Dates</u>	<u>Price</u>	<u>CUSIP No. *</u>
2031	August 20, 2009 to and including August 26, 2009	0.35%	August 26, 2009	First Business Day of the Month	100%	717823 2P2

\$50,000,000
Gas Works Revenue Refunding Bonds
Eighth Series C
(1998 General Ordinance)
Consisting of:

<u>Due (August 1)</u>	<u>Initial Period</u>	<u>Initial Interest Rate</u>	<u>Initial Reset Date</u>	<u>Interest Period Payment Dates</u>	<u>Price</u>	<u>CUSIP No. *</u>
2031	August 20, 2009 to and including August 26, 2009	0.35%	August 26, 2009	First Business Day of the Month	100%	717823 2R8

* Registered trademark of American Bankers Association. CUSIP numbers are provided by Standard & Poor's, CUSIP Service Bureau, a division of the McGraw-Hill Companies, Inc. The CUSIP numbers listed above are being provided solely for the convenience of Bondholders only at the time of issuance of the Bonds and the City does not make any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

\$50,000,000
Gas Works Revenue Refunding Bonds
Eighth Series D
(1998 General Ordinance)
Consisting of:

<u>Due (August 1)</u>	<u>Initial Period</u>	<u>Initial Interest Rate</u>	<u>Initial Reset Date</u>	<u>Interest Period Payment Dates</u>	<u>Price</u>	<u>CUSIP No.</u> *
2031	August 20, 2009 to and including August 26, 2009	0.37%	August 26, 2009	First Business Day of the Month	100%	717823 2T4

\$50,000,000
Gas Works Revenue Refunding Bonds
Eighth Series E
(1998 General Ordinance)
Consisting of:

<u>Due (August 1)</u>	<u>Initial Period</u>	<u>Initial Interest Rate</u>	<u>Initial Reset Date</u>	<u>Interest Period Payment Dates</u>	<u>Price</u>	<u>CUSIP No.</u> *
2031	August 20, 2009 to and including August 26, 2009	0.35%	August 26, 2009	First Business Day of the Month	100%	717823 2M9

* Registered trademark of American Bankers Association. CUSIP numbers are provided by Standard & Poor's, CUSIP Service Bureau, a division of the McGraw-Hill Companies, Inc. The CUSIP numbers listed above are being provided solely for the convenience of Bondholders only at the time of issuance of the Bonds and the City does not make any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

MAYOR
HONORABLE MICHAEL A. NUTTER

MAYOR'S CHIEF OF STAFF
CLARENCE D. ARMBRISTER

MAYOR'S CABINET

Camille Cates Barnett, Ph.D. Managing Director
Rob Dubow..... Director of Finance
Shelley R. Smith City Solicitor
Rina Cutler..... Deputy Mayor of Transportation and Utilities
Everett A. Gillison.....Deputy Mayor for Public Safety
Alan Greenberger..... Acting Deputy Mayor for Planning and Economic Development and Commerce Director
Donald F. Schwarz, M.D. Deputy Mayor for Health and Opportunity and Health Commissioner
Pauline Abernathy Senior Advisor to Mayor
Julia Chapman Director, Legislative and Government Affairs
Michael DiBerardinis..... Parks and Recreation Commissioner
Patricia Enright Director of Communications/Deputy Chief of Staff
Allan Frank..... Chief Information Officer
Teresa A. Gillen..... Senior Advisor to the Mayor for Economic Development
Melanie Johnson City Representative
Amy L. Kurland Inspector General
Joan L. Markman.....Chief Integrity Officer
Lori A. Shorr, Ph.D..... Chief Education Officer
Gary Steuer..... Chief Cultural Officer
David G. Wilson First Deputy Managing Director

City Treasurer
Rebecca Rhynhart

City Controller
Alan L. Butkovitz

PHILADELPHIA GAS WORKS

800 W. Montgomery Avenue
Philadelphia, Pennsylvania 19122

Thomas E. Knudsen..... President and Chief Executive Officer
Craig E. White Executive Vice President and Acting Chief Operating Officer
Joseph R. Bogdonavage..... Senior Vice President — Finance
Randall J. GyorySenior Vice President — Operations and Customer Affairs
Thomas L. Kuczynski..... Senior Vice President — Office of Business Transformation and Information Services
Abby L. Pozefsky, Esq. Senior Vice President — Administration and General Counsel
Cristina Coltro Vice President - Customer Affairs
Raquel N. Guzman, Esq..... Vice President — Legal and Associate General Counsel
Michael W. Handwerk..... Vice President —Technical Compliance
Steven P. Hershey..... Vice President — Regulatory & External Affairs
Paul A. Mondimore Vice President — Field Operations
Douglas A. Moser.....Vice President — Gas Management
Jo Ann Muniz Vice President — Supply Chain
William C. Muntzer..... Vice President — Human Resources
Joseph A. Smith..... Vice President — Marketing and Sales
John P. Straub..... Vice President — Corporate Preparedness
Lorraine S. Webb..... Vice President — Organizational Development
Eloise N. Young Vice President — Information Services and Chief Information Officer
Joseph F. Golden, Jr..... Controller

FINANCIAL ADVISOR
Public Financial Management, Inc.

FISCAL AGENT
U.S. Bank National Association

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE ORDER AND PLACEMENT OF MATERIALS IN THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES, ARE NOT TO BE DEEMED TO BE A DETERMINATION OF RELEVANCE, MATERIALITY OR IMPORTANCE, AND THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES, MUST BE CONSIDERED IN ITS ENTIRETY. THE OFFERING OF THE BONDS IS MADE ONLY BY MEANS OF THIS ENTIRE OFFICIAL STATEMENT.

No dealer, broker, salesperson or other person has been authorized by the City, PGW or the Underwriters to give any information or to make any representations, other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. The information set forth herein has been obtained from PGW and other sources which are believed to be reliable, but, as to information from other sources, is not guaranteed as to accuracy or completeness by PGW. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of PGW or with respect to other matters set forth herein since the date hereof or the date as of which particular information is given, if earlier.

The Eighth Series B Credit Provider has provided only the information with respect to itself and its affiliates set forth under the caption "THE EIGHTH SERIES B CREDIT PROVIDER" in this Official Statement and makes no reference or warranty, express or implied, as to the accuracy or completeness of any other information contained in this Official Statement.

The Eighth Series C Credit Provider has provided only the information with respect to itself and its affiliates set forth under the caption "THE EIGHTH SERIES C CREDIT PROVIDER" in this Official Statement and makes no reference or warranty, express or implied, as to the accuracy or completeness of any other information contained in this Official Statement.

The Eighth Series D Credit Provider has provided only the information with respect to itself and its affiliates set forth under the caption "THE EIGHTH SERIES D CREDIT PROVIDER" in this Official Statement and makes no reference or warranty, express or implied, as to the accuracy or completeness of any other information contained in this Official Statement.

The Eighth Series E Credit Provider has provided only the information with respect to itself and its affiliates set forth under the caption "THE EIGHTH SERIES E CREDIT PROVIDER" in this Official Statement and makes no reference or warranty, express or implied, as to the accuracy or completeness of any other information contained in this Official Statement.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with and as part of their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. The information and the opinions expressed herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the operations of the Philadelphia Gas Works or the City of Philadelphia since the date hereof, or as to the information under "PGW BUDGET, RATES AND FINANCES – Fiscal Years 2007 and 2008 Operating Budgets," since August 31, 2008.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. All summaries of statutes and documents are made subject to the complete text of such statutes and documents, respectively, and do not purport to be complete statements of any or all of such provisions.

This Official Statement is submitted in connection with the sale of the Bonds and may not be reproduced or be used, as a whole or in part, for any other purpose.

The Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption contained therein, and have not been registered or qualified under the securities laws of any state.

THE BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY.

If and when included in this Official Statement, the words "expects," "forecasts," "projects," "outlook," "intends," "anticipates," "estimates," "assumes," and analogous expressions are intended to identify forward-looking statements and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those that have been projected. Such risks and uncertainties that could affect the revenues and obligations of PGW include, among others, changes in economic conditions, mandates from regulatory authorities, lack of approval, in whole or in part, of requests by PGW from regulatory authorities and conditions and circumstances, many of which are beyond the control of PGW. Such forward-looking statements speak only as of the date of this Official Statement. The City disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein or to reflect any changes in PGW's expressions with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

This Official Statement speaks only as of the date printed on the cover page hereof. The information contained herein is subject to change. The Official Statement will be made available through the Electronic Municipal Market Access System ("EMMA"), which, effective July 1, 2009, is the sole Nationally Recognized Municipal Securities Information Repository.

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OFFICIAL STATEMENT

\$255,000,000

CITY OF PHILADELPHIA, PENNSYLVANIA GAS WORKS REVENUE REFUNDING BONDS

EIGHTH SERIES

(1998 GENERAL ORDINANCE)

CONSISTING OF:

\$105,000,000	\$50,000,000	\$50,000,000	50,000,000
GAS WORKS REVENUE REFUNDING BONDS EIGHTH SERIES B (1998 GENERAL ORDINANCE);	GAS WORKS REVENUE REFUNDING BONDS EIGHTH SERIES C (1998 GENERAL ORDINANCE);	GAS WORKS REVENUE REFUNDING BONDS EIGHTH SERIES D (1998 GENERAL ORDINANCE);	GAS WORKS REVENUE REFUNDING BONDS EIGHTH SERIES E (1998 GENERAL ORDINANCE)

INTRODUCTION

General

This Official Statement, including the cover page, inside front cover page, table of contents, tables and appendices, sets forth information with respect to the issuance by the City of Philadelphia, Pennsylvania (the "City") of \$255,000,000 aggregate principal amount of its Gas Works Revenue Bonds, Eighth Series (1998 General Ordinance), consisting of \$105,000,000 of the Eighth Series B Bonds (the "Eighth Series B Bonds"); \$50,000,000 of the Eighth Series C Bonds (the "Eighth Series C Bonds"); \$50,000,000 of the Eighth Series D Bonds (the "Eighth Series D Bonds") and \$50,000,000 of the Eighth Series E Bonds (the "Eighth Series E Bonds," and together with the Eighth Series B Bonds, the Eighth Series C Bonds and the Eighth Series D Bonds, the "Bonds" or the "Variable Rate Bonds"). The Bonds are being issued as Senior 1998 Ordinance Bonds, as defined in this Official Statement, pursuant to (i) the First Class City Revenue Bond Act of the Commonwealth of Pennsylvania, Act No. 234, approved October 18, 1972, P.L. 955 (the "Act"), (ii) the General Gas Works Revenue Bond Ordinance of 1998, approved on May 30, 1998, Bill No. 980232, as amended and supplemented from time to time and in particular, as supplemented by the Ninth Supplemental Ordinance, approved June 3, 2009, Bill No. 090322 (collectively, the "1998 General Ordinance") and (iii) the Bond Authorization dated August 13, 2009 adopted by the Bond Committee of the City (consisting of the Mayor, City Solicitor and City Controller and acting by a majority of at least a majority thereof) (the "Bond Authorization").

The Bonds shall be issued on a parity with other Senior 1998 Ordinance Bonds issued under the 1998 General Ordinance but shall be subordinated in right of payment and security to all bonds issued and outstanding under the General Gas Works Revenue Bond Ordinance of 1975, approved on May 30, 1975, Bill No. 1871, as amended and supplemented from time to time (the "1975 General Ordinance" and, together with the 1998 General Ordinance, the "General Ordinances"), as described herein. The Bonds shall also be issued on a parity with the obligation of the City to make periodic payments (but not termination payments) due under any Qualified Swap (as defined in the 1998 General Ordinance) including the Qualified Swap in the notional amount of \$311,615,000 (the "Swap Agreement") between the City and JPMorgan Chase Bank, National Association entered into in connection with \$313,390,000 City of Philadelphia Gas Works Revenue Bonds, Sixth Series (1998 General Ordinance), provided, however, the Qualified Swap Provider shall have no lien on and security interest in the Sinking Fund or the Sinking Fund Reserve. In connection and concurrently with the issuance of the Bonds a portion of the Swap Agreement related to the Sixth Series Bonds will be terminated. Upon the issuance of the Bonds, portions of the Swap Agreement in notional amounts equal to the principal amounts of the Eighth Series B Bonds, the Eighth Series C Bonds, the Eighth Series D Bonds and the Eighth Series E Bonds, respectively, will be related to the Eighth Series B Bonds, the Eighth Series C Bonds, Eighth Series D Bonds and the Eighth Series E Bonds, as more fully described below under "INTRODUCTION - Interest Rate Swap Agreement." Upon the issuance of the Eighth Series A Bonds and the Bonds a portion of the Swap Agreement will be terminated and a portion of the Swap Agreement will remain outstanding with \$105,000,000 notional amount related to the Eighth Series B Bonds, \$50,000,000 notional amount related to the Eighth Series C Bonds, \$50,000,000 notional amount related to the Eighth Series D Bonds and \$50,000,000 notional amount related to the Eighth Series E Bonds.

The pledge of Gas Works Revenues (as defined in the 1998 General Ordinance) to secure the Senior 1998 Ordinance Bonds issued under the 1998 General Ordinance (including the Bonds) is at all times subject and

subordinate to the pledge of Project Revenues (as defined in the 1975 General Ordinance) under the 1975 General Ordinance securing the 1975 Ordinance Bonds.

The City's fiscal year begins on July 1 and ends on June 30 of the following calendar year. The term "Fiscal Year" when followed by a year and used in connection with the City refers to the fiscal year of the City ending June 30 of that year. For example, "Fiscal Year 2009" when used in connection with the City refers to the fiscal year ending June 30, 2009. The fiscal year of the Philadelphia Gas Works ("PGW" or the "Gas Works") begins on September 1 and ends on August 31 of the following calendar year. The term "Fiscal Year" when followed by a year and used in connection with the Gas Works refers to the fiscal year of the Gas Works ending August 31 of that year. For example, "Fiscal Year 2009" when used in connection with PGW refers to the fiscal year ending August 31, 2009. Certain capitalized terms used in this Official Statement and not otherwise defined are defined in APPENDIX D - "Summaries of the Act and Legislation Authorizing the Issuance of the Bonds."

This introduction is a brief description of certain matters described in this Official Statement and is qualified by reference to the entire Official Statement. Prospective purchasers of any of the Bonds should read this Official Statement, including the cover page, inside front cover page, table of contents, tables and appendices, in its entirety. The information contained herein is subject to change. All estimates and assumptions of financial and other information are based on information currently available, are believed to be reasonable and are not to be construed as assurances of actual outcomes.

If and when included in this Official Statement, the words "expects," "forecasts," "projects," "outlook," "intends," "anticipates," "estimates," "assumes," and analogous expressions are intended to identify forward-looking statements and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those that have been projected. Such risks and uncertainties that could affect the revenues and obligations of PGW include, among others, changes in economic conditions, mandates from regulatory authorities, lack of approval, in whole or in part, of requests by PGW from regulatory authorities and conditions and circumstances, many of which are beyond the control of PGW. Such forward-looking statements speak only as of the date of this Official Statement. The City disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein or to reflect any changes in PGW's expressions with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

The Philadelphia Gas Works

The Gas Works presently consists of real and personal property owned by the City and used for the acquisition, manufacture, storage, processing and distribution of natural gas within the City, and all property, books and records employed and maintained in connection with the operation, maintenance and administration thereof. See "PHILADELPHIA GAS WORKS" herein.

PGW serves the entire 129 square mile area contained within the boundaries of the City and is the distributor and principal supplier of natural gas in the City. PGW has no distribution mains and provides no service to customers outside the City limits. As of March 31, 2009, PGW served approximately 518,000 customers.

The Philadelphia Home Rule Charter provides for a Gas Commission (the "Gas Commission") to be constituted and appointed in accordance with the provisions of contracts between the City and the operator of PGW as may from time to time be in effect, or, in the absence of a contract, as may be provided by ordinance. For details of the Gas Commission's various responsibilities and oversight of the operations of PGW, see "CITY GOVERNMENTAL OVERSIGHT — Gas Commission" herein.

Since January 1, 1973, PGW has been managed by the Philadelphia Facilities Management Corporation ("PFMC"), a not-for-profit corporation, pursuant to an agreement between the City and PFMC dated December 29, 1972, as amended, authorized by ordinances of City Council (the "Management Agreement"). See "PHILADELPHIA GAS WORKS – Management Agreement."

Rates and charges of PGW are fixed by the Public Utility Commission of the Commonwealth (the "PUC"). The PUC has acknowledged that it is obligated to establish rates that permit PGW to meet all of its bond ordinance covenants in the General Ordinances. See "PHILADELPHIA GAS WORKS – Effects of the Natural Gas Choice and Competition Act" and "PGW BUDGET, RATES AND FINANCES" herein for a further discussion of PGW's budget process and recent rate proceedings.

PGW's Basic Financial Statements and Supplementary Information as of and for the years ended August 31, 2008 and 2007 (with Independent Auditor's Report thereon) are presented in APPENDIX A. For certain information regarding the government of and fiscal affairs of the City, see APPENDIX C – "Certain Information Concerning the City of Philadelphia."

Prior Issues of Gas Works Revenue Bonds

Since 1975, the City has issued nineteen (19) separate series of Gas Works Revenue Bonds and one Revenue Bond Anticipation Note (collectively, together with any bonds issued under the 1975 General Ordinance to refund any such bonds, the "1975 Ordinance Bonds"), all pursuant to the Act and the 1975 General Ordinance. As of March 31, 2009, \$263,053,000 aggregate principal amount of 1975 Ordinance Bonds remained outstanding. The 1975 Ordinance Bonds were all issued on a parity basis and share equally and ratably in the pledge of revenues provided for in the 1975 General Ordinance. In the 1975 General Ordinance, the City has, for the security and payment of all 1975 Ordinance Bonds issued under the 1975 General Ordinance, granted a security interest in all rents, rates and charges imposed or charged by the City upon the owners or occupants of properties connected to, and upon all users of, gas distributed by the Gas Works and all other revenues derived therefrom (the "Project Revenues," as such term is defined in the 1975 General Ordinance), and all accounts, contract rights and general intangibles related thereto and all proceeds of the foregoing. The 1975 Ordinance Bonds are secured solely by monies derived, directly or indirectly, from PGW's Project Revenues as provided in the Act and the 1975 General Ordinance, as amended and supplemented. 1975 Ordinance Bonds of all series issued or to be issued are issued on a parity basis and share equally and ratably in the pledge or Project Revenues provided for in the 1975 General Ordinance.

Pursuant to the 1998 General Ordinance, all 1998 Ordinance Bonds (as defined below) are subordinated in right of payment and security to the 1975 Ordinance Bonds. 1998 Ordinance Bonds may be issued as Senior 1998 Ordinance Bonds ("Senior 1998 Ordinance Bonds") or Subordinate 1998 Ordinance Bonds ("Subordinate 1998 Ordinance Bonds"). Senior 1998 Ordinance Bonds are all issued on a parity basis and share equally and ratably in the pledge of revenues provided for in the 1998 General Ordinance. Senior 1998 Ordinance Bonds subordinated in right of payment and security to the 1975 Ordinance Bonds, but are prior in right of payment and security to Subordinate 1998 Ordinance Bonds. Subordinate 1998 Ordinance Bonds are all issued on a parity basis and share equally and ratably in the pledge of revenues provided for in the 1998 General Ordinance, subject to the prior right of payment and security of the 1975 Ordinance Bonds and the Senior 1998 Ordinance Bonds and to payments due to issuers of Credit Facilities related to Senior 1998 Ordinance Bonds. In the 1998 General Ordinance, the City has pledged for the security and payment of all bonds issued under the 1998 General Ordinance a lien on and security interest in all Gas Works Revenues (as defined in the 1998 General Ordinance) all accounts, contract rights and general intangibles representing the Gas Works Revenues and all funds and accounts established under the 1998 General Ordinance. Such lien is subject to the prior pledge and lien on the Project Revenues created by the 1975 General Ordinance for the benefit of the 1975 Ordinance Bonds. Gas Works Revenues and Project Revenues are treated by PGW as the same revenues and include grants from the City, properly authorized, including, if applicable and if so authorized, any grant back to PGW of any portion of PGW's Base Payment to the City. See "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS — Priority in Application of Revenues."

Since 1998, the City has issued seven (7) separate series of Gas Works Revenue Bonds (collectively, together with any bonds heretofore or hereafter issued under the 1998 General Ordinance including the Bonds, the "1998 Ordinance Bonds") pursuant to the Act and the 1998 General Ordinance. As of March 31, 2009, \$902,420,000 aggregate principal amount of Senior 1998 Ordinance Bonds and \$10,115,000 aggregate principal amount of Subordinate 1998 Ordinance Bonds were outstanding under the 1998 General Ordinance. In the 1998 General Ordinance, the City covenanted that it would not issue any additional bonds under the 1975 General Ordinance except to refund outstanding 1975 Ordinance Bonds.

Authorization to Issue the Bonds

The Bonds are being issued as Senior 1998 Ordinance Bonds pursuant to the Act, the 1998 General Ordinance, and the Ninth Supplemental Ordinance and the Bond Authorization.

The Bonds

The Bonds will be dated the date of delivery and will bear interest from such date. Each series of Bonds will initially be issued in the Weekly Mode and will bear interest at the Weekly Rate. During the Weekly Mode, interest will be payable on the first Business Day of each month commencing September 1, 2009. The City may designate a different Rate Mode for all or a portion of each series of Bonds which may be a Daily Mode, Term Mode or Fixed Mode. The Bonds of each series, while in the Weekly Mode, will be issued as fully registered bonds and in the aggregate principal amount set forth on the inside front cover page hereof in denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof. The principal and redemption price of the Bonds will be payable at the corporate trust office of U.S. Bank National Association (the "Fiscal Agent") in Philadelphia, Pennsylvania. Interest on the Bonds, while in the Weekly Mode, will be paid by check mailed by the Fiscal Agent to the persons in whose names the Bonds are registered on the close of business on the Business Day immediately preceding an Interest Payment Date; provided, however, in the case of any default by the City in payment of interest due, shall be payable to the persons in whose names the Bonds are registered on a special record date as determined by the Fiscal Agent. See "DESCRIPTION OF THE BONDS" herein. Registered Owners of at least \$1,000,000 aggregate principal amount of a series of Bonds may elect to receive interest payments by wire transfer if so requested in a written notice provided to the Fiscal Agent not less than ten (10) days prior to the relevant interest payment date.

Initially the Bonds will be available in book-entry form only. See "DESCRIPTION OF THE BONDS — Book-Entry Only System" herein.

The Bonds are subject to optional redemption and mandatory redemption as described herein. While in the Weekly Mode, the Bonds are subject to optional and mandatory tender as set forth herein. See "DESCRIPTION OF THE BONDS."

Purpose of the Bonds

The proceeds of the Bonds, together with other available monies and the proceeds of the Eighth Series A Bonds (as defined herein) are being used for the purpose of providing funds for any or all of the following purposes: (i) the current refunding of all of the outstanding City of Philadelphia, Pennsylvania, Gas Works Revenue Bonds (1998 General Ordinance) Sixth Series (the "Refunded Bonds"); (ii) paying the costs of terminating a portion of the Swap Agreement for the Refunded Bonds; and (iii) paying the costs of issuing the Bonds and the Eighth Series A Bonds and any required deposits to the Sinking Fund Reserve established under the 1998 General Ordinance (collectively, the "2009 Project")

Upon the issuance of the Eighth Series A Bonds and the Bonds, the Refunded Bonds will no longer be Outstanding.

Additional Expected PGW Financing

On the date of issuance of the Bonds (the "Issue Date"), the City expects to issue its Gas Works Revenue Refunding Bonds Eighth Series A Bonds (1998 General Ordinance) (the "Eighth Series A Bonds"). Proceeds of the Eighth Series A Bonds, together with other available monies and the proceeds of the Bonds, will be applied on the Issue Date to the 2009 Project. The issuance and delivery of the Bonds is conditioned on the issuance and delivery of the Eighth Series A Bonds on the Issue Date.

The Eighth Series A Bonds will be offered pursuant to a separate Official Statement and will be sold by the City on the same date as the Bonds pursuant to a separate bond purchase agreement. This Official Statement provides information only with respect to the Eighth Series B Bonds, Eighth Series C Bonds, Eighth Series D Bonds and Eighth Series E Bonds while such Bonds bear interest in the Weekly Mode.

Security for the Bonds

The Bonds are secured solely and payable solely from the Gas Works Revenues as provided in the Act, the 1998 General Ordinance and the Ninth Supplemental Ordinance. Such pledge of Gas Works Revenues is subject and subordinate to the prior pledge of Project Revenues granted by the 1975 General Ordinance. Neither the general credit nor the taxing power of the City is pledged to any such payment.

The City has pledged and granted a security interest on a parity basis in all Gas Works Revenues and the proceeds thereof for security and payment of all 1998 Ordinance Bonds, including the Bonds, and for security and payment of all periodic payments (but not termination payments) due from the City under the Swap Agreement (except that the Swap Agreement shall have no right or claim at any time to amounts on deposit in the Sinking Fund or the Sinking Fund Reserve). The City has covenanted in the Ninth Supplemental Ordinance that, so long as any of the Bonds shall remain Outstanding, all pledged Gas Works Revenues shall be deposited and held in and disbursed from one or more unsegregated accounts of PGW. Pursuant to the 1998 General Ordinance, all monies deposited in the 1998 Ordinance Sinking Fund (including the 1998 Ordinance Sinking Fund Reserve), are subject to a security interest in favor of all Holders of 1998 Ordinance Bonds until such monies are properly disbursed. See "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS— Pledge of Revenues and Funds" and "REMEDIES OF BONDHOLDERS" herein. The pledge of the Gas Works Revenues to secure the Senior 1998 Ordinance Bonds issued under the 1998 General Ordinance (including the Bonds) is at all times subject and subordinate to the pledge of Project Revenues under the 1975 General Ordinance securing the 1975 Ordinance Bonds.

In the 1998 General Ordinance, the City covenants to impose, charge and collect in each Fiscal Year, rates and charges which, together with all other Gas Works Revenues to be received in such Fiscal Year, shall be sufficient to meet, among other things, debt service coverage requirements as specified in the 1998 General Ordinance (the "1998 Ordinance Rate Covenant"). See "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS - Rate Covenant and Rate Requirements" and APPENDIX D — "Summaries of the Act and Legislation Authorizing the Issuance of the Bonds" herein.

The 1998 General Ordinance permits the issuance of additional bonds which may be Senior 1998 Ordinance Bonds or Subordinate 1998 Ordinance Bonds. See "ADDITIONAL BONDS — Additional 1998 Ordinance Bonds" herein.

The 1998 General Ordinance establishes the 1998 Ordinance Sinking Fund Reserve which is established in the 1998 Ordinance Sinking Fund as a separate account which is held for the benefit of owners of all bonds issued under the 1998 General Ordinance. See "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS — Sinking Fund Reserve" herein.

The 1998 General Ordinance permits the City to enter into a Qualified Swap or Exchange Agreement with respect to a series of bonds or a portion thereof. The Ninth Supplemental Ordinance authorizes Qualified Swap and Exchange Agreements with respect to the Bonds. Payments, other than termination payments, due to the issuer of a Qualified Swap related to Senior 1998 Ordinance Bonds are payable on a parity with debt service on Senior 1998 Ordinance Bonds, except that the Qualified Swap shall have no right or claim at any time to amounts on deposit in the 1998 Ordinance Sinking Fund or the 1998 Ordinance Sinking Fund Reserve. On January 20, 2006, the City entered into the Swap Agreement in connection with the Sixth Series Bonds. Upon issuance of the Eighth Series A Bonds, a portion of the Swap Agreement related to the Sixth Series Bonds will be terminated. See "INTRODUCTION – Interest Rate Swap Agreement" herein. There are currently no other Qualified Swaps or Exchange Agreements to which the City is a party under the 1998 General Ordinance.

Credit Facility and Liquidity Facility

Eighth Series B Bonds

While the Eighth Series B Bonds are in the Weekly Mode the principal and up to fifty-two (52) days' interest on the Eighth Series B Bonds, and the Purchase Price of the Eighth Series B Bonds that are tendered for payment and not remarketed, will be paid by the Fiscal Agent using funds drawn under an irrevocable, direct pay letter of credit (together with any Alternate Credit Facility and/or Alternate Liquidity Facility, the "Eighth Series B Credit Facility") initially issued by Wachovia Bank, National Association (the "Eighth Series B Credit Provider") pursuant to a Reimbursement, Credit and Security Agreement dated as of August 20, 2009 (the "Eighth Series B Reimbursement Agreement"), between the City and the Eighth Series B Credit Provider. The Eighth Series B Credit Facility is also serving as the initial Liquidity Facility for the Eighth Series B Bonds and the Eighth Series B Credit Provider is also the Liquidity Provider for the Eighth Series B Bonds. See "SUMMARY OF CERTAIN PROVISIONS OF THE EIGHTH SERIES B CREDIT FACILITY AND THE EIGHTH SERIES B REIMBURSEMENT AGREEMENT" herein. The Eighth Series B Credit Facility will expire on August 19, 2011, unless extended at the option of the Eighth Series B Credit Provider. Under certain circumstances, the Eighth Series B Credit Facility may be terminated or replaced by an Alternate Credit Facility and/or Alternate Liquidity Facility. See "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS" herein. The Eighth Series B Credit Facility secures only the Eighth Series B Bonds while in the Weekly Mode.

Eighth Series C Bonds

While the Eighth Series C Bonds are in the Weekly Mode the principal and up to fifty-two (52) days' interest on the Eighth Series C Bonds, and the Purchase Price of the Eighth Series C Bonds that are tendered for payment and not remarketed, will be paid by the Fiscal Agent using funds drawn under an irrevocable, direct pay letter of credit (together with any Alternate Credit Facility and/or Alternate Liquidity Facility, the "Eighth Series C Credit Facility") initially issued by The Bank of Nova Scotia, acting through its New York Agency (the "Eighth Series C Credit Provider") pursuant to a Reimbursement, Credit and Security Agreement dated as of August 20, 2009 (the "Eighth Series C Reimbursement Agreement"), between the City and the Eighth Series C Credit Provider. The Eighth Series C Credit Facility is also serving as the initial Liquidity Facility for the Eighth Series C Bonds and the Eighth Series C Credit Provider is also the Liquidity Provider for the Eighth Series C Bonds. See "SUMMARY OF CERTAIN PROVISIONS OF THE EIGHTH SERIES C CREDIT FACILITY AND THE EIGHTH SERIES C REIMBURSEMENT AGREEMENT" herein. The Eighth Series C Credit Facility will expire on August 19, 2011, unless extended at the option of the Eighth Series C Credit Provider. Under certain circumstances, the Eighth Series C Credit Facility may be terminated or replaced by an Alternate Credit Facility and/or Alternate Liquidity Facility. See "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS" herein. The Eighth Series C Credit Facility secures only the Eighth Series C Bonds while in the Weekly Mode.

Eighth Series D Bonds

While the Eighth Series D Bonds are in the Weekly Mode the principal and up to fifty-two (52) days' interest on the Eighth Series D Bonds, and the Purchase Price of the Eighth Series D Bonds that are tendered for payment and not remarketed, will be paid by the Fiscal Agent using funds drawn under an irrevocable, direct pay letter of credit (together with any Alternate Credit Facility and/or Alternate Liquidity Facility, the "Eighth Series D Credit Facility") initially issued by Bank of America, N.A. (the "Eighth Series D Credit Provider") pursuant to a Reimbursement, Credit and Security Agreement dated as of August 20, 2009 (the "Eighth Series D Reimbursement Agreement"), between the City and the Eighth Series D Credit Provider. The Eighth Series D Credit Facility is also serving as the initial Liquidity Facility for the Eighth Series D Bonds and the Eighth Series D Credit Provider is also the Liquidity Provider for the Eighth Series D Bonds. See "SUMMARY OF CERTAIN PROVISIONS OF THE EIGHTH SERIES D CREDIT FACILITY AND THE EIGHTH SERIES D REIMBURSEMENT AGREEMENT" herein. The Eighth Series D Credit Facility will expire on August 19, 2011, unless extended at the option of the Eighth Series D Credit Provider. Under certain circumstances, the Eighth Series D Credit Facility may be terminated or replaced by an Alternate Credit Facility and/or Alternate Liquidity Facility. See "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS" herein. The Eighth Series D Credit Facility secures only the Eighth Series D Bonds while in the Weekly Mode.

Eighth Series E Bonds

While the Eighth Series E Bonds are in the Weekly Mode the principal and up to fifty-two (52) days' interest on the Eighth Series E Bonds, and the Purchase Price of the Eighth Series E Bonds that are tendered for payment and not remarketed, will be paid by the Fiscal Agent using funds drawn under an irrevocable, direct pay letter of credit (together with any Alternate Credit Facility and/or Alternate Liquidity Facility, the "Eighth Series E Credit Facility") initially issued by JPMorgan Chase Bank, National Association (the "Eighth Series E Credit Provider"), (the Eighth Series E Remarketing Agent) pursuant to a Reimbursement, Credit and Security Agreement dated as of August 20, 2009 (the "Eighth Series E Reimbursement Agreement"), between the City and the Eighth Series E Credit Provider. The Eighth Series E Credit Facility is also serving as the initial Liquidity Facility for the Eighth Series E Bonds and the Eighth Series E Credit Provider is also the Liquidity Provider for the Eighth Series E Bonds. See "SUMMARY OF CERTAIN PROVISIONS OF THE EIGHTH SERIES E CREDIT FACILITY AND THE EIGHTH SERIES E REIMBURSEMENT AGREEMENT" herein. The Eighth Series E Credit Facility will expire on August 19, 2011, unless extended at the option of the Eighth Series E Credit Provider. Under certain circumstances, the Eighth Series E Credit Facility may be terminated or replaced by an Alternate Credit Facility and/or Alternate Liquidity Facility. See "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS" herein. The Eighth Series E Credit Facility secures only the Eighth Series E Bonds while in the Weekly Mode.

Interest Rate Swap Agreement

The City entered into the Swap Agreement with JPMorgan Chase Bank, National Association (the "Swap Provider"), a bank affiliate of J.P. Morgan Securities, Inc., the Eighth Series E Remarketing Agent, in connection and concurrently with the issuance of the Sixth Series Bonds. Upon issuance of the Bonds and the Eighth Series A Bonds, a portion of the Swap Agreement related to the Sixth Series Bonds will be terminated, a portion of the Swap Agreement in notional amounts equal to the principal amounts of the Eighth Series B Bonds, the Eighth Series C Bonds, the Eighth Series D Bonds and the Eighth Series E Bonds, respectively, will be related to portions of the Eighth Series B Bonds, the Eighth Series C Bonds, the Eighth Series D Bonds and the Eighth Series E Bonds. Upon the issuance of the Bonds, the Swap Agreement will be amended to reflect \$105,000,000 notional amount related to the Eighth Series B Bonds, \$50,000,000 notional amount related to the Eighth Series C Bonds, \$50,000,000 notional amount related to the Eighth Series D Bonds and \$50,000,000 notional amount related to the Eighth Series E Bonds. The Swap Agreement will provide, in general, that the City will pay to the Swap Provider semiannually on each February 1 and August 1 a fixed rate payment of 3.6745% on an amended notional amount equal to \$255,000,000, amortizing in accordance with the principal amortization schedules of the Eighth Series B Bonds, the Eighth Series C Bonds, the Eighth Series D Bonds and the Eighth Series E Bonds, as set forth in the Swap Agreement, and that the Swap Provider will pay to the City on the first day of each calendar month a floating rate payment equal to the lesser of the interest rate on the Eighth Series B Bonds, the Eighth Series C Bonds, the Eighth Series D Bonds and the Eighth Series E Bonds, and the Securities Industry and Financial Markets Association (the "Swap Index"), on the notional amount from time to time outstanding, to and including August 1, 2011, and thereafter a floating rate payment equal to 70% of one-month LIBOR, on the notional amount from time to time outstanding. The amendment of the Swap Agreement will not alter the City's obligation to pay the principal of, premium, if any, and interest on the Bonds.

The Swap Agreement constitutes a Qualified Swap under the 1998 General Ordinance. The City's payment obligations under the Swap Agreement are payable solely from Gas Works Revenues. The City's scheduled periodic payments due under the Swap Agreement are payable on a parity with the Senior 1998 Ordinance Bonds (except that the Swap Provider shall have no right or claim at any time to amounts on deposit in the 1998 Ordinance Sinking Fund or the 1998 Ordinance Sinking Fund Reserve). PGW calculates required sinking fund deposits for purposes of compliance with the 1998 General Ordinance Rate Covenant without regard to the effect of the Swap Agreement. See "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS - Pledge of Revenues and Funds" herein.

Under certain circumstances (including certain events of default with respect to the City or the Swap Provider), the Swap Agreement could terminate in whole or in part prior to its stated termination date. Following any such early termination of the Swap Agreement, either the City or the Swap Provider, as applicable, may owe a termination payment to the other, depending upon market conditions. If at the time of an early termination of the Swap Agreement long-term interest rates are significantly lower than they were when the Swap Agreement was

executed and delivered, the City could owe a substantial termination payment to the Swap Provider. Any termination payments owed by the City will be subordinate to the City's obligation to make all payments due and owing on Senior 1998 Ordinance Bonds (including the Bonds) and periodic payments due under the Swap Agreement.

The City's payment under the Swap Agreement, including any termination payment due in connection with a termination at the direction of Financial Security Assurance, Inc., the insurer of the Swap Agreement, but excluding all other termination payments are guaranteed by Financial Security Assurance Inc. under a Swap Insurance Policy. Financial Security Assurance Inc. has certain rights under the Swap Agreement, including rights to consent to the designation of an Early Termination Date upon the occurrence of certain events and the right to designate an Early Termination Date with respect to the City if an event of default under the Swap Agreement occurs with respect to the City as a defaulting party.

Independent Consultant's Engineering Report

To establish that Project Revenues and Gas Works Revenues will be sufficient to amortize all bonds outstanding under the 1975 General Ordinance and the 1998 General Ordinance, the Act and the General Ordinances require a finding to be made in the supplemental ordinance authorizing the issuance of a series of bonds that the pledged Project Revenues or Gas Works Revenues (as the case may be) will be sufficient to comply with the corresponding rate covenant and to pay all costs, expenses and payments required to be paid from Project Revenues or Gas Works Revenues (as the case may be) in the order of priority set forth in the respective General Ordinance and to pay any prior or parity charges on such pledged Project Revenues or Gas Works Revenues (as the case may be) and the principal and interest on such series of bonds. The finding is to be based on a report of the chief fiscal officer of the City filed with City Council and supported by appropriate schedules and summaries. As provided by the Act, the report of the chief fiscal officer of the City may be based on a report of an independent engineer employed by the City to evaluate PGW. Black & Veatch Corporation ("Black & Veatch"), a consulting company independent of the City and PGW, was retained to evaluate PGW. Black & Veatch submitted a report dated May 4, 2009, which is appended hereto as APPENDIX B (the "Independent Consultant's Engineering Report" or the "2009 Report"). In its report, Black & Veatch has opined and concluded, based upon its investigation, that:

- PGW is a competently managed and operated gas distribution utility. PGW and its facilities are organized, operated and maintained at a level equal to, or in excess of, regulatory requirements and generally accepted industry practices. The System is in good operating condition.
- Based upon Black & Veatch's evaluation of financial projections and certain assumptions with respect to the System that Black & Veatch believes to be reasonable and on the basis of actual and estimated future annual financial operations of the System (including the projects to be established with the proceeds of the Bonds), the System will yield Project Revenues (which are pledged under the 1975 General Ordinance and the 1998 General Ordinance) over the amortization periods of the bonds issued under the 1975 General Ordinance and the 1998 General Ordinance which will be sufficient to (a) meet all expenses of operation, maintenance, repair and replacement of the System, (b) meet all reserve or special funds required to be established under the 1975 General Ordinance and the 1998 General Ordinance, (c) meet the principal of and interest on all bonds (including the Future Bonds (as such term is defined in APPENDIX B hereof)) issued under such Ordinances, as the same shall become due and payable, and (d) provide such surplus requirements as are contained in the respective rate covenants of the 1975 General Ordinance and the 1998 General Ordinance. The Project Revenues forming the basis of Black & Veatch's opinion comply with the requirements of the definition of Project Revenues contained in Section 2 of the Act.
- The Project Revenues and Gas Works Revenues which are pledged as security for the bonds issued under the 1975 General Ordinance and the 1998 General Ordinance, respectively, are currently and are projected to be sufficient to comply with the Rate Covenants set forth in Section 4.03(b) of the 1975 General Ordinance and Section 4.03(b) of the 1998 General Ordinance.

- The capital improvements proposed during the projection period, September 1, 2009 through August 31, 2014, should, along with continued good operation and maintenance practices, enable PGW to maintain its system in good operating condition. Review of present management practices indicates that good operation and maintenance is likely to continue.
- Contracted PGW gas supplies plus: (a) spot market purchases, (b) anticipated additional contracted supplies plus supplemental gas capacities, as well as (c) the pipeline transport capacity to move these supplies to PGW, are adequate to meet PGW's projected demand on a day of maximum demand, in an hour of maximum demand, and during a year of maximum demand.

Independent Consultant's Assumptions with Respect to City Payments

PGW makes an annual base payment of \$18 million to the City. The City agreed to forego the \$18 million annual payment in Fiscal Year 2004. For Fiscal Years 2005, 2006, 2007, 2008 and 2009, the City made a grant to PGW equal to the annual payment received from PGW in such fiscal years, and the City's Eighteenth Five-Year Plan contemplates that in each of the Fiscal Years 2010 through 2014, the City will make a grant to PGW equal to the annual payment received from PGW in such Fiscal Years.

Continuing Disclosure

The City will enter into a Continuing Disclosure Agreement (the "Continuing Disclosure Agreement") with Digital Assurance Certification, L.L.C. with respect to the Bonds. See "CONTINUING DISCLOSURE" herein and the form of Continuing Disclosure Agreement attached hereto as APPENDIX E.

Miscellaneous

Any quotation from, and summaries and explanations of, the Constitution and laws of the Commonwealth and ordinances of the City contained herein do not purport to be complete and are qualified in their entirety by reference to the official compilations thereof, and all references to the Bonds are qualified in their entirety by reference to the definitive forms of the Bonds. All capitalized terms used herein, unless otherwise defined herein, shall have the meanings ascribed to them in the Act and the General Ordinances. See "APPENDIX D" herein. Copies of the Act, the General Ordinances and the Supplemental Ordinances are available from the Office of the Director of Finance, 13th Floor, Municipal Services Building, 1401 John F. Kennedy Boulevard, Philadelphia, Pennsylvania 19102.

PLAN OF FINANCE AND ESTIMATED SOURCES AND USES OF FUNDS

Plan of Finance

The proceeds of the Bonds, together with other available monies and the proceeds of the Eighth Series A Bonds, are being used for the purpose of providing funds for any or all of the following purposes: (i) the current refunding of all of the outstanding Refunded Bonds; (ii) paying the costs of terminating a portion of the Swap Agreement for the Refunded Bonds and (iii) paying the costs of issuing the Bonds and the Eighth Series A Bonds and any required deposits to the Sinking Fund Reserve established under the 1998 General Ordinance.

A portion of the proceeds of the Bonds will be used on the Issue Date to redeem a portion of the Refunded Bonds.

Estimated Sources and Uses of Funds

The sources and uses of funds are estimated to be as follows:

Estimated Sources:

Principal Amount of the Bonds	\$255,000,000.00
Equity contribution from PGW	5,616,826.95
Proceeds of the Eighth Series A Bonds	58,285,000.00
Net original issue premium of the Eighth Series A Bonds	<u>422,616.90</u>

Total Sources **\$319,324,443.85**

Estimated Uses:

Redemption of the Refunded Bonds	\$312,231,826.95
Termination of a portion of the Swap Agreement	3,791,000.00
Costs of Issuance ¹	<u>3,301,616.90</u>

Total Uses **\$319,324,443.85**

¹Includes the fees and expenses of various counsel and the Fiscal Agent, consultant's fees, fees of accountants, fees of financial advisor, swap advisor fees, bank fees and letter of credit fees related to the Variable Rate Bonds, rating agency fees, printing and publication costs, contingency, Underwriters' discount, and other expenses related to the issuance of the Bonds.

DESCRIPTION OF THE BONDS

General

This Official Statement only describes the terms and provisions applicable to the Bonds while bearing interest at the Weekly Rate. In the event the Bonds are converted to another Rate Mode, a remarketing memorandum or remarketing circular may be distributed describing the terms of the Bonds during the period in which the Bonds are in another Rate Mode.

Each series of Bonds will be dated the date of delivery and will bear interest from such date. Each series of Bonds will be issued initially in the Weekly Mode and bear interest at the Weekly Rate and during such Weekly Mode, interest will be payable on the first Business Day of each month commencing September 1, 2009. Thereafter, all or any portion of a series of Bonds may be converted, at the option of the City and subject to certain restrictions, to the Daily Mode, Term Mode or Fixed Mode. Generally, the Rate Modes have different operating features, including different demand features, purchase features, redemption provisions, interest rate determination dates, rate change dates and interest payment dates. Capitalized terms used within this "DESCRIPTION OF THE BONDS" section, which are not defined herein, shall have the meanings ascribed to such terms in APPENDIX D hereto.

If a different Rate Mode is designated for all or any portion of a series of Bonds, the Fiscal Agent will, not less than thirty (30) days prior to the Conversion Date, or ten (10) days if the Bonds subject to conversion are then in the Weekly Mode, give written notice to the owner of each affected Bond, that such Bond be will be subject to mandatory purchase on the Conversion Date.

Each series of Bonds will be issued as fully registered bonds in the aggregate principal amounts set forth on the inside front cover page hereof. While in the Weekly Mode, the Bonds will be issued in denominations of \$100,000 and any integral multiple of \$5,000 in excess thereof. The Bonds, when issued, will be registered in the name of Cede & Co., as nominee for DTC, one bond for each series of Bonds. Purchases of beneficial interests in

the Bonds will be made in book-entry only form (without certificates) in the denominations of \$100,000 and any integral multiple of \$5,000 in excess hereof.

The principal of the Bonds will be payable at the principal corporate trust office of the Fiscal Agent in Philadelphia, Pennsylvania. Interest on the Bonds, when due, will be paid by check, mailed by the Fiscal Agent to the persons in whose names the Bonds are registered on close of business on the Business Day immediately preceding each Interest Payment Date. So long as a series of Bonds is in book-entry form, the principal of and interest on such Bonds are payable by check mailed to or by wire transfer of funds to Cede & Co., as nominee for DTC as registered owner thereof for redistribution by DTC to the Direct Participants and in turn to Indirect Participants or Beneficial Owners as described under "Book-Entry Only System" below. Registered Owners of at least \$1,000,000 aggregate principal amount of a Series of Bonds may elect to receive interest payments by wire transfer, provided that notice is provided to the Fiscal Agent not less than ten (10) days prior to the relevant Interest Payment Date. In the event of any default by the City in the payment of interest due on any Interest Payment Date, such defaulted interest shall be payable to the persons in whose names such series of Bonds are registered at the close of business on a special record date which shall be established, with notification to Bondholders as provided in the 1998 General Ordinance.

Description of the Bonds in the Weekly Mode

While Bonds of any series are in a Weekly Mode, interest on such Bonds will be payable for each Weekly Rate Period on each Interest Payment Date. In addition, while Bonds of any series bear interest at the Daily Rate, the Weekly Rate or the Term Rate, interest will also be payable on each Purchase Date applicable thereto. Interest on Bonds will accrue from and including the Series Issue Date thereof until payment of the principal or redemption price thereof shall have been made or provided. Interest on Bonds during a Daily Mode or a Weekly Mode will be computed on the basis of a year of 365 or 366 days, as applicable, for the number of days actually elapsed. On and after the Conversion Date to a Term Mode or the Fixed Mode, interest shall be computed on the basis of a 360-day year of twelve 30-day months. See APPENDIX D hereto.

For so long as any Bonds of any series are Outstanding in the Weekly Mode, a Weekly Rate shall be determined for such Bonds for each Weekly Rate Period. The Weekly Rate for each Weekly Rate Period shall be effective from and including the commencement date of such Weekly Rate Period and shall remain in effect through and including the last day thereof. Each such Weekly Rate shall be determined by the applicable Remarketing Agent for a series of Bonds on the Weekly Rate Calculation Date (i.e., Wednesday in each calendar week or, if such Wednesday is not a Business Day, the first Business Day preceding such Wednesday) and shall be provided by such Remarketing Agent in writing to the Fiscal Agent by the close of business on that same day, except that the Weekly Rate for the first Weekly Rate Period may be determined by the applicable Remarketing Agent on the Series Issue Date or on any Business Day preceding the Series Issue Date. The initial Weekly Rate Period shall commence on the Series Issue Date and shall continue to and including the next Weekly Rate Calculation Date. Each Weekly Rate so to be determined shall be the lowest rate of interest which, in the reasonable judgment of the applicable Remarketing Agent, would cause the applicable Bonds to have a price equal to the principal amount thereof, taking into account Prevailing Market Conditions as of the date of determination.

If a Remarketing Agent for a series of Bonds fails for any reason to determine and notify the Fiscal Agent and the City of the Weekly Rate for any Weekly Rate Period, such Weekly Rate shall be the same as the Weekly Rate in effect for the immediately preceding Weekly Rate Period, except that if such failure continues for more than one consecutive Weekly Rate Period, the Weekly Rate thereafter shall be the 30 day tax-exempt commercial paper rate published for the applicable Weekly Rate Period by Munifacts Wire System, Inc. (or a replacement publisher of a tax-exempt commercial paper rate designated in writing by the City to the Fiscal Agent and the Remarketing Agents), representing, as of the publication date, the average of 30-day yield evaluations at par of tax-exempt securities rated by each rating service in its highest commercial paper rating category; provided, that if Munifacts Wire System, Inc. or such replacement publisher does not publish such a tax-exempt or taxable commercial paper rate on a day on which a Weekly Rate is to be set, the Weekly Rate shall be 85% of the interest rate for 30-day taxable commercial paper (prime paper placed through dealers) announced on such day by the Federal Reserve Bank of New York. In no event shall the Weekly Rate for any Weekly Rate Period exceed 12% per annum. The applicable Remarketing Agent shall give notice of the applicable Weekly Rates to the City and the Fiscal Agent. Holders of Bonds in the Weekly Rate Mode may obtain Weekly Rates from the applicable Remarketing Agent.

Optional Tender for Purchase of Bonds in the Weekly Mode

Bonds of a series bearing interest at the Weekly Rate (or any portion thereof in amounts equal to Authorized Denominations), other than Bank Bonds, will be purchased on a Purchase Date upon the demand of the Holder thereof, at a purchase price equal to 100% of the principal amount thereof (or of such portions), plus accrued interest, if any, to such Purchase Date, upon written notice to the Fiscal Agent and the applicable Remarketing Agent at their respective offices. Such notice shall be given during the Weekly Mode, by 5:00 p.m. New York time, on the Business Day seven (7) days prior to the applicable Purchase Date. Any such notice must state (i) the series and principal amount of the Bonds to which the notice relates, (ii) that the Holder irrevocably demands purchase of such Bond (or a specified portion thereof in an Authorized Denomination), (iii) the Purchase Date on which such Bond (or specified portion) is to be purchased, (iv) the Holder's taxpayer identification number, and (v) payment instructions with respect to the purchase price.

The Purchase Date shall be the Business Day specified in the notice received by the Fiscal Agent upon which the Holder of such Bond intends to tender such Bond (or any portion thereof in an Authorized Denomination) for purchase, which Business Day shall be, not less than seven (7) calendar days after the date such notice is received.

Any Holder of Bonds who has so demanded purchase of such Holder's Bonds is required to deliver such Bonds (properly endorsed for transfer in blank and with all signatures guaranteed to the satisfaction of the Fiscal Agent) to the Fiscal Agent at its designated office prior to 11:00 a.m., New York time, on the Purchase Date specified in his or her notice in order to receive payment of the purchase price by 4:30 p.m., New York time, on such date.

Each notice of tender automatically constitutes (i) an irrevocable offer to sell the Bond (or portion thereof) to which such notice relates on the Purchase Date at a price equal to the principal amount of such Bond (or portion thereof) plus any interest thereon accrued and unpaid as of the Purchase Date, (ii) an irrevocable authorization and instruction to the Fiscal Agent to effect transfer of such Bond (or portion thereof) upon payment of such price to the Fiscal Agent on the Purchase Date, (iii) an irrevocable authorization and instruction to the Fiscal Agent to effect the exchange of such Bond in whole or in part for other Bonds of such series in an equal aggregate principal amount so as to facilitate the sale of such Bond (or portion thereof), and (iv) an acknowledgment that such Holder will have no further rights with respect to such Bond (or portion thereof) upon payment of the purchase price thereof to the Fiscal Agent on the Purchase Date, except for the right of such Holder to receive such purchase price upon surrender of such Bond to the Fiscal Agent endorsed for transfer in blank and with guaranty of signatures satisfactory to the Fiscal Agent, and that after the Purchase Date such Holder will hold such Bond as agent for the Fiscal Agent. The Fiscal Agent shall hold all Bonds registered in the names of the new Holders thereof for delivery to the applicable Remarketing Agent.

Mandatory Tender for Purchase of Weekly Rate Bonds

Bonds of a series bearing interest at the Weekly Rate are required to be tendered by the Holders thereof to the Fiscal Agent for purchase at a purchase price equal to 100% of the principal amount thereof, plus accrued interest, if any, to such Purchase Date on the following dates applicable to such series of Bonds (or a portion thereof):

(a) Each Conversion Date unless a conversion election has been rescinded by the City.

(b) The Interest Payment Date immediately preceding the expiration date of a Liquidity Facility and/or Credit Facility, as the case may be, then in effect (or if such Interest Payment Date is not a Business Day, the Business Day next following such Interest Payment Date), but such Interest Payment Date shall be not less than five (5) days prior to the expiration of the Liquidity Facility and/or Credit Facility, as the case may be, in the event such Liquidity Facility and/or Credit Facility, as the case may be, shall not have been extended on or before the 20th day prior to such Interest Payment Date.

(c) The date of replacement of a Liquidity Facility with an Alternate Liquidity Facility or the replacement of a Credit Facility with an Alternate Credit Facility.

(d) The date established by the Fiscal Agent for mandatory tender, following receipt by the Fiscal Agent of a notice from a Liquidity Provider and/or Credit Provider, as the case may be, of a mandatory tender to the extent provided under the applicable Liquidity Facility and/or Credit Facility.

On any mandatory tender date, the Holders of Bonds subject to such mandatory purchase who duly tender their Bonds (with any necessary endorsements) to the Fiscal Agent by 11:00 a.m., New York time, on such date will be paid a purchase price equal to 100% of the principal amount thereof, plus, unless such mandatory tender date is an Interest Payment Date, accrued interest to the date of purchase.

Conversion of Bonds

The City shall have the option to convert all or any portion of the Bonds of any series from the Weekly Mode to a Daily Mode, Term Mode, or Fixed Mode on any Conversion Date selected by the City; provided that (i) each Conversion Date shall be an Interest Payment Date, (ii) Bonds, or any portion thereof, in a Term Mode cannot be converted to another Rate Mode prior to the date on or after which the Bonds may first be redeemed at the option of the City at a redemption price of par, or at the end of a Term Rate Period, and (iii) Bonds in the Fixed Mode may not be converted to another Rate Mode. The City shall exercise such option by giving written notice to the applicable Remarketing Agent, Liquidity Provider and/or Credit Provider, and the Fiscal Agent stating its election to convert the Rate Mode of the applicable Bonds to another Rate Mode specified in such notice, the principal amount of such Bonds to be converted and stating the Conversion Date therefor, not less than forty-five (45) days prior to such Conversion Date (or in the case of Bonds in the Daily Mode or Weekly Mode, not less than fifteen (15) days prior to such Conversion Date). In connection with each conversion to a Term Mode, the Nominal Term Rate Period and Interest Payment Dates for such Term Rate Period shall be selected by the City and designated in such notice. In the case of a conversion to the Fixed Mode, the City shall determine the principal amount of Bonds to be converted (which amount shall be in Authorized Denominations), shall select the Interest Payment Dates and shall determine any bond maturity and mandatory sinking fund redemption schedule to be applicable to the Bonds after such conversion to a Fixed Mode, and such information shall be designated in such notice. If a series of Bonds is to be converted to any Mode in part, the Bonds to be so converted and subject to mandatory tender and purchase shall be determined in accordance with the policies and procedures of DTC.

In the case of any conversion, the Fiscal Agent shall give notice by first class mail (postage prepaid) to the Holders of the Bonds subject to conversion not less than thirty (30) days (or in the case of a conversion of Bonds in the Daily Mode or Weekly Mode, ten (10) days) prior to the proposed Conversion Date.

Bank Bonds

Bank Bonds are any Bonds of a series purchased by a Liquidity Provider with funds drawn on or advanced under the applicable Liquidity Facility. For such time as any Bond is a Bank Bond, it shall bear interest as provided in the applicable Liquidity Facility. Payments of interest on Bank Bonds shall be paid to the applicable Liquidity Provider as holder thereof on each Interest Payment Date or as otherwise provided in such Liquidity Facility, by wire transfer to the account number of such holder on file with the Fiscal Agent or to another account number of which the holder shall give at least five days notice to the Fiscal Agent prior to such Interest Payment Date or otherwise as provided in such Liquidity Facility. Principal of Bank Bonds subject to redemption as provided in the Bank Bonds or the applicable Reimbursement Agreement, shall be payable from amounts in the appropriate account of the Sinking Fund.

Bank Bonds shall not be cancelled and the City's liability thereon shall be not discharged until amounts due to the applicable Liquidity Provider as a result of being holders of Bank Bonds have been paid in full. The Fiscal Agent shall hold Bank Bonds in its custody or as otherwise instructed by the applicable Liquidity Provider. No Bank Bonds shall be released by the Fiscal Agent until the Fiscal Agent has confirmed that funds for the payment of the purchase price of the Bank Bonds have been transferred to the Liquidity Provider as provided in the Liquidity Facility or the Liquidity Provider has instructed the Fiscal Agent to release Bank Bonds.

Remarketing of Bonds

Upon the receipt by a Remarketing Agent of any notice described in "Optional Tender for Purchase of Bonds in the Weekly Mode" herein, the applicable Remarketing Agent, subject to the terms of the applicable Remarketing Agreement, shall use its best efforts to offer for sale and sell the Bonds in respect of which such notice has been given. Unless otherwise instructed by the City, each Remarketing Agent, subject to the terms of the applicable Remarketing Agreement, shall use its best efforts to offer for sale and sell Bonds of a series; provided however that, if the applicable Credit Facility or Liquidity Facility has expired and such Bonds have not been converted to a Term Mode or a Fixed Mode, the applicable Remarketing Agent shall be under no obligation to remarket such Bonds unless an Alternate Credit Facility or an Alternate Liquidity Facility has been provided. Any such Bonds shall be offered: (i) at a price equal to the principal amount thereof, plus interest accrued, if any, to the Purchase Date, and (ii) pursuant to terms calling for payment of the purchase price on such Purchase Date against delivery of such Bonds.

(a) If any Bonds to be remarketed have been called for redemption, the applicable Remarketing Agent shall give notice thereof to prospective purchasers of Bonds.

(b) Anything in the Ninth Supplemental Ordinance or the Bond Authorization to the contrary notwithstanding, there shall be no remarketing of Bonds if there shall have occurred and be continuing a Default (therein defined) under the Ordinances or any draw under an applicable Liquidity Facility has been dishonored.

(c) During a Weekly Rate Period, the applicable Remarketing Agent shall advise the Fiscal Agent of the principal amount of the applicable series of Bonds which have been remarketed, together with the denominations and registration instructions (including taxpayer identification numbers) by 10:30 a.m., New York time, on the Purchase Date. The Remarketing Agent shall also advise the City and the Fiscal Agent of the principal amount of Bonds which have not been remarketed at the times set forth in the previous sentence.

The proceeds of the sale by the Remarketing Agent of any Bonds during a Weekly Rate Period shall be transferred to the Fiscal Agent by 11:30 a.m., New York City time, respectively, on the purchase date.

Inadequate Funds

In the event funds are insufficient to purchase Bonds optionally tendered on a Purchase Date, the tendered Bonds shall not be purchased but instead shall be returned to the tendering Bondholders. Thereafter, the applicable Remarketing Agent will continue to establish the Daily Rate, the Weekly Rate or the Term Rate for such Bonds, as applicable.

The failure to pay the purchase price of a Bond upon optional or mandatory tender, as a result of a failure of the applicable Credit Provider or Liquidity Provider to honor a draw under the applicable Credit Facility or Liquidity Facility, shall not constitute an event of default with respect to the Bonds nor shall the City have any obligation to replace such Credit Facility or Liquidity Facility or provide any funds to make payment with respect to the Bonds tendered.

Book-Entry Only System

The information in this section has been provided by DTC and is not to be deemed to be a representation of the City, PGW or the Underwriters.

DTC, New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered Bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to an issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal, premium, if any, purchase price of and interest on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Fiscal Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the City or the Fiscal Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments of principal, premium, if any, and interest on the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of City or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the City or the Fiscal Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from DTC, and the City takes no responsibility for the accuracy thereof.

THE CITY, PGW AND THE FISCAL AGENT CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, THE DIRECT PARTICIPANTS OR THE INDIRECT PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE BONDS (1) PAYMENTS OF PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, PURCHASE PRICE OF OR INTEREST ON THE BONDS, (2) CONFIRMATION OF BENEFICIAL OWNERSHIP INTEREST IN THE BONDS, OR (3) REDEMPTION OR OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS NOMINEE, AS THE REGISTERED OWNER OF THE BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT. THE CURRENT "RULES" APPLICABLE TO DTC ARE ON FILE WITH THE SECURITIES AND EXCHANGE COMMISSION, AND THE CURRENT "PROCEDURES" OF DTC TO BE FOLLOWED IN DEALING WITH DIRECT PARTICIPANTS ARE ON FILE WITH DTC.

NEITHER THE CITY, PGW NOR THE FISCAL AGENT SHALL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON NOT SHOWN ON THE REGISTRATION BOOKS OF THE FISCAL AGENT AS BEING A BONDHOLDER WITH RESPECT TO (1) THE BONDS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OR REDEMPTION PRICE OF, PURCHASE PRICE OR INTEREST ON THE BONDS; (4) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE 1998 GENERAL ORDINANCE TO BE GIVEN TO BONDHOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (6) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS REGISTERED OWNER OF THE BONDS.

The City may determine to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be prepared and delivered as described in the Ninth Supplemental Ordinance.

So long as Cede & Co. is the registered owner of the Bonds as nominee of DTC, references herein to the Holders, holders, owners or registered owners of such Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of the Bonds.

In the event that the Book-Entry-Only System is discontinued and the Beneficial Owners become registered owners of the Bonds, the following provisions applicable to registered owners would apply: (i) Bonds may be

exchanged for an equal aggregate principal amount of Bonds of the same maturity and series in other authorized denominations, upon surrender thereof at the designated corporate trust office of the Fiscal Agent; (ii) the transfer of any Bonds may be registered on the books maintained by the Fiscal Agent for such purpose only upon the surrender thereof to the Fiscal Agent together with a duly executed assignment in form satisfactory to the City and the Fiscal Agent; and (iii) for every exchange or registration of transfer of Bonds, the Fiscal Agent may impose a charge sufficient to reimburse it for any tax, fee or governmental charge required to be paid with respect to such exchange or registration of transfer of the Bonds.

Optional Redemption

While any Bonds of a series are in the Weekly Mode, such Bonds may be redeemed at the option of the City, in whole or in part on any Interest Payment Date, prior to maturity at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the date fixed for redemption.

Mandatory Redemption

Eighth Series B Bonds

The Eighth Series B Bonds are subject to mandatory redemption prior to maturity by the City, in part, on August 1 of the years and in the principal amounts set forth below, by lot, at a redemption price of the principal amount of Eighth Series B Bonds to be redeemed plus interest accrued to the date fixed for redemption:

<u>Date</u> <u>(August 1)</u>	<u>Amount</u>
2017	\$705,000
2018	5,550,000
2019	6,070,000
2020	6,620,000
2021	7,185,000
2022	7,770,000
2023	8,390,000
2024	8,730,000
2025	9,395,000
2026	9,860,000
2027	11,065,000
2028	11,520,000
2029	5,670,000
2030	3,175,000
2031*	3,295,000

* Maturity

Eighth Series C Bonds

The Eighth Series C Bonds are subject to mandatory redemption prior to maturity by the City, in part, on August 1 of the years and in the principal amounts set forth below, by lot, at a redemption price of the principal amount of Eighth Series C Bonds to be redeemed plus interest accrued to the date fixed for redemption:

<u>Date</u> <u>(August 1)</u>	<u>Amount</u>
2017	\$335,000
2018	2,645,000
2019	2,895,000
2020	3,150,000
2021	3,420,000
2022	3,705,000
2023	3,990,000
2024	4,150,000
2025	4,475,000
2026	4,700,000
2027	5,265,000
2028	5,490,000
2029	2,700,000
2030	1,510,000
2031*	1,570,000

* Maturity

Eighth Series D Bonds

The Eighth Series D Bonds are subject to mandatory redemption prior to maturity by the City, in part, on August 1 of the years and in the principal amounts set forth below, by lot, at a redemption price of the principal amount of Eighth Series D Bonds to be redeemed plus interest accrued to the date fixed for redemption:

<u>Date</u> <u>(August 1)</u>	<u>Amount</u>
2017	\$335,000
2018	2,645,000
2019	2,895,000
2020	3,150,000
2021	3,420,000
2022	3,705,000
2023	3,990,000
2024	4,150,000
2025	4,475,000
2026	4,700,000
2027	5,265,000
2028	5,490,000
2029	2,700,000
2030	1,510,000
2031*	1,570,000

* Maturity

Eighth Series E Bonds

The Eighth Series E Bonds are subject to mandatory redemption prior to maturity by the City, in part, on August 1 of the years and in the principal amounts set forth below, by lot, at a redemption price of the principal amount of Eighth Series E Bonds to be redeemed plus interest accrued to the date fixed for redemption:

Date (August 1)	Amount
2017	\$335,000
2018	2,645,000
2019	2,895,000
2020	3,150,000
2021	3,420,000
2022	3,705,000
2023	3,990,000
2024	4,150,000
2025	4,475,000
2026	4,700,000
2027	5,265,000
2028	5,490,000
2029	2,700,000
2030	1,510,000
2031*	1,570,000

* Maturity

Selection of Bonds to be Called for Redemption

Except where DTC or its nominee is the registered owner of the Bonds as described above, if less than all of a series of Bonds are to be redeemed, the particular Bonds of a series to be called for redemption shall be selected by lot or by such other method as the Fiscal Agent deems fair and appropriate; provided however that any Bank Bonds (as defined herein) shall be redeemed first to the extent redemption monies are available therefor.

Notice of Redemption of Bonds

Notice of redemption of Bonds shall be made not less than thirty (30) days nor more than (60) days before the date fixed for redemption with respect to the Bonds to the Registered Owners appearing on the Bond Register of the Bonds to be redeemed. Any notice of redemption mailed in accordance with the requirements set forth in the 1998 General Ordinance shall be conclusively presumed to have been duly given, whether or not such notice is actually received by the Bondholders. No defect in the notice with respect to any Bond (whether in the form of notice or the mailing thereof) shall affect the validity of the redemption proceedings for any other Bonds. If a notice is given with respect to an optional redemption of the Bonds prior to monies for such redemption being deposited with the Fiscal Agent, such notice shall be conditioned upon the deposit of monies with the Fiscal Agent on or before the date fixed for redemption and in such event, such notice shall be of no effect unless such monies are deposited. Notice having been so given and provision having been made for redemption from funds on deposit with the Fiscal Agent or Sinking Fund Depository, all interest on the Bonds called for redemption accruing after the date fixed for redemption shall cease, and the Registered Owners of the Bonds called for redemption shall have no security, benefit or lien under the 1998 General Ordinance or any rights thereunder, except to receive payment of the redemption price.

Notice of Mandatory Tender of Bonds

In connection with the mandatory tender of Bonds of a series (other than Bank Bonds), the Fiscal Agent is required to give notice to the Holders of the Bonds as follows:

(a) In the event of a proposed Conversion of all or a portion of any series of Bonds, the Fiscal Agent is required to give written notice by first class mail to the Holders of such Bonds not later than the 30th day (or the 10th day in the case of Bonds in the Daily Mode or the Weekly Mode) next preceding the Conversion Date.

(b) In the event of a mandatory purchase upon expiration of a Liquidity Facility and/or Credit Facility, the Fiscal Agent is required to give written notice by first class mail to the Holders of the applicable Bonds no later than the 10th day next preceding the mandatory tender date if the Liquidity Facility and/or Credit Facility will not be extended, stating that (A) the Fiscal Agent has not received an extension of the then effective Liquidity Facility and/or Credit Facility, and (B) the Bonds are required to be purchased by the Fiscal Agent on the mandatory tender date specified in such notice at a purchase price equal to 100% of the principal amount thereof, plus accrued interest, if any, to such Purchase Date.

(c) If the City has given notice of the provision of an Alternate Liquidity Facility and/or an Alternate Credit Facility and has complied with the conditions set forth herein, the Fiscal Agent is required to give written notice by first class mail to the Holders of the applicable Bonds no later than the 10th day next preceding the mandatory tender date, stating that (A) the Fiscal Agent has received notice of the provision of an Alternate Liquidity Facility and/or an Alternate Credit Facility and (B) such Bonds are required to be purchased by the Fiscal Agent on the mandatory tender date specified in such notice at a purchase price equal to 100% of the principal amount thereof, plus accrued interest, if any, to such Purchase Date.

(d) If a Liquidity Provider and/or a Credit Provider has provided written notice of mandatory tender to the Fiscal Agent to the extent provided under the applicable Liquidity Facility and/or Credit Facility, the Fiscal Agent shall promptly notify the Holders of the applicable Bonds that such notice has been received and that such Bonds shall be subject to mandatory tender in accordance with the provisions for mandatory tender set forth in the Bond Authorization on the date set forth by the Fiscal Agent in the notice, which date shall be not more than ten (10) days following the Fiscal Agent's receipt of notice from the applicable Liquidity Provider and/or applicable Credit Provider.

Transfer of Bonds

Bonds are transferable and exchangeable by the Registered Owners thereof at the designated corporate trust office of the Fiscal Agent in Philadelphia, Pennsylvania in the manner and subject to the limitations contained in the and 1998 General Ordinance and the Ninth Supplemental Ordinance. The Fiscal Agent shall not be required to issue or to register the transfer of or exchange any Bonds (a) during the period five (5) days prior to any interest payment date for such Bonds, or (b) during the period five (5) days prior to any mailing of notice of redemption of such Bonds.

SOURCES OF PAYMENT AND SECURITY FOR THE BONDS

Credit Facilities

Eighth Series B Bonds

The City and the Fiscal Agent will enter into the Eighth Series B Reimbursement Agreement with the Eighth Series B Credit Provider, whereby, subject to the terms and conditions contained therein, the Eighth Series B Credit Provider will issue the Eighth Series B Credit Facility for the scheduled payment of principal of interest on and purchase price of the Eighth Series B Bonds while in the Weekly Mode. See "SUMMARY OF CERTAIN PROVISIONS OF THE EIGHTH SERIES B CREDIT FACILITY AND THE EIGHTH SERIES B REIMBURSEMENT AGREEMENT" below.

Eighth Series C Bonds

The City and the Fiscal Agent will enter into the Eighth Series C Reimbursement Agreement with the Eighth Series C Credit Provider, whereby, subject to the terms and conditions contained therein, the Eighth Series C Credit Provider will issue the Eighth Series C Credit Facility for the scheduled payment of principal of, interest on and purchase price of the Eighth Series C Bonds while in the Weekly Mode. See "SUMMARY OF CERTAIN PROVISIONS OF THE EIGHTH SERIES C CREDIT FACILITY AND THE EIGHTH SERIES B REIMBURSEMENT AGREEMENT" below.

Eighth Series D Bonds

The City and the Fiscal Agent will enter into the Eighth Series D Reimbursement Agreement with the Eighth Series D Credit Provider, whereby, subject to the terms and conditions contained therein, the Eighth Series D Credit Provider will issue the Eighth Series D Credit Facility for the scheduled payment of principal of, interest on and purchase price of the Eighth Series D Bonds while in the Weekly Mode. See "SUMMARY OF CERTAIN PROVISIONS OF THE EIGHTH SERIES D CREDIT FACILITY AND THE EIGHTH SERIES D REIMBURSEMENT AGREEMENT" below.

Eighth Series E Bonds

The City and the Fiscal Agent will enter into the Eighth Series E Reimbursement Agreement with the Eighth Series E Credit Provider, whereby, subject to the terms and conditions contained therein, the Eighth Series E Credit Provider will issue the Eighth Series E Credit Facility for the scheduled payment of principal of, interest on and purchase price of the Eighth Series E Bonds while in the Weekly Mode. See "SUMMARY OF CERTAIN PROVISIONS OF THE EIGHTH SERIES E CREDIT FACILITY AND THE EIGHTH SERIES E REIMBURSEMENT AGREEMENT" below.

Pledge of Revenues and Funds

The Bonds are being issued as Senior 1998 Ordinance Bonds and are secured solely by and payable solely from Gas Works Revenues and the 1998 Ordinance Sinking Fund, including the 1998 Ordinance Sinking Fund Reserve therein, as provided in the Act, the 1998 General Ordinance and the Ninth Supplemental Ordinance. Gas Works Revenues include all operating and non-operating revenues of the Gas Works derived from its activities and assets involved in the supply, manufacture, storage and distribution of gas, including all rents, rates and charges imposed or charged by the City upon the owners or occupants of properties connected to, and upon all users of, gas distributed by the Gas Works and all other revenues derived therefrom and all other income derived by the City from the Gas Works. Revenues derived from activities unrelated to the supply, manufacture, storage and distribution of gas or assets related thereto shall not be included in Gas Works Revenues, provided that the Gas Works receives fair payment for the use of gas related assets and personnel of the Gas Works used in such activities, which payments shall be included in Gas Works Revenues. At such time as there are no 1975 Ordinance Bonds outstanding, Gas Works Revenues shall not include any portions of the Gas Works' rents, rates and charges, if any, which are securitized and sold pursuant to the 1998 General Ordinance.

The Act subjects all monies deposited in the 1998 Ordinance Sinking Fund, including the 1998 Ordinance Sinking Fund Reserve, to a security interest for the 1998 Ordinance Bonds until such monies are properly disbursed and provides that no bonds issued under the Act shall pledge the credit or taxing power of the City or create any debt or charge against the tax or general revenues of the City or create any lien against any property of the City other than Gas Works Revenues and monies deposited in the 1998 Ordinance Sinking Fund.

The pledge of the Gas Works Revenues to secure the Senior 1998 Ordinance Bonds issued under the 1998 General Ordinance (including the Bonds) is at all times subject and subordinate to the pledge of Project Revenues under the 1975 General Ordinance securing the 1975 Ordinance Bonds. Gas Works Revenues and Project Revenues are treated by PGW as the same revenues and include grants from the City, properly authorized, including, if applicable and if so authorized, any grant back to PGW of any portion of PGW's Base Payment to the City. See "SECURITY - Priority in Application of Revenues." As of March 31, 2009, \$263,053,000 aggregate

principal amount of 1975 Ordinance Bonds remained outstanding under the 1975 General Ordinance, and \$902,420,000 aggregate principal amount of Senior 1998 Ordinance Bonds and \$10,115,000 of Subordinate 1998 Ordinance Bonds were outstanding under the 1998 General Ordinance.

PGW has sold the right to receive the earnings through the year 2019 on approximately \$53.6 million of deposits (of total deposits of slightly more than \$98.0 million) in the 1975 Ordinance Sinking Fund Reserve and the 1998 Ordinance Sinking Fund Reserve pursuant to two separate investment agreements among FSA Capital Markets Services LLC, the Fiscal Agent and the City (the "Guaranteed Investment Contracts") dated August 23, 2002. PGW's proceeds from the Guaranteed Investment Contracts of approximately \$20.1 million were treated as Project Revenues under the 1975 General Ordinance and Gas Works Revenues under the 1998 General Ordinance in the year received. The portion of such earnings on the 1975 Ordinance Sinking Fund Reserve and the 1998 Ordinance Sinking Fund Reserve which has been sold pursuant to the Guaranteed Investment Contracts no longer belongs to PGW and therefore does not constitute Project Revenues or Gas Works Revenues and are not subject to the lien and security interest of the 1975 General Ordinance or the 1998 General Ordinance.

Covenant Against Commingling with Other City Funds

The City has covenanted in the Ordinance and the Ninth Supplemental Ordinance that so long as any of the Bonds remain outstanding, all pledged Gas Works Revenues shall be deposited and held in and disbursed from, one or more unsegregated accounts of PGW which shall be separate from and not commingled with the consolidated cash account of the City or any other account of the City not held exclusively for PGW purposes. See "REMEDIES OF BONDHOLDERS."

The proceeds of the Bonds which remain available for payment of the costs of refunding of the Refunded Bonds, after payment of the Termination Payment, financing costs and the required payment into the 1998 Ordinance Sinking Fund Reserve, will be used on the Issue Date to redeem a portion of the Refunded Bonds.

The effectiveness of the separation of proceeds of the Bonds and revenues from other City accounts may be limited under certain circumstances, including a bankruptcy filing by the City. See "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS" and "REMEDIES OF BONDHOLDERS" herein. Pursuant to the 1998 General Ordinance, all monies deposited in the Sinking Fund established under the 1998 General Ordinance (including the 1998 Ordinance Sinking Fund Reserve), are subject to a security interest in favor of all Holders of the Bonds until such monies are properly disbursed. See "SECURITY — Pledge of Revenues and Funds" herein.

Priority in Application of Revenues

Project Revenues - 1975 Ordinance Bonds

The 1975 General Ordinance creates a lien on and pledge of all Project Revenues of PGW for the benefit of the Holders of 1975 Ordinance Bonds and creates a priority in application of Project Revenues in each Fiscal Year as follows:

First, to Net Operating Expenses (*i.e.*, Operating Expenses exclusive of City Charges);

Second, to required payments into the 1975 Ordinance Sinking Fund to pay the principal of, and interest on all 1975 Ordinance Bonds and, if required, to accumulate funds in, or to restore any deficiency in, the 1975 Ordinance Sinking Fund Reserve;

Third, to the payment of any general obligation bonds which have been adjudged to be self-liquidating on the basis of expected revenues from PGW;¹

Fourth, to the payment of interest and sinking fund charges of other general obligation debt incurred for PGW¹ and

Fifth, to the payment of City Charges,² including any Base Payment due to the City.³

City Charges are the proportionate charges for services performed for the Gas Works by all officers, departments, boards or commissions of the City which are contained in the computation of Operating Expenses of the Gas Works including without limitation, the expenses of the Gas Commission and also means the base payments to the City contained in the agreement between the City and the manager of the Gas Works and all other payments made to the City from Project Revenues. During PGW's Fiscal Years 2004-2008, City Charges exclusive of the \$18,000,000 Base Payment and of rate hearing charges have averaged approximately \$1,451,000 per year.

The 1975 General Ordinance provides that all interest and income earned on monies held in the 1975 Ordinance Sinking Fund Reserve may, to the extent not required to comply with the requirements of the 1975 General Ordinance relating to the 1975 Ordinance Sinking Fund Reserve, and to the extent not sold pursuant to the Guaranteed Investment Contracts referred to under "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS – Pledge of Revenues and Funds" above, be transferred to the operating funds of PGW to be applied as Project Revenues in accordance with the terms of the 1975 General Ordinance. To the extent that in any Fiscal Year a balance remains in the Project Revenues (after application under the 1975 General Ordinance as modified by the 1998 General Ordinance and the 2005 Note Ordinance), such balance, upon approval of the Gas Commission, may be paid to the City, provided that in a given Fiscal Year such balance does not exceed the amount of the 1975 Ordinance Sinking Fund Reserve earnings transferred to the operating funds of PGW during the same Fiscal Year.

Gas Works Revenues — 1998 Ordinance Bonds

The 1998 General Ordinance creates a lien on and security interest in all Gas Works Revenues for the benefit of the Holders of the Bonds and creates a priority in application of Gas Works Revenues in each Fiscal Year as follows:

First, to Net Operating Expenses (i.e. Operating Expenses exclusive of City Charges) then payable;

Second, to debt service on the 1975 Ordinance Bonds issued under the 1975 General Ordinance and amounts required to be paid into the Sinking Fund Reserve under the 1975 General Ordinance;

Third, to debt service on Senior 1998 Ordinance Bonds, payments (other than termination payments) due to the issuers of Qualified Swaps and Exchange Agreements related to Senior 1998 Ordinance Bonds and payments due in respect of obligations of the Gas Works to The Philadelphia Municipal Authority existing on the date of adoption of the 1998 General Ordinance (such obligations to The Philadelphia Municipal Authority being referred to herein as the "Prior Obligations");

Fourth, to payments due to issuers of Credit Facilities related to Senior 1998 Ordinance Bonds;

¹ No general obligation debt of the City described in items Third and Fourth above is currently outstanding.

² City Charges include charges for services performed for PGW by various City departments, including the expenses of the Gas Commission. During PGW's Fiscal Years 2004 through 2008, City Charges (exclusive of the \$18,000,000 Base Payment and of rate hearing charges) have averaged approximately \$1,451,000 per year.

³ The City's Eighteenth Five-Year Plan contemplates that in each of the Fiscal Years 2010 through 2014, the City will make a grant to PGW equal to the annual payment received from PGW in such Fiscal Years.

Fifth, to debt service on Subordinate 1998 Ordinance Bonds and payments due in respect of obligations of PGW on a parity with Subordinate 1998 Ordinance Bonds (including notes issued under the City's General Inventory and Receivables Financing Act and the Note Ordinance, as supplemented, or any similar ordinance, and amounts payable to the provider of a Credit Facility in respect of such notes) and payments (other than termination payments) due to the issuers of Qualified Swaps and Exchange Agreements related to Subordinate 1998 Ordinance Bonds;

Sixth, to payments due to issuers of Credit Facilities related to Subordinate 1998 Ordinance Bonds;

Seventh, to required payments of the Rebate Amount to the United States;

Eighth, to replenishment of any deficiency in the Sinking Fund Reserve;

Ninth, to payment of general obligation bonds of the City adjudged to be self-liquidating from Gas Works Revenues¹;

Tenth, to debt service on other general obligation bonds issued for the Gas Works¹ and

Eleventh, to City Charges² and any other proper purpose of the Gas Works (including any termination payments to issuers of Qualified Swaps and Exchange Agreements), except Unrelated Expenses.

Operating Expenses

Operating Expenses are defined in the 1975 General Ordinance and the 1998 General Ordinance as all costs and expenses of the Gas Works necessary and appropriate to operate and maintain the Gas Works in good operable condition during each Fiscal Year, and include, without limitation, the manager's fee, salaries and wages, purchases of service by contract, costs of materials, supplies and expendable equipment, maintenance costs, costs of any property or the replacement thereof or for any work or project, related to the Gas Works, which does not have a probable useful life of at least five years, pension and welfare plan and workmen's compensation requirements, provision for claims, refunds and uncollectible receivables and for City Charges, all in accordance with generally accepted municipal accounting principles consistently applied, but shall exclude depreciation and interest and sinking fund charges. The 1998 General Ordinance, however, excludes Unrelated Expenses (consisting of those expenses which are unrelated to the supply, manufacture, storage and distribution of gas or assets related thereto) from the definition of Operating Expenses.

Rate Covenant and Rate Requirements

1975 Ordinance Bonds

The 1975 General Ordinance contains the 1975 Ordinance Rate Covenant requiring that, so long as 1975 Ordinance Bonds are outstanding, at a minimum, the City impose, charge and collect in each Fiscal Year, such gas rates and charges as shall, together with all other Project Revenues to be received in such Fiscal Year, equal not less than the greater of (a) the sum of all Net Operating Expenses payable during such Fiscal Year plus (i) 150% of the debt service requirements for such year on all outstanding 1975 Ordinance Bonds and (ii) the amount, if any, required to be paid into the 1975 Sinking Fund Reserve during such year, or (b) the sum of all Net Operating Expenses payable during such Fiscal Year plus (i) the debt service requirements for such year on all outstanding 1975 Ordinance Bonds and all outstanding City general obligation bonds issued for improvements to PGW and

¹ No general obligation debt of the City described in items Ninth and Tenth above is currently outstanding.

² City Charges include charges for services performed for PGW by various City departments, including the expenses of the Gas Commission. During PGW's Fiscal Years 2004 through-2008, City Charges (exclusive of the \$18,000,000 Base Payment and of rate hearing charges) have averaged approximately \$1,451,000 per year.

(ii) all amounts, if any, required during such year to be paid into the 1975 Sinking Fund Reserve. For a further discussion of the 1975 Rate Covenant and other rate requirements applicable to PGW, see "PGW BUDGET, RATES AND FINANCES — Debt Service Coverage Ratio."

1998 Ordinance Bonds

The 1998 General Ordinance contains a covenant that requires the City, for so long as the 1998 Ordinance Bonds are outstanding, at a minimum, to impose, charge and collect in each Fiscal Year of the Gas Works such gas rates and charges as shall, together with all other Gas Works Revenues to be received in such Fiscal Year, equal not less than the greater of (a) or (b) below:

(a) The sum of:

(i) all Net Operating Expenses payable during such Fiscal Year;

(ii) all principal of and interest on 1975 Ordinance Bonds issued and outstanding under the 1975 General Ordinance payable during such Fiscal Year and amounts required to be paid into the Sinking Fund Reserve under the 1975 General Ordinance during such Fiscal Year;

(iii) 150% of the amount required to pay Sinking Fund deposits required during such Fiscal Year in respect of all Outstanding Senior 1998 Ordinance Bonds and 100% of the amounts payable in respect of the Prior Obligations during such Fiscal Year;

(iv) the amount required to pay Sinking Fund deposits required during such Fiscal Year in respect of all Outstanding Subordinate 1998 Ordinance Bonds and other obligations of the Gas Works on a parity with Subordinate 1998 Ordinance Bonds payable during such Fiscal Year;

(v) the amount, if any, required to be paid into the Sinking Fund Reserve during such Fiscal Year;

(vi) the Rebate Amount required to be paid to the United States during such Fiscal Year; and

(vii) the amounts required to be paid to the issuers of Credit Facilities and the providers of Qualified Swaps and Exchange Agreements during such Fiscal Year; or

(b) The sum of:

(i) all Net Operating Expenses payable during such Fiscal Year;

(ii) all principal of and interest on 1975 Ordinance Bonds issued and outstanding under the 1975 General Ordinance payable during such Fiscal Year and amounts required to be paid into the Sinking Fund Reserve under the 1975 General Ordinance during such Fiscal Year;

(iii) all Sinking Fund deposits required during such Fiscal Year in respect of all Outstanding 1998 Ordinance Bonds and all amounts payable in respect of obligations of the Gas Works which are on a parity with any of the 1998 Ordinance Bonds and in respect of general obligation bonds issued for improvements to the Gas Works and all amounts, if any, required during such Fiscal Year to be paid into the Sinking Fund Reserve;

(iv) the Rebate Amount required to be paid to the United States during such Fiscal Year; and

(v) the amounts required to be paid to the issuers of Credit Facilities and the providers of Qualified Swaps and Exchange Agreements during such Fiscal Year.

In calculating PGW's compliance with the rate covenant with respect to 1998 Ordinance Bonds set forth above, required sinking fund deposits are calculated without regard to the effect of any Qualified Swap. For a further discussion of the Rate Covenant and other rate requirements applicable to PGW, see "PGW BUDGET, RATES AND FINANCES — Debt Service Coverage Ratio."

Sinking Fund

1975 Ordinance Sinking Fund

Pursuant to the Act, the 1975 General Ordinance establishes the 1975 Ordinance Sinking Fund for the benefit and security of the Holders of all 1975 Ordinance Bonds to be held separate and apart from all other accounts of the City and directs the Director of Finance to deposit therein from the pledged revenues in each Fiscal Year such amounts as will, together with interest and profits earned and to be earned on investments held therein, be sufficient to accumulate, on or before each interest and principal payment date of the 1975 Ordinance Bonds, the amounts required to pay the principal of and interest on the 1975 Ordinance Bonds then becoming due and payable. It is the current practice of the City to make deposits into the 1975 Ordinance Sinking Fund on or immediately prior to the date on which debt service payments are due. To the extent monies are on deposit in the 1975 Ordinance Sinking Fund which are not currently required for the payment of debt service, such monies shall be invested at the direction and under the management of the Director of Finance. The 1975 Ordinance Sinking Fund shall be a consolidated fund for equal and proportionate benefit of the Holders of all 1975 Ordinance Bonds from time to time outstanding under the 1975 General Ordinance and may be invested and reinvested on a consolidated basis. Interest and profit from any such investment shall be added to the 1975 Ordinance Sinking Fund and credited in reduction of or to satisfy required deposits into the 1975 Ordinance Sinking Fund. *The 1975 Ordinance Sinking Fund, including the 1975 Ordinance Sinking Fund Reserve established therein, is established solely for the benefit and security of the Holders of 1975 Ordinance Bonds. Neither Holders of 1998 Ordinance Bonds, including the Bonds, nor a Qualified Swap Provider of Qualified Swaps, shall have any claim to amounts in the 1975 Ordinance Sinking Fund.*

1998 Ordinance Sinking Fund

Pursuant to the Act, the 1998 General Ordinance establishes the 1998 Ordinance Sinking Fund for the benefit and security of the Holders of all 1998 Ordinance Bonds to be held in the name of the City separate and apart from all other accounts of the City and directs the Director of Finance to deposit therein from the Gas Works Revenues in each Fiscal Year such amounts as will, together with interest and profits earned and to be earned on investments held therein, be sufficient to accumulate (exclusive of the amount in the Sinking Fund Reserve), on or before each interest and principal payment date of the 1998 Ordinance Bonds, the amounts required to pay the principal of and interest on the 1998 Ordinance Bonds then becoming due and payable. It is the current practice of the City to make deposits into the Sinking Fund on or immediately prior to the date on which debt service payments are due. To the extent monies are on deposit in the Sinking Fund which are not currently required for the payment of debt service, such monies shall be invested at the direction and under the management of the Director of Finance of the City. The 1998 Ordinance Sinking Fund is a consolidated fund for equal and proportionate benefit of the Holders of all 1998 Ordinance Bonds from time to time Outstanding under the 1998 General Ordinance and may be invested and reinvested on a consolidated basis. The principal of and interest and profits (and losses, if any) realized on investments in the 1998 Ordinance Sinking Fund shall be allocated pro rata among the series of 1998 Ordinance Bonds or the specific 1998 Ordinance Bonds in respect of which such investments were made without distinction or priority. Payments shall be made from the 1998 Ordinance Sinking Fund in the order of priority set forth in the 1998 General Ordinance, except that monies (and the investments thereof) specifically deposited for the payment of any particular installment of principal, interest (including capitalized interest) or premium in respect of particular 1998 Ordinance Bonds shall be held and applied exclusively to the payment of such particular principal, interest or premium. *The 1998 Ordinance Sinking Fund, including the 1998 Ordinance Sinking Fund Reserve established therein, is established solely for the benefit of the Holders of 1998 Ordinance Bonds, including the Bonds and Bank Bonds. Neither Holders of 1975 Ordinance Bonds nor Qualified Swap Provider of Qualified Swaps shall have any claim to amounts in the 1998 Ordinance Sinking Fund.*

Sinking Fund Reserve

1975 Ordinance Sinking Fund Reserve

The 1975 General Ordinance establishes the 1975 Ordinance Sinking Fund Reserve as part of the 1975 Ordinance Sinking Fund. The City is required to deposit in the 1975 Ordinance Sinking Fund Reserve from the proceeds of sale of each series of 1975 Ordinance Bonds an amount equal to the maximum amount required in any Fiscal Year to pay the principal of and interest on the 1975 Ordinance Bonds of such series coming due and payable in that Fiscal Year unless the supplemental ordinance authorizing the series of 1975 Ordinance Bonds authorizes the accumulation from Project Revenues of a reserve of such amount over a period of not more than six Fiscal Years after the issuance and delivery of the 1975 Ordinance Bonds. The money and investments (valued at market) in the 1975 Ordinance Sinking Fund Reserve must be held and maintained, at all times, in an amount equal to the maximum principal and interest requirements of all outstanding 1975 Ordinance Bonds in any subsequent Fiscal Year. The City verifies the value of amounts in the 1975 Ordinance Sinking Fund Reserve on a periodic basis. As of March 31, 2009, the value of the funds and investments on deposit in the 1975 Sinking Fund Reserve was required to be at least \$32.3 million, and the amount in the 1975 Ordinance Sinking Fund Reserve met this requirement.

If, at any time and for any reason, the monies in the 1975 Ordinance Sinking Fund (other than the 1975 Ordinance Sinking Fund Reserve) are insufficient to pay, as and when due, debt service on any 1975 Ordinance Bonds, the 1975 Ordinance Sinking Fund Depository is required to pay over to the Fiscal Agent, from the 1975 Ordinance Sinking Fund Reserve, the amount of the deficiency. The 1975 Ordinance Sinking Fund and 1975 Ordinance Sinking Fund Reserve are managed by, and invested and reinvested under the direction of, the Director of Finance of the City. The 1975 General Ordinance provides that interest and income earned on monies held in the 1975 Ordinance Sinking Fund Reserve may be transferred and paid by the Director of Finance to the operating funds of PGW and applied as Project Revenues in the manner described under "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS— Priority in Application of Revenues." *The 1975 Ordinance Sinking Fund Reserve is established solely for the benefit and security of the Holders of 1975 Ordinance Bonds. Neither holders of 1998 Ordinance Bonds, including the Holders of the Bonds nor Qualified Swaps, shall have any claim to amounts in the 1975 Ordinance Sinking Fund Reserve.*

1998 Ordinance Sinking Fund Reserve

The 1998 General Ordinance establishes the 1998 Ordinance Sinking Fund Reserve as part of the 1998 Ordinance Sinking Fund. The City is required to deposit to the credit of the 1998 Ordinance Sinking Fund Reserve from the proceeds of sale of each series of bonds issued under the 1998 General Ordinance and/or Gas Works Revenues an amount which, together with other amounts in the Sinking Fund Reserve, equal the maximum amount required in any Fiscal Year to pay principal of and interest on the 1998 Ordinance Bonds of such series coming due and payable in that Fiscal Year. In lieu of a deposit to the credit of the 1998 Ordinance Sinking Fund Reserve or in substitution for amounts in the 1998 Ordinance Sinking Fund Reserve, the City may provide one or more letters of credit or other Credit Facilities in the same aggregate amount, issued by a provider or providers whose credit facilities are such that bonds secured by such credit facilities are rated in one of the three (3) highest rating categories by Moody's Investors Service, Inc., Fitch Ratings, Inc. or Standard & Poor's Ratings Service, a Division of The McGraw-Hill Companies, Inc., all in the manner described under "The 1998 General Ordinance — Sinking Fund and Sinking Fund Reserve" in APPENDIX D. Upon the issuance of the Bonds, the City shall deposit an amount of cash into the 1998 Ordinance Sinking Fund Reserve and/or purchase one or more surety bonds, or letters of credit such that the aggregate of such cash and/or surety bonds or letters of credit shall be equal to the Sinking Fund Reserve Requirement for the Outstanding Bonds under the 1998 Ordinance.

If, at any time and for any reason, the monies in the 1998 Ordinance Sinking Fund (other than the 1998 Ordinance Sinking Fund Reserve) are insufficient to pay, as and when due, debt service on any bond or bonds secured by the 1998 Ordinance Sinking Fund Reserve, the 1998 Ordinance Sinking Fund Depository is required to pay over to the Fiscal Agent, from the 1998 Ordinance Sinking Fund Reserve, the amount of the deficiency. If by reason of such withdrawal (including draws on any Credit Facilities held to satisfy the Sinking Fund Reserve Requirement) or for any other reason there shall be a deficiency in the 1998 Ordinance Sinking Fund Reserve, the City has covenanted to restore such deficiency (either by a deposit of funds or the reinstatement of the cash limits of

the Credit Facilities) within twelve (12) months. The 1998 Ordinance Sinking Fund Reserve shall be valued by the Sinking Fund Depository promptly after any withdrawal from the 1998 Ordinance Sinking Fund Reserve or any other event indicating a possible deficiency in the 1998 Ordinance Sinking Fund Reserve and on August 31 of each Fiscal Year of PGW. As of March 31, 2009, the value of the funds and investments on deposit in the 1998 Ordinance Sinking Fund Reserve was required to be at least \$67.2 million and the amount in the 1998 Ordinance Sinking Fund Reserve met this requirement. The 1998 Ordinance Sinking Fund and 1998 Ordinance Sinking Fund Reserve are managed by, and invested and reinvested under the direction of, the Director of Finance of the City. *The 1998 Ordinance Sinking Fund Reserve is established solely for the benefit and security of the Holders of 1998 Ordinance Bonds, including the Bonds and Bank Bonds. Neither Holders of 1975 Ordinance Bonds nor Qualified Swaps shall have any claim on amounts in the 1998 Ordinance Sinking Fund Reserve.*

SUMMARY OF CERTAIN PROVISIONS OF THE EIGHTH SERIES B CREDIT FACILITY AND THE EIGHTH SERIES B REIMBURSEMENT AGREEMENT

For the purpose of the discussion under this heading, the Eighth Series B Credit Facility includes any extension of the Eighth Series B Credit Facility, but does not include any Alternate Credit Facility or Alternate Liquidity Facility issued in lieu of the Eighth Series B Credit Facility.

Concurrently with the issuance of the Eighth Series B Bonds, the Eighth Series B Credit Provider will issue to the Fiscal Agent, the Eighth Series B Credit Facility in the stated amount of \$106,795,068.50 of which \$105,000,000 is available to pay principal or the portion of purchase price corresponding to principal of the Eighth Series B Bonds and \$1,795,068.50 is available to pay interest or the portion of purchase price representing interest on the Eighth Series B Bonds. The Eighth Series B Credit Facility will be in the amount sufficient to enable the Fiscal Agent to draw up to the amount required to pay (a) the principal of the Eighth Series B Bonds or the principal portion of the purchase price of the Eighth Series B Bonds tendered for purchase in accordance with the terms thereof and of the Bond Authorization, and (b) the interest on the Eighth Series B Bonds or the interest portion of the purchase price of Eighth Series B Bonds tendered for purchase in accordance with the terms thereof and of the Bond Authorization (provided that the amount available to pay interest under the Eighth Series B Credit Facility shall not exceed 52 days' interest on the Eighth Series B Bonds calculated at 12% per annum), when due, whether on an interest payment date, at maturity, or upon redemption or tender.

The Eighth Series B Credit Facility will terminate on August 19, 2011, or such later date to which the applicable Eighth Series B Credit Facility may be extended by the Eighth Series B Credit Provider in its sole discretion (the "Expiration Date") unless sooner terminated as provided therein. The Expiration Date of the Eighth Series B Credit Facility may be extended beyond the Expiration Date then in effect only at the sole discretion of the Eighth Series B Credit Provider.

Each drawing honored by the Fiscal Agent under the Eighth Series B Credit Facility shall immediately reduce the principal component, and/or the interest component (as the case may be) of the amount available under the Eighth Series B Credit Facility by the amount of such drawing, and the aggregate amount available under the Eighth Series B Credit Facility shall be correspondingly reduced. In the case of a reduction resulting from a drawing to pay Eighth Series B Bond interest, the interest component shall be reinstated automatically as of the Eighth Series B Credit Provider's opening of business, on the fifth Business Day following the date of such payment by an amount equal to the amount of such drawing for interest, unless the Fiscal Agent shall have received notice from the Eighth Series B Credit Provider not later than the close of business on the fifth Business Day following the date of such payment to the effect that an event of default has occurred under the Eighth Series B Reimbursement Agreement and directing the Fiscal Agent to cause a mandatory purchase of the Eighth Series B Bonds, in which case such reinstatement shall not occur. The interest component may otherwise be reinstated as the Eighth Series B Credit Provider may from time to time notify the Fiscal Agent in writing.

The amount available under the Eighth Series B Credit Facility and the respective principal and interest components thereof shall also be reduced automatically upon receipt by the Eighth Series B Credit Provider from the Fiscal Agent of a certificate in the form prescribed by the Eighth Series B Credit Facility, each such reduction to be in the amount necessary to reduce the amount available under the Eighth Series B Credit Facility and the principal and interest components thereof to the respective amounts specified by the Fiscal Agent in such certificate.

The following is a summary of certain provisions of the Reimbursement, Credit and Security Agreement between the City and Wachovia Bank, National Association, as issuer of the Eighth Series B Credit Facility (the

"Eighth Series B Reimbursement Agreement"). The full text of the Eighth Series B Reimbursement Agreement may be obtained from the Fiscal Agent. Capitalized terms used under this section but not defined herein have the meanings set forth in the Eighth Series B Reimbursement Agreement.

Certain provisions of the Eighth Series B Reimbursement Agreement are summarized below. These summaries do not purport to be complete or definitive and are qualified in their entirety by reference to the full terms of the Eighth Series B Reimbursement Agreement.

The City and the Eighth Series B Credit Provider have entered into the Reimbursement, Credit and Security Agreement pursuant to which the Eighth Series B Credit Provider will issue the Eighth Series B Credit Facility for the account of the City.

All amounts drawn by the Fiscal Agent under the Eighth Series B Credit Facility must be reimbursed by the City to the Eighth Series B Credit Provider in accordance with the terms of the Eighth Series B Reimbursement Agreement. The Eighth Series B Reimbursement Agreement can be amended at any time without the consent of the Fiscal Agent or the beneficial owners of the Eighth Series B Bonds.

The Eighth Series B Reimbursement Agreement sets forth various representations, warranties and covenants of the City, including, without limitation, representations, warranties and covenants relating to maintenance of existence, compliance with laws, maintenance of insurance, compliance with contracts, maintenance of properties and reporting requirements.

The Eighth Series B Reimbursement Agreement also defines certain events of default thereunder, including generally, without limitation, the failure to pay to the Eighth Series B Credit Provider any reimbursement or other sum due under the Eighth Series B Reimbursement Agreement, the failure to comply with covenants in the Eighth Series B Reimbursement Agreement, a default under certain indebtedness of the City, the breach of a representation or warranty, the occurrence of an event of default as defined in the bond documents, and an event of bankruptcy.

The Eighth Series B Reimbursement Agreement provides that if an event of default has occurred and is continuing uncured thereunder, the Eighth Series B Credit Provider may, in its sole discretion:

(a) notify the Fiscal Agent and the City of such event of default and give notice of termination of the Eighth Series B Credit Facility; direct the Fiscal Agent to declare an event of default and cause a mandatory tender of all of the Eighth Series B Bonds then outstanding and to draw on the Eighth Series B Credit Facility whereupon the Eighth Series B Credit Facility shall terminate in accordance with its terms; and

(b) exercise, or cause to be exercised, any and all rights and remedies available to it under the Eighth Series B Reimbursement Agreement, the Eighth Series B Bonds, the Bond Authorization, the 1998 General Ordinance, the Act, the Fiscal Agent Agreement or any other document, or at law or in equity.

THE EIGHTH SERIES B CREDIT PROVIDER

Wachovia Bank, National Association is a subsidiary of Wells Fargo & Company ("WFC"), a corporation organized under the laws of Delaware and a financial holding company and a bank holding company registered under the Bank Holding Company Act of 1956, as amended. WFC's principal office is located in San Francisco, California. On December 31, 2008, WFC acquired Wachovia Corporation and its subsidiaries, including Wachovia Bank, National Association.

Wachovia Bank, National Association is a national banking association with its principal office in Charlotte, North Carolina and is subject to examination and primary regulation by the Office of the Comptroller of the Currency of the United States. Wachovia Bank, National Association is a commercial bank offering a wide range of banking, trust and other services to its customers.

Wachovia Bank, National Association submits quarterly to the Federal Deposit Insurance Corporation (the "FDIC") a "Consolidated Report of Condition and Income for a Bank with Domestic and Foreign Offices" (each, a "Call Report", and collectively, the "Call Reports"). The publicly available portions of the Call Reports with respect to Wachovia Bank, National Association (and its predecessor banks) are on file with the FDIC, and copies of such portions of the Call Reports may be obtained from the FDIC, Division of Insurance and Records,

550 17th Street, NW, Washington, DC 20429-9990, (800) 688-3342, at prescribed rates. In addition, such portions of the Call Reports are available to the public free of charge at the FDIC's web site at <http://www.fdic.gov>.

WFC is subject to the information requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith files annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such documents can be read and copied at the Commission's public reference room in Washington, D.C. Please call the Commission at 1-800-SEC-0330 for further information on the public reference rooms. In addition, such documents are available to the public free of charge at the SEC's web site at <http://www.sec.gov>. Reports, documents and other information about WFC also can be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York.

Upon request, the Eighth Series B Credit Provider will provide at no cost to any person to whom this Official Statement is delivered copies of the most recent WFC Annual Report, the publicly available portion of the most recent Call Report that the Eighth Series B Credit Provider has filed with the FDIC and WFC's most recent periodic reports under the Securities Exchange Act of 1934 on Form 10-K and Form 10-Q and any Current Report on Form 8-K subsequent to its most recent report on Form 10-K. Copies of these documents may be requested by writing to or telephoning the Bank at the following address and telephone number: Investor Relations, 301 South College Street, Charlotte, NC 28288-0206, (704) 374-6782.

The information contained in this section relates to and has been obtained from the Eighth Series B Credit Provider. The information concerning the Eighth Series B Credit Provider contained herein is furnished solely to provide limited introductory information regarding the Eighth Series B Credit Provider and does not purport to be comprehensive. Such information regarding the Eighth Series B Credit Provider is qualified in its entirety by the detailed information appearing in the documents referenced above.

The delivery hereof shall not create any implication that there has been no change in the affairs of the Bank since the date hereof, or that the information contained in this section is correct as of any time subsequent to its date.

THE EIGHTH SERIES B CREDIT FACILITY IS AN OBLIGATION OF THE EIGHTH SERIES B CREDIT PROVIDER AND IS NOT AN OBLIGATION OF WFC. NO BANKING OR OTHER AFFILIATE CONTROLLED BY WFC, EXCEPT THE EIGHTH SERIES B CREDIT PROVIDER, IS OBLIGATED TO MAKE PAYMENTS UNDER THE EIGHTH SERIES B CREDIT FACILITY.

SUMMARY OF CERTAIN PROVISIONS OF THE EIGHTH SERIES C CREDIT FACILITY AND THE EIGHTH SERIES C REIMBURSEMENT AGREEMENT

For the purpose of the discussion under this heading, the Eighth Series C Credit Facility includes any extension of the Eighth Series C Credit Facility, but does not include any Alternate Credit Facility or Alternate Liquidity Facility issued in lieu of the Eighth Series C Credit Facility.

Concurrently with the issuance of the Eighth Series C Bonds, the Eighth Series C Credit Provider will issue to the Fiscal Agent, the Eighth Series C Credit Facility in the stated amount of \$50,854,794.52 of which \$50,000,000 is available to pay principal or the portion of purchase price corresponding to principal of the Eighth Series C Bonds and \$854,794.52 is available to pay interest or the portion of purchase price representing interest on the Eighth Series C Bonds. The Eighth Series C Credit Facility will be in the amount sufficient to enable the Fiscal Agent to draw up to the amount required to pay (a) the principal of the Eighth Series C Bonds or the principal portion of the purchase price of the Eighth Series C Bonds tendered for purchase in accordance with the terms thereof and of the Bond Authorization, and (b) the interest on the Eighth Series C Bonds or the interest portion of the purchase price of Eighth Series C Bonds tendered for purchase in accordance with the terms thereof and of the Bond Authorization (provided that the amount available to pay interest under the Eighth Series C Credit Facility shall not exceed 52 days' interest on the Eighth Series C Bonds calculated at 12% per annum), when due, whether on an interest payment date, at maturity, or upon redemption or tender.

The Eighth Series C Credit Facility will terminate on August 19, 2011, or such later date to which the applicable Eighth Series C Credit Facility may be extended by the Eighth Series C Credit Provider in its sole discretion

(the "Expiration Date") unless sooner terminated as provided therein. The Expiration Date of the Eighth Series C Credit Facility may be extended beyond the Expiration Date then in effect only at the sole discretion of the Eighth Series C Credit Provider.

Each drawing honored by the Fiscal Agent under the Eighth Series C Credit Facility shall immediately reduce the principal component, and/or the interest component (as the case may be) of the amount available under the Eighth Series C Credit Facility by the amount of such drawing, and the aggregate amount available under the Eighth Series C Credit Facility shall be correspondingly reduced. In the case of a reduction resulting from a drawing to pay Eighth Series C Bond interest, the interest component shall be reinstated automatically as of the Eighth Series C Credit Provider's opening of business, on the fifth Business Day following the date of such payment by an amount equal to the amount of such drawing for interest, unless the Fiscal Agent shall have received notice from the Eighth Series C Credit Provider not later than the close of business on the fifth Business Day following the date of such payment to the effect that an event of default has occurred under the Eighth Series C Reimbursement Agreement and directing the Fiscal Agent to cause a mandatory purchase of the Eighth Series C Bonds, in which case such reinstatement shall not occur. The interest component may otherwise be reinstated as the Eighth Series C Credit Provider may from time to time notify the Fiscal Agent in writing.

The amount available under the Eighth Series C Credit Facility and the respective principal and interest components thereof shall also be reduced automatically upon receipt by the Eighth Series C Credit Provider from the Fiscal Agent of a certificate in the form prescribed by the Eighth Series C Credit Facility, each such reduction to be in the amount necessary to reduce the amount available under the Eighth Series C Credit Facility and the principal and interest components thereof to the respective amounts specified by the Fiscal Agent in such certificate.

The following is a summary of certain provisions of the Reimbursement, Credit and Security Agreement between the City and The Bank of Nova Scotia, acting through its New York Agency, as issuer of the Eighth Series C Credit Facility (the "Eighth Series C Reimbursement Agreement"). The full text of the Eighth Series C Reimbursement Agreement may be obtained from the Fiscal Agent. Capitalized terms used under this section but not defined herein have the meanings set forth in the Eighth Series C Reimbursement Agreement.

Certain provisions of the Eighth Series C Reimbursement Agreement are summarized below. These summaries do not purport to be complete or definitive and are qualified in their entirety by reference to the full terms of the Eighth Series C Reimbursement Agreement.

The City and the Eighth Series C Credit Provider have entered into the Reimbursement, Credit and Security Agreement pursuant to which the Eighth Series C Credit Provider will issue the Eighth Series C Credit Facility for the account of the City.

All amounts drawn by the Fiscal Agent under the Eighth Series C Credit Facility must be reimbursed by the City to the Eighth Series C Credit Provider in accordance with the terms of the Eighth Series C Reimbursement Agreement. The Eighth Series C Reimbursement Agreement can be amended at any time without the consent of the Fiscal Agent or the beneficial owners of the Eighth Series C Bonds.

The Eighth Series C Reimbursement Agreement sets forth various representations, warranties and covenants of the City, including, without limitation, representations, warranties and covenants relating to maintenance of existence, compliance with laws, maintenance of insurance, compliance with contracts, maintenance of properties and reporting requirements.

The Eighth Series C Reimbursement Agreement also defines certain events of default thereunder, including generally, without limitation, the failure to pay to the Eighth Series C Credit Provider any reimbursement or other sum due under the Eighth Series C Reimbursement Agreement, the failure to comply with covenants in the Eighth Series C Reimbursement Agreement, a default under certain indebtedness of the City, the breach of a representation or warranty, the occurrence of an event of default as defined in the bond documents, and an event of bankruptcy.

The Eighth Series C Reimbursement Agreement provides that if an event of default has occurred and is continuing uncured thereunder, the Eighth Series C Credit Provider may, in its sole discretion:

(a) notify the Fiscal Agent and the City of such event of default and give notice of termination of the Eighth Series C Credit Facility; direct the Fiscal Agent to declare an event of default and cause a mandatory tender of all of the Eighth Series C Bonds then outstanding and to draw on the Eighth Series C Credit Facility whereupon the Eighth Series C Credit Facility shall terminate in accordance with its terms; and

(b) exercise, or cause to be exercised, any and all rights and remedies available to it under the Eighth Series C Reimbursement Agreement, the Eighth Series C Bonds, the Bond Authorization, the 1998 General Ordinance, the Act, the Fiscal Agent Agreement or any other document, or at law or in equity.

THE EIGHTH SERIES C CREDIT PROVIDER

The Bank of Nova Scotia ("Scotiabank"), founded in 1832, is a Canadian chartered bank with its principal office located in Toronto, Ontario. Scotiabank is one of North America's premier financial institutions and Canada's most international bank. With over 67,000 employees, Scotiabank and its affiliates serve over 12 million customers throughout the world.

Scotiabank provides a full range of personal, commercial, corporate and investment banking services through its network of branches located in all Canadian provinces and territories. Outside Canada, Scotiabank has branches and offices in over 50 countries and provides a wide range of banking and related financial services, both directly and through subsidiary and associated banks, trust companies and other financial firms.

For the fiscal year ended October 31, 2008, Scotiabank recorded total assets of CDN\$507.6 billion (US\$417.3 billion) and total deposits of CDN\$346.6 billion (US\$284.9 billion). Net income for the fiscal year ended October 31, 2008 equaled CDN\$3.14 billion (US\$2.58 billion), compared to CDN\$4.05 billion (US\$3.33 billion) for the prior fiscal year. Amounts above are shown in Canadian dollars and also reflect the United States dollar equivalent as of October 31, 2008 (1.0000 United States dollar equals 1.2164 Canadian dollars).

For the quarter ended April 30, 2009, Scotiabank recorded total assets of CDN\$513.6 billion (US\$430.1 billion) and total deposits of CDN\$346.9 billion (US\$290.5 billion). Net income for the quarter ended April 30, 2009 equaled CDN\$821 million (US\$688 million), compared to CDN\$958 million (US\$802 million) for the same period the prior year. Amounts above are shown in Canadian dollars and also reflect the United States dollar equivalent as of Thursday, April 30, 2009 (1.0000 United States dollar equals 1.1940 Canadian dollars).

Scotiabank will provide to anyone, upon written request, a copy of its most recent annual report, as well as a copy of its most recent quarterly financial report. Requests should be directed to: The Bank of Nova Scotia, New York Agency, One Liberty Plaza, 26th Floor, New York, NY, 10006. Attention: Public Finance Department.

The information concerning Scotiabank contained in this section is furnished solely to provide limited introductory information regarding Scotiabank and does not purport to be comprehensive. Such information is qualified in its entirety by the detailed information appearing in the documents and financial statements referenced above.

The delivery of this disclosure information by Scotiabank shall not create any implication that there has been no change in the affairs of Scotiabank since the date hereof, or that the information contained or referred to in this disclosure information is correct as of any time subsequent to its date.

SUMMARY OF CERTAIN PROVISIONS OF THE EIGHTH SERIES D CREDIT FACILITY AND THE EIGHTH SERIES D REIMBURSEMENT AGREEMENT

For the purpose of the discussion under this heading, the Eighth Series D Credit Facility includes any extension of the Eighth Series D Credit Facility, but does not include any Alternate Credit Facility or Alternate Liquidity Facility issued in lieu of the Eighth Series D Credit Facility.

Concurrently with the issuance of the Eighth Series D Bonds, the Eighth Series D Credit Provider will issue to the Fiscal Agent, the Eighth Series D Credit Facility in the stated amount of \$50,854,794.52 of which \$50,000,000 is available to pay principal or the portion of purchase price corresponding to principal of the Eighth Series D Bonds and \$854,794.52 is available to pay interest or the portion of purchase price representing interest on the Eighth Series D Bonds. The Eighth Series D Credit Facility will be in the amount sufficient to enable the Fiscal Agent to draw up to the amount required to pay (a) the principal of the Eighth Series D Bonds or the principal portion of the purchase price of the Eighth Series D Bonds tendered for purchase in accordance with the terms thereof and of the Bond Authorization, and (b) the interest on the Eighth Series D Bonds or the interest portion of

the purchase price of Eighth Series D Bonds tendered for purchase in accordance with the terms thereof and of the Bond Authorization (provided that the amount available to pay interest under the Eighth Series D Credit Facility shall not exceed 52 days' interest on the Eighth Series D Bonds calculated at 12% per annum), when due, whether on an interest payment date, at maturity, or upon redemption or tender.

The Eighth Series D Credit Facility will terminate on August 19, 2011, or such later date to which the applicable Eighth Series D Credit Facility may be extended by the Eighth Series D Credit Provider in its sole discretion (the "Expiration Date") unless sooner terminated as provided therein. The Expiration Date of the Eighth Series D Credit Facility may be extended beyond the Expiration Date then in effect only at the sole discretion of the Eighth Series D Credit Provider.

Each drawing honored by the Fiscal Agent under the Eighth Series D Credit Facility shall immediately reduce the principal component, and/or the interest component (as the case may be) of the amount available under the Eighth Series D Credit Facility by the amount of such drawing, and the aggregate amount available under the Eighth Series D Credit Facility shall be correspondingly reduced. In the case of a reduction resulting from a drawing to pay Eighth Series D Bond interest, the interest component shall be reinstated automatically as of the Eighth Series D Credit Provider's opening of business, on the fifth Business Day following the date of such payment by an amount equal to the amount of such drawing for interest, unless the Fiscal Agent shall have received notice from the Eighth Series D Credit Provider not later than the close of business on the fifth Business Day following the date of such payment to the effect that an event of default has occurred under the Eighth Series D Reimbursement Agreement and directing the Fiscal Agent to cause a mandatory purchase of the Eighth Series D Bonds, in which case such reinstatement shall not occur. The interest component may otherwise be reinstated as the Eighth Series D Credit Provider may from time to time notify the Fiscal Agent in writing.

The amount available under the Eighth Series D Credit Facility and the respective principal and interest components thereof shall also be reduced automatically upon receipt by the Eighth Series D Credit Provider from the Fiscal Agent of a certificate in the form prescribed by the Eighth Series D Credit Facility, each such reduction to be in the amount necessary to reduce the amount available under the Eighth Series D Credit Facility and the principal and interest components thereof to the respective amounts specified by the Fiscal Agent in such certificate.

The following is a summary of certain provisions of the Reimbursement, Credit and Security Agreement between the City and Bank of America, N.A. as issuer of the Eighth Series D Credit Facility (the "Eighth Series D Reimbursement Agreement"). The full text of the Eighth Series D Reimbursement Agreement may be obtained from the Fiscal Agent. Capitalized terms used under this section but not defined herein have the meanings set forth in the Eighth Series D Reimbursement Agreement.

Certain provisions of the Eighth Series D Reimbursement Agreement are summarized below. These summaries do not purport to be complete or definitive and are qualified in their entirety by reference to the full terms of the Eighth Series D Reimbursement Agreement.

The City and the Eighth Series D Credit Provider have entered into the Reimbursement, Credit and Security Agreement pursuant to which the Eighth Series D Credit Provider will issue the Eighth Series D Credit Facility for the account of the City.

All amounts drawn by the Fiscal Agent under the Eighth Series D Credit Facility must be reimbursed by the City to the Eighth Series D Credit Provider in accordance with the terms of the Eighth Series D Reimbursement Agreement. The Eighth Series D Reimbursement Agreement can be amended at any time without the consent of the Fiscal Agent or the beneficial owners of the Eighth Series D Bonds.

The Eighth Series D Reimbursement Agreement sets forth various representations, warranties and covenants of the City, including, without limitation, representations, warranties and covenants relating to maintenance of existence, compliance with laws, maintenance of insurance, compliance with contracts, maintenance of properties and reporting requirements.

The Eighth Series D Reimbursement Agreement also defines certain events of default thereunder, including generally, without limitation, the failure to pay to the Eighth Series D Credit Provider any reimbursement or other sum due under the Eighth Series D Reimbursement Agreement, the failure to comply with covenants in the Eighth Series D Reimbursement Agreement, a default under certain indebtedness of the City, the breach of a representation or warranty, the occurrence of an event of default as defined in the bond documents, and an event of bankruptcy.

The Eighth Series D Reimbursement Agreement provides that if an event of default has occurred and is continuing uncured thereunder, the Eighth Series D Credit Provider may, in its sole discretion:

(a) notify the Fiscal Agent and the City of such event of default and give notice of termination of the Eighth Series D Credit Facility; direct the Fiscal Agent to declare an event of default and cause a mandatory tender of all of the Eighth Series D Bonds then outstanding and to draw on the Eighth Series D Credit Facility whereupon the Eighth Series D Credit Facility shall terminate in accordance with its terms; and

(b) exercise, or cause to be exercised, any and all rights and remedies available to it under the Eighth Series D Reimbursement Agreement, the Eighth Series D Bonds, the Bond Authorization, the 1998 General Ordinance, the Act, the Fiscal Agent Agreement or any other document, or at law or in equity.

THE EIGHTH SERIES D CREDIT PROVIDER

Bank of America, N.A. ("Bank of America") is a national banking association organized under the laws of the United States, with its principal executive offices located in Charlotte, North Carolina. Bank of America is a wholly-owned indirect subsidiary of Bank of America Corporation (the "Corporation") and is engaged in a general consumer banking, commercial banking and trust business, offering a wide range of commercial, corporate, international, financial market, retail and fiduciary banking services. As of June 30, 2009, Bank of America had consolidated assets of \$1.45 trillion, consolidated deposits of \$1 trillion and stockholder's equity of \$150 billion based on regulatory accounting principles.

The Corporation is a bank holding company and a financial holding company, with its principal executive offices located in Charlotte, North Carolina. Additional information regarding the Corporation is set forth in its Annual Report on Form 10-K for the fiscal year ended December 31, 2008, together with its subsequent periodic and current reports filed with the Securities and Exchange Commission.

Filings can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549, United States, at prescribed rates. In addition, the SEC maintains a website at <http://www.sec.gov>, which contains reports, proxy statements and other information regarding registrants that file such information electronically with the SEC.

The information concerning the Corporation and Bank of America is furnished solely to provide limited introductory information and does not purport to be comprehensive. Such information is qualified in its entirety by the detailed information appearing in the documents and financial statements referenced herein.

The Eighth Series D Credit Facility has been issued by the Bank of America. Moody's Investors Service, currently rates the Bank of America's long-term debt as "Aa3" and short-term debt as "P-1." The outlook is stable. Standard & Poor's currently rates the Bank of America's long-term debt as "A+" and its short-term debt as "A-1." The outlook is stable. Fitch Ratings, Inc. currently rates long-term debt of the Bank of America as "A+" and short-term debt as "F1+." The outlook is stable. Further information with respect to such ratings may be obtained from Moody's Investors Service, Standard & Poor's and Fitch Ratings, Inc, respectively. No assurances can be given that the current ratings of the Bank's instruments will be maintained.

The Bank of America will provide copies of the most recent Bank of America Corporation Annual Report on Form 10-K, any subsequent reports on Form 10-Q, and any required reports on Form 8-K (in each case as filed with the SEC pursuant to the Exchange Act), and the publicly available portions of the most recent quarterly Call Report of the Bank delivered to the Comptroller of the Currency, without charge, to each person to whom this document is delivered, on the written request of such person. Written requests should be directed to:

Bank of America Corporate Communications
100 North Tryon Street, 18th Floor
Charlotte, North Carolina 28255
Attention: Corporate Communication

PAYMENTS OF PRINCIPAL AND INTEREST ON THE EIGHTH SERIES D BONDS WILL BE MADE FROM DRAWINGS UNDER THE EIGHTH SERIES D CREDIT FACILITY. PAYMENTS OF THE

PURCHASE PRICE OF THE EIGHTH SERIES D BONDS WILL BE MADE FROM DRAWINGS UNDER THE EIGHTH SERIES D CREDIT FACILITY IF REMARKETING PROCEEDS ARE NOT AVAILABLE. ALTHOUGH THE EIGHTH SERIES D CREDIT FACILITY IS A BINDING OBLIGATION OF THE BANK OF AMERICA, THE EIGHTH SERIES D BONDS ARE NOT DEPOSITS OR OBLIGATIONS OF THE CORPORATION OR ANY OF ITS AFFILIATED BANKS AND ARE NOT GUARANTEED BY ANY OF THESE ENTITIES. THE EIGHTH SERIES D BONDS ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY AND ARE SUBJECT TO CERTAIN INVESTMENT RISKS, INCLUDING POSSIBLE LOSS OF THE PRINCIPAL AMOUNT INVESTED.

The delivery hereof shall not create any implication that there has been no change in the affairs of the Corporation or the Bank of America since the date hereof, or that the information contained or referred to in this section is correct as of any time subsequent to its date.

SUMMARY OF CERTAIN PROVISIONS OF THE EIGHTH SERIES E CREDIT FACILITY AND THE EIGHTH SERIES E REIMBURSEMENT AGREEMENT

For the purpose of the discussion under this heading, the Eighth Series E Credit Facility includes any extension of the Eighth Series E Credit Facility, but does not include any Alternate Credit Facility or Alternate Liquidity Facility issued in lieu of the Eighth Series E Credit Facility.

Concurrently with the issuance of the Eighth Series E Bonds, the Eighth Series E Credit Provider will issue to the Fiscal Agent, the Eighth Series E Credit Facility in the stated amount of \$50,854,794.52 of which \$50,000,000 is available to pay principal or the portion of purchase price corresponding to principal of the Eighth Series E Bonds and \$854,794.52 is available to pay interest or the portion of purchase price representing interest on the Eighth Series E Bonds. The Eighth Series E Credit Facility will be in the amount sufficient to enable the Fiscal Agent to draw up to the amount required to pay (a) the principal of the Eighth Series E Bonds or the principal portion of the purchase price of the Eighth Series E Bonds tendered for purchase in accordance with the terms thereof and of the Bond Authorization, and (b) the interest on the Eighth Series E Bonds or the interest portion of the purchase price of Eighth Series E Bonds tendered for purchase in accordance with the terms thereof and of the Bond Authorization (provided that the amount available to pay interest under the Eighth Series E Credit Facility shall not exceed 52 days' interest on the Eighth Series E Bonds calculated at 12% per annum), when due, whether on an interest payment date, at maturity, or upon redemption or tender.

The Eighth Series E Credit Facility will terminate on August 19, 2011, or such later date to which the applicable Eighth Series E Credit Facility may be extended by the Eighth Series E Credit Provider in its sole discretion (the "Expiration Date") unless sooner terminated as provided therein. The Expiration Date of the Eighth Series E Credit Facility may be extended beyond the Expiration Date then in effect only at the sole discretion of the Eighth Series E Credit Provider.

Each drawing honored by the Fiscal Agent under the Eighth Series E Credit Facility shall immediately reduce the principal component, and/or the interest component (as the case may be) of the amount available under the Eighth Series E Credit Facility by the amount of such drawing, and the aggregate amount available under the Eighth Series E Credit Facility shall be correspondingly reduced. In the case of a reduction resulting from a drawing to pay Eighth Series E Bond interest, the interest component shall be reinstated automatically as of the Eighth Series E Credit Provider's opening of business, on the fifth Business Day following the date of such payment by an amount equal to the amount of such drawing for interest, unless the Fiscal Agent shall have received notice from the Eighth Series E Credit Provider not later than the close of business on the fifth Business Day following the date of such payment to the effect that an event of default has occurred under the Eighth Series E Reimbursement Agreement and directing the Fiscal Agent to cause a mandatory purchase of the Eighth Series E Bonds, in which case such reinstatement shall not occur. The interest component may otherwise be reinstated as the Eighth Series E Credit Provider may from time to time notify the Fiscal Agent in writing.

The amount available under the Eighth Series E Credit Facility and the respective principal and interest components thereof shall also be reduced automatically upon receipt by the Eighth Series E Credit Provider from the Fiscal Agent of a certificate in the form prescribed by the Eighth Series E Credit Facility, each such reduction to be in the amount necessary to reduce the amount available under the Eighth Series E Credit Facility and the principal and interest components thereof to the respective amounts specified by the Fiscal Agent in such certificate.

The following is a summary of certain provisions of the Reimbursement, Credit and Security Agreement between the City and JPMorgan Chase Bank, National Association, as issuer of the Eighth Series E Credit Facility (the "Eighth Series E Reimbursement Agreement"). The full text of the Eighth Series E Reimbursement Agreement may be obtained from the Fiscal Agent. Capitalized terms used under this section but not defined herein have the meanings set forth in the Eighth Series E Reimbursement Agreement.

Certain provisions of the Eighth Series E Reimbursement Agreement are summarized below. These summaries do not purport to be complete or definitive and are qualified in their entirety by reference to the full terms of the Eighth Series E Reimbursement Agreement.

The City and the Eighth Series E Credit Provider have entered into the Reimbursement, Credit and Security Agreement pursuant to which the Eighth Series E Credit Provider will issue the Eighth Series E Credit Facility for the account of the City.

All amounts drawn by the Fiscal Agent under the Eighth Series E Credit Facility must be reimbursed by the City to the Eighth Series E Credit Provider in accordance with the terms of the Eighth Series E Reimbursement Agreement. The Eighth Series E Reimbursement Agreement can be amended at any time without the consent of the Fiscal Agent or the beneficial owners of the Eighth Series E Bonds.

The Eighth Series E Reimbursement Agreement sets forth various representations, warranties and covenants of the City, including, without limitation, representations, warranties and covenants relating to maintenance of existence, compliance with laws, maintenance of insurance, compliance with contracts, maintenance of properties and reporting requirements.

The Eighth Series E Reimbursement Agreement also defines certain events of default thereunder, including generally, without limitation, the failure to pay to the Eighth Series E Credit Provider any reimbursement or other sum due under the Eighth Series E Reimbursement Agreement, the failure to comply with covenants in the Eighth Series E Reimbursement Agreement, a default under certain indebtedness of the City, the breach of a representation or warranty, the occurrence of an event of default as defined in the bond documents, and an event of bankruptcy.

The Eighth Series E Reimbursement Agreement provides that if an event of default has occurred and is continuing uncured thereunder, the Eighth Series E Credit Provider may, in its sole discretion:

(a) notify the Fiscal Agent and the City of such event of default and give notice of termination of the Eighth Series E Credit Facility; direct the Fiscal Agent to declare an event of default and cause a mandatory tender of all of the Eighth Series E Bonds then outstanding and to draw on the Eighth Series E Credit Facility whereupon the Eighth Series E Credit Facility shall terminate in accordance with its terms; and

(b) exercise, or cause to be exercised, any and all rights and remedies available to it under the Eighth Series E Reimbursement Agreement, the Eighth Series E Bonds, the Bond Authorization, the 1998 General Ordinance, the Act, the Fiscal Agent Agreement or any other document, or at law or in equity.

THE EIGHTH SERIES E CREDIT PROVIDER

JPMorgan Chase Bank, National Association is a wholly owned bank subsidiary of JPMorgan Chase & Co., a Delaware corporation whose principal office is located in New York, New York. JPMorgan Chase Bank, National Association offers a wide range of banking services to its customers, both domestically and internationally. It is chartered and its business is subject to examination and regulation by the Office of the Comptroller of the Currency.

As of March 31st, 2009, JPMorgan Chase Bank, National Association, had total assets of \$1,688.2 billion, total net loans of \$595.9 billion, total deposits of \$978.8 billion, and total stockholder's equity of \$131.6 billion. These figures are extracted from the Eighth Series E Credit Provider's unaudited Consolidated Reports of Condition and Income (the "Call Report") as at March 31, 2009, prepared in accordance with regulatory instructions that do not in all cases follow U.S. generally accepted accounting principles, which are filed with the Federal Deposit Insurance Corporation. The Call Report, including any update to the above quarterly figures, can be found at www.fdic.gov.

Additional information, including the most recent annual report on Form 10-K for the year ended December 31, 2008, of JPMorgan Chase & Co., the 2008 Annual Report of JPMorgan Chase & Co., and additional annual, quarterly and current reports filed with or furnished to the Securities and Exchange Commission (the "SEC") by

JPMorgan Chase & Co., as they become available, may be obtained without charge by each person to whom this Official Statement is delivered upon the written request of any such person to the Office of the Secretary, JPMorgan Chase & Co., 270 Park Avenue, New York, New York 10017 or at the SEC's website at www.sec.gov.

The information contained in this Section relates to and has been obtained from the Eighth Series E Credit Provider. The delivery of the Official Statement shall not create any implication that there has been no change in the affairs of the Eighth Series E Credit Provider since the date hereof, or that the information contained or referred to in this Section is correct as of any time subsequent to its date.

ADDITIONAL BONDS

Additional 1975 Ordinance Bonds

The 1975 General Ordinance permits the issuance of additional 1975 Ordinance Bonds on a parity with other currently outstanding 1975 Ordinance Bonds. The 1998 General Ordinance limits the issuance of additional 1975 Ordinance Bonds, providing that they may only be issued to refund prior 1975 Ordinance Bonds. In order to issue 1975 Ordinance Bonds to refund prior 1975 Ordinance Bonds, among other requirements, it is necessary that a financial report of the chief fiscal officer of the City be provided which determines that, over the amortization period of the additional 1975 Ordinance Bonds, estimated Project Revenues will be sufficient to meet the 1975 Ordinance Rate Covenant.

Additional 1998 Ordinance Bonds

The 1998 General Ordinance permits the issuance of additional 1998 Ordinance Bonds which may be Senior 1998 Ordinance Bonds, on a parity with outstanding Senior 1998 Ordinance Bonds, including the Bonds, or Subordinate 1998 Ordinance Bonds. All 1998 Ordinance Bonds issued under the 1998 General Ordinance are subordinated to the 1975 Ordinance Bonds. In order to issue additional 1998 Ordinance Bonds, among other requirements, it is necessary that a financial report of the chief fiscal officer of the City be provided which determines that, over the amortization period of the additional 1998 Ordinance Bonds, estimated Gas Works Revenues will be sufficient to meet the 1998 Ordinance Rate Covenant.

Bond Anticipation Notes

The Act authorizes the City to issue revenue bond anticipation notes as well as Gas Works Revenue Bonds. Section 16 of the Act provides that the City may issue its revenue bond anticipation notes which shall be payable by exchange for, or out of the proceeds of the sale of, a designated series of revenue bonds referred to in the bond anticipation notes. The reference to the revenue bonds shall specify a maximum rate of interest to be borne by said bonds and may provide that said bonds shall be offered for sale, but if no proposals shall be received, the sole remedy of the Holders of the revenue bond anticipation notes shall be either to accept the bonds at the specified maximum interest rate, or to extend the maturity of the revenue bond anticipation notes for one or more specified additional periods of not less than six months during which additional offers of the bonds may be made. At the present time, there are no bond anticipation notes outstanding and the City has no present intention to issue revenue bond anticipation notes.

OTHER OUTSTANDING DEBT OBLIGATIONS

Short-Term Borrowings

Gas Works Notes. The City is authorized to issue, from time to time, bonds or notes (collectively, the "Gas Works Notes") pursuant to The City of Philadelphia Municipal Utility Inventory and Receivables Financing Act of the Commonwealth of Pennsylvania (the "Inventory and Receivables Financing Act") and the General Inventory and Receivables Gas Works Revenue Note Ordinance of 2005 (Bill No. 051138, approved December 22, 2005), as amended by an Ordinance (Bill No. 070047, duly adopted by City Council on March 1, 2007, and signed by the Mayor on March 15, 2007) (the "Amendment") (collectively, the "Note Ordinance") in amounts, as approved by the Mayor, the City Controller and the City Solicitor or any two of them (the "Committee"), in a principal amount not to exceed, in the aggregate, \$200,000,000 at any one time outstanding. Such amount can, in the future, be increased or

decreased by action of City Council. The proceeds of the Gas Works Notes may be used to finance or refund the costs of acquisition or funding of Inventory or Receivables (as such terms are defined in the Note Ordinance) of PGW or to refund Gas Works Notes. The Gas Works Notes are junior in priority of payment to the 1975 Ordinance Bonds and the Senior 1998 Ordinance Bonds and are on a parity with Subordinate 1998 Ordinance Bonds and payments due in respect of obligations on a parity with Subordinate 1998 Ordinance Bonds. The Note Ordinance provides that the final maturity date of Gas Works Notes shall be no later than the earlier of 270 days after their respective dates of issuance, 13 months from the date of initial issuance of any installment of any Gas Works Note under the Note Ordinance or August 31, 2010. As of June 30, 2009, there were no outstanding Gas Works Notes issued under the City's commercial paper program for PGW. Payment of the principal of and interest on all Gas Works Notes outstanding is secured by a letter of credit issued by JPMorgan Chase Bank, National Association, which expires on May 29, 2010. See APPENDIX B – "Independent Consultant's Engineering Report – Projected Revenue Requirements" and "– Adequacy of Projected Revenues to Meet Projected Revenue Requirements Under Ordinance Requirements."

The Note Ordinance requires establishment of a sinking fund for the benefit and security of the Holders of each series of the Gas Works Notes. The City covenants to deposit to the credit of the sinking fund for the Gas Works Notes from Gas Works Revenues such amounts as will, together with interest and profits earned and to be earned on investments held therein, be sufficient to pay, on or before each payment date of the Gas Works Notes, the amount required, after taking into account amounts paid from refunding Gas Works Notes and credit support instruments, to pay the Gas Works Notes then becoming due and payable.

Interfund Borrowing. It is PGW's practice to make interfund loans from various consolidated accounts of PGW for payment, as necessary, of PGW obligations, including debt service on bonds issued under the General Ordinances. PGW anticipates that it will reimburse such accounts as revenues are received by the end of each Fiscal Year during which such withdrawals were made.

City Loan

On November 27, 2000, the City and PGW, acting through PFMC, entered into a Loan Agreement pursuant to which the City agreed, subject to certain terms and conditions, to loan \$45,000,000 to PGW (the "City Loan"). The City Loan did not bear interest. Proceeds of the City Loan were deposited to the credit of a segregated account held by PGW and earnings on such account were transferred to the City. The City Loan was unsecured and was subordinated in priority of payment to the 1975 Ordinance Bonds, the Senior 1998 Ordinance Bonds, the Subordinated Bonds and the Gas Works Notes. On August 29, 2008 PGW satisfied the City Loan in full and the City Loan is no longer outstanding.

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DEBT SERVICE SCHEDULE FOR ALL OBLIGATIONS

Fiscal Year Ending August 31	1975 Ordinance Bonds		1975 & 1998 Ordinances		1998 Ordinance Bonds								Total Debt Service	Combined Total Debt Service				
	Existing Debt Service	Existing Debt	Existing Debt Service	Existing Debt	Principal Eighth Series A Bonds	Interest Eighth Series A Bonds	Principal Eighth Series B Bonds	Interest Eighth Series B Bonds ²	Principal Eighth Series C Bonds	Interest Eighth Series C Bonds ²	Principal Eighth Series D Bonds	Interest Eighth Series D Bonds ²			Principal Eighth Series E Bonds	Interest Eighth Series E Bonds ²		
2010	30,100,500	53,962,685	1,595,000	2,757,884.86	1,595,000	2,757,884.86	1,595,000	3,658,596.46	1,740,284.03	1,837,250.00	1,740,284.03	1,837,250.00	1,740,284.03	1,837,250.00	1,740,284.03	1,837,250.00	13,228,333.41	97,291,518.41
2011	30,690,793	51,690,655	1,635,000	2,847,750.00	1,635,000	2,847,750.00	1,635,000	3,858,225.00	1,837,250.00	1,837,250.00	1,837,250.00	1,837,250.00	1,837,250.00	1,837,250.00	1,837,250.00	1,837,250.00	13,852,725.00	96,234,173.00
2012	32,109,844	47,956,448	1,705,000	2,782,350.00	1,705,000	2,782,350.00	1,705,000	3,858,225.00	1,837,250.00	1,837,250.00	1,837,250.00	1,837,250.00	1,837,250.00	1,837,250.00	1,837,250.00	1,837,250.00	17,382,075.00	93,923,617.00
2013	30,520,781	43,435,275	5,315,000	2,697,100.00	5,315,000	2,697,100.00	5,315,000	3,858,225.00	1,837,250.00	1,837,250.00	1,837,250.00	1,837,250.00	1,837,250.00	1,837,250.00	1,837,250.00	1,837,250.00	21,931,325.00	91,338,131.00
2014	28,952,588	40,139,881	10,130,000	2,431,350.00	10,130,000	2,431,350.00	10,130,000	3,858,225.00	1,837,250.00	1,837,250.00	1,837,250.00	1,837,250.00	1,837,250.00	1,837,250.00	1,837,250.00	1,837,250.00	21,931,325.00	91,023,794.00
2015	27,261,263	37,422,594	13,770,000	1,924,850.00	13,770,000	1,924,850.00	13,770,000	3,858,225.00	1,837,250.00	1,837,250.00	1,837,250.00	1,837,250.00	1,837,250.00	1,837,250.00	1,837,250.00	1,837,250.00	25,064,825.00	89,748,682.00
2016	22,653,038	39,355,775	12,295,000	1,236,350.00	12,295,000	1,236,350.00	12,295,000	3,858,225.00	1,837,250.00	1,837,250.00	1,837,250.00	1,837,250.00	1,837,250.00	1,837,250.00	1,837,250.00	1,837,250.00	22,901,325.00	84,910,138.00
2017	21,125,125	38,611,025	11,840,000	621,600.00	11,840,000	621,600.00	11,840,000	3,858,225.00	1,837,250.00	1,837,250.00	1,837,250.00	1,837,250.00	1,837,250.00	1,837,250.00	1,837,250.00	1,837,250.00	23,541,575.00	83,277,725.00
2018	19,598,438	37,863,069	705,000	5,550,000	705,000	5,550,000	705,000	3,858,225.00	1,837,250.00	1,837,250.00	1,837,250.00	1,837,250.00	1,837,250.00	1,837,250.00	1,837,250.00	1,837,250.00	23,541,575.00	83,277,725.00
2019	18,069,869	37,121,031	6,070,000	3,628,385.02	6,070,000	3,628,385.02	6,070,000	3,858,225.00	1,837,250.00	1,837,250.00	1,837,250.00	1,837,250.00	1,837,250.00	1,837,250.00	1,837,250.00	1,837,250.00	22,792,141.04	80,253,648.04
2020	16,531,588	36,388,231	6,620,000	3,405,342.88	6,620,000	3,405,342.88	6,620,000	3,405,342.88	1,621,373.12	1,621,373.12	1,621,373.12	1,621,373.12	1,621,373.12	1,621,373.12	1,621,373.12	1,621,373.12	24,339,462.24	77,259,281.24
2021	15,006,281	35,638,888	7,185,000	3,162,090.98	7,185,000	3,162,090.98	7,185,000	3,162,090.98	1,505,626.38	1,505,626.38	1,505,626.38	1,505,626.38	1,505,626.38	1,505,626.38	1,505,626.38	1,505,626.38	25,123,970.12	75,769,139.12
2022	13,518,963	34,895,125	7,770,000	2,898,078.16	7,770,000	2,898,078.16	7,770,000	2,898,078.16	1,379,958.48	1,379,958.48	1,379,958.48	1,379,958.48	1,379,958.48	1,379,958.48	1,379,958.48	1,379,958.48	25,922,953.60	74,337,041.60
2023	12,733,125	34,154,875	8,390,000	2,612,569.50	8,390,000	2,612,569.50	8,390,000	2,612,569.50	1,243,818.26	1,243,818.26	1,243,818.26	1,243,818.26	1,243,818.26	1,243,818.26	1,243,818.26	1,243,818.26	26,704,024.28	73,592,024.28
2024	11,171,750	34,404,625	8,730,000	2,304,278.96	8,730,000	2,304,278.96	8,730,000	2,304,278.96	1,097,205.70	1,097,205.70	1,097,205.70	1,097,205.70	1,097,205.70	1,097,205.70	1,097,205.70	1,097,205.70	26,775,896.06	72,352,271.06
2025	4,159,000	33,714,875	9,395,000	1,983,495.10	9,395,000	1,983,495.10	9,395,000	1,983,495.10	944,713.96	944,713.96	944,713.96	944,713.96	944,713.96	944,713.96	944,713.96	944,713.96	27,637,636.98	65,511,511.98
2026	3,769,500	33,572,750	9,860,000	1,638,275.82	9,860,000	1,638,275.82	9,860,000	1,638,275.82	780,280.08	780,280.08	780,280.08	780,280.08	780,280.08	780,280.08	780,280.08	780,280.08	27,939,116.06	65,281,366.06
2027		31,666,125	11,065,000	1,275,970.12	11,065,000	1,275,970.12	11,065,000	1,275,970.12	607,578.58	607,578.58	607,578.58	607,578.58	607,578.58	607,578.58	607,578.58	607,578.58	29,958,705.86	61,624,830.86
2028		31,752,125	11,520,000	869,386.70	11,520,000	869,386.70	11,520,000	869,386.70	5,490,000	5,490,000	5,490,000	5,490,000	5,490,000	5,490,000	5,490,000	5,490,000	30,101,735.18	61,853,860.18
2029		31,830,500	5,670,000	446,084.30	5,670,000	446,084.30	5,670,000	446,084.30	2,700,000	2,700,000	2,700,000	2,700,000	2,700,000	2,700,000	2,700,000	2,700,000	14,853,242.60	46,683,742.60
2030		30,202,250	3,175,000	237,740.16	3,175,000	237,740.16	3,175,000	237,740.16	1,510,000	1,510,000	1,510,000	1,510,000	1,510,000	1,510,000	1,510,000	1,510,000	8,282,263.96	38,484,513.96
2031		30,198,625	30,198,625		30,198,625		30,198,625		57,689.66	57,689.66	57,689.66	57,689.66	57,689.66	57,689.66	57,689.66	57,689.66	8,299,143.76	38,497,768.76
2032		30,197,250	30,197,250		30,197,250		30,197,250										30,197,250.00	30,197,250.00
2033		21,800,125	21,800,125		21,800,125		21,800,125										21,800,125.00	21,800,125.00
2034		21,803,750	21,803,750		21,803,750		21,803,750										21,803,750.00	21,803,750.00
2035		43,121,375	43,121,375		43,121,375		43,121,375										43,121,375.00	43,121,375.00
2036		12,857,250	12,857,250		12,857,250		12,857,250										12,857,250.00	12,857,250.00
2037		12,855,250	12,855,250		12,855,250		12,855,250										12,855,250.00	12,855,250.00
2038		12,853,500	12,853,500		12,853,500		12,853,500										12,853,500.00	12,853,500.00
Total	337,972,446	981,465,932	58,285,000	17,299,234.86	58,285,000	17,299,234.86	105,000,000	59,077,263.72	28,131,645.43	28,131,645.43	50,000,000	28,131,645.43	50,000,000	28,131,645.43	28,131,645.43	57,689.66	474,056,434.87	1,793,494,812.87

¹ Net of Sixth Series Bonds

² Interest based on fixed rate of the Swap Agreement

REMEDIES OF BONDHOLDERS

Remedies under the Act and the 1975 General Ordinance available to Holders of the 1975 Ordinance Bonds and remedies under the Act and the 1998 General Ordinance available to Holders of 1998 Ordinance Bonds, including Holders of the Bonds, and to any trustee for Bondholders appointed by the Holders of 25% in principal amount of any series of bonds in default are described in the summaries contained in APPENDIX D hereto. In addition to the remedies described therein, Bondholders or a trustee therefor are entitled under the Pennsylvania Uniform Commercial Code to all remedies of secured parties in respect of the Project Revenues or Gas Works Revenues (as the case may be) and the funds on deposit in the respective Sinking Funds; including the respective Sinking Fund Reserves. The remedies of the Holders of 1998 Ordinance Bonds are subject to the prior lien of the Holders of 1975 Ordinance Bonds on Project Revenues. So long as DTC or its nominee is the Registered Owner, the remedies of Beneficial Owners are exercisable by means of written instructions given by them, as transmitted through the respective Participants, to DTC.

Limitation on Remedies of Bondholders

The ultimate enforcement of Bondholders' rights upon any default by the City in the performance of its obligations under the Act, the 1975 General Ordinance, the 1998 General Ordinance, the Ninth Supplemental Ordinance, the Bond Authorization and the Bonds will depend upon the application of remedies provided in the Act, the 1998 General Ordinance, the applicable Supplemental Ordinance and other applicable laws. Litigation may be necessary to obtain relief in accordance with these remedies. Such litigation may be protracted and costly. Remedies such as mandamus, specific performance or injunctive relief are equitable remedies that are subject to the discretion of the courts.

The following references to the United States Bankruptcy Code (the "Bankruptcy Code") and certain provisions of the Intergovernmental Cooperation Act (hereinafter defined) should not be construed as implying that the City has any expectation or plan to seek to invoke the provisions of such statutes or that if the City were to seek to invoke such provisions, that the consent of the Governor of Pennsylvania (the "Governor") would be obtained. Further, such references are not intended to imply that even if the City were to file for protection under the Bankruptcy Code, any proposed restructuring would include a dilution of the sources of payment of and security for the Bonds. The statutory provisions of the Bankruptcy Code pertaining to the City have not been subject to extensive interpretation by the courts and there can be no assurance that the following discussion accurately reflects the interpretation that a court might make.

Enforcement of Bondholders' rights may be limited by, and is subject to, the provisions of the Bankruptcy Code, as now or hereafter enacted, or to other laws or legal or equitable principles which may affect the enforcement of creditors' rights. The Intergovernmental Cooperation Authority Act for Cities of the First Class (53 P.S. § 12720.101 *et seq.*) (the "Intergovernmental Cooperation Act"), enacted in 1991, prohibits the City from filing a petition for relief under the Bankruptcy Code, 11 U.S.C. 901, *et seq.* ("Chapter 9"), as long as the authority created thereunder has outstanding any bonds issued pursuant to the Intergovernmental Cooperation Act. If no such bonds are outstanding, the Intergovernmental Cooperation Act requires written approval by the Governor of the City's petition and plan following a hearing, prior to a filing under Chapter 9 by the City. There are currently bonds outstanding that were issued under the Intergovernmental Cooperation Act, which bonds are scheduled to mature at various dates to and including the year 2023, subject to redemption prior to maturity. See "Background — The Pennsylvania Intergovernmental Cooperation Authority" in APPENDIX C. If the City were to obtain authorization from the Governor to file a petition under Chapter 9 of the Bankruptcy Code and in fact filed such a petition, the enforcement of Bondholders' rights and remedies might be limited.

The filing of a petition under Chapter 9 operates as an automatic stay of the commencement or continuation of any judicial or other proceeding against the debtor or its property. However, a petition filed under Chapter 9 does not operate as a stay of application of pledged special revenues to the payment of indebtedness secured by such revenues. Special revenues include receipts derived from the ownership or operation of systems that are used to provide utility services and the proceeds of borrowings to finance such systems and would include the pledged Project Revenues or Gas Works Revenues (as the case may be). The Bankruptcy Code further provides that special revenues acquired by the debtor after commencement of a Chapter 9 case shall remain subject to any lien resulting from any security agreement entered into by the debtor before the commencement. However, the lien on special

revenues derived from a system will be subject to the payment of the necessary operating expenses of that system. Therefore, Gas Works Revenues acquired by the City before and after the filing of a Chapter 9 petition will remain subject to the lien of the 1998 General Ordinance and the Ninth Supplemental Ordinance in favor of Holders of the Bonds, but will be subject to the payment of PGW's necessary operating expenses as determined by the City (and subject and subordinate to the pledge of Project Revenues under the 1975 General Ordinance for the security and payment of the 1975 Ordinance Bonds). These operating expense payments could be inconsistent with the requirement in the 1975 General Ordinance with respect to the 1975 Ordinance Bonds, that, under certain circumstances, at least 50% of the Project Revenues be deposited in the 1975 Ordinance Sinking Fund on a daily basis. If the pledged Project Revenues or Gas Works Revenues cannot support both the applicable debt service requirements and operating expenses of PGW, it is possible that payments to Holders of the Bonds may be reduced. The Bankruptcy Code also provides that a transfer of property of a debtor to or for the benefit of a bondholder, on account of such bond, may not be avoided as a preferential transfer.

Unless a debtor consents or the plan proposed under Chapter 9 provides, the bankruptcy court may not interfere with any of the property or revenues of a Chapter 9 debtor or with such debtor's use or enjoyment of any income producing property. Accordingly, if the City should decide to use the proceeds of the Bonds or the Project Revenues or the Gas Works Revenues (as the case may be) pledged for the benefit of the Bondholders other than to benefit the Gas Works, it is unclear whether a bankruptcy court would have the power to interfere with that decision. Even if a bankruptcy court had such power, the court, in the exercise of its equitable powers, could refuse to require the City to use the proceeds of the Bonds and the Project Revenues or the Gas Works Revenues (as the case may be) to pay Holders of the Bonds, could permit a subordination of the liens to new bonds if the former were found more than "adequately protected" or could avail itself of a broad range of equitable remedies.

Under the Bankruptcy Code, a debtor may file a plan for the adjustment of its debts which may include provisions modifying or altering the rights of creditors generally, or any class of them, secured or unsecured. The plan, when confirmed by the court, binds all creditors who had notice or knowledge of the case and discharges all claims against the debtor provided for in the plan, unless excepted from discharge by the plan. No plan may be confirmed unless certain conditions are met, among which are that the plan is in the best interests of creditors, is feasible and has been accepted by each class of claims impaired thereunder. Each class of claims has accepted the plan if the votes of at least two-thirds in dollar amount and more than one-half in number of the allowed claims of the class that are voted are cast in favor of the plan. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable and certain other tests are met. Thus, under the provisions of the Bankruptcy Code, a plan of adjustment could be imposed on the Bondholders that would give them less than their anticipated rate of interest on the Bonds or possibly even less than a *full return of their principal* and/or extend the time for payment of principal of or interest on the Bonds.

PHILADELPHIA GAS WORKS

General

PGW consists of real and personal property owned by the City and used for the acquisition, manufacture, storage, processing and distribution of natural gas in the City, and all property, books and records employed and maintained in connection with the operation, maintenance and administration of PGW. Included among such assets, in addition to an extensive distribution system, are facilities for the liquefaction, storage and vaporization of natural gas to supplement the natural gas supply from pipeline transmission companies and facilities for storage. Such facilities include two liquefied natural gas ("LNG") plants.

Of total billed gas revenues for the twelve month period ended August 31, 2008, approximately 72% were derived from residential customers, approximately 25% were derived from commercial and industrial customers and approximately 3% were derived from municipal and housing authority customers.

For an explanation of revenues and expenses, see "PGW BUDGET, RATES AND FINANCES," "MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION" and APPENDIX B. See also the table entitled "Historical Revenues and Debt Service Coverage" below for future debt service payments.

PGW Service Area, Gas Sales, and Accounts Receivable

PGW, the nation's largest municipally-owned gas utility, purchases, sells and distributes gas within the limits of the City. The City's boundaries enclose an urbanized area of 129 square miles in southeastern Pennsylvania along the Delaware River. Within these boundaries, PGW maintains a distribution system with approximately 3,024 miles of gas mains and approximately 466,814 service lines serving slightly more than a half million customers. The mix of sales to PGW's customers, net of transportation sales, during each of the five Fiscal Years ended August 31, is shown in the following table:

PERCENT OF GAS SALES FOR THE YEARS ENDED AUGUST 31*

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Residential	71.0	70.3	70.9	71.7	74.3
Commercial and Industrial	25.9	26.9	25.7	25.0	22.9
Municipal and Housing Authority	<u>3.1</u>	<u>2.8</u>	<u>3.4</u>	<u>3.3</u>	<u>2.8</u>
TOTAL	100.0	100.0	100.0	100.0	100.0

*This information was obtained from PGW's historical records.

Five Year Summary of Gas Sales

Total gas sales for PGW are comprised of sales to firm and interruptible customers. Firm customers receive gas service under various schedules which anticipate no interruptions in the delivery of natural gas. Firm service is sold to residential, commercial, and industrial customers, the Philadelphia Housing Authority and the City depending on the type of service required and represented 96.2% of total gas sales by volume in Fiscal Year 2008. Interruptible sales service is offered to customers under schedules or contracts which anticipate and permit interruptions on short notice, generally in peak-load periods. Interruptible gas service is sold to high volume commercial and industrial customers and represented 3.8% of total gas sales in Fiscal Year 2008.

Gas Sales in Fiscal Year 2008 totaled 47.3 Bcf a reduction of 3.3 Bcf from the 2007 period. Temperatures during the 2008 heating season were warmer than normal and consistent with the prior year resulting in 3,746 degree days a decrease of 27 degree days or 0.7% less than experienced during the previous fiscal year. Sales to firm customers of 45.5 Bcf were 2.4 Bcf lower than in Fiscal Year 2007. Associated interruptible revenues decreased by 15.1% to \$26,679,000 reflecting a decrease of 0.9 Bcf in sales.

Gas Sales in Fiscal Year 2007 totaled 50.6 Bcf an increase of 1.9 Bcf from the 2006 period. Temperatures during the 2007 heating season were warmer than normal and slightly warmer than the prior year resulting in 3,773 degree days a decrease of 46 degree days or 1.2 % less than experienced the previous fiscal year. Sales to firm customers of 47.9 Bcf were 1.7 Bcf higher than in fiscal year 2006. Associated interruptible revenues decreased by 6.2% to \$31,439,000 reflecting a slight increase of 0.3 Bcf in sales.

Gas Sales in Fiscal Year 2006 totaled 48.7 Bcf, a reduction of 9.6 Bcf from the 2005 period. Temperatures during the 2006 heating season were warmer than normal and significantly warmer than the prior year resulting in 3,819 degree days, a decrease of 508 degree days or 11.7% less than experienced the previous fiscal year. Sales to firm customers of 46.2 Bcf were 7.6 Bcf less than in Fiscal Year 2005. Associated interruptible revenues decreased by 25.1% to \$33,509,000 reflecting a 2.1 Bcf or 46.2% decrease in sales.

Gas Sales in Fiscal Year 2005 totaled 58.3 Bcf, a reduction of 2.0 Bcf from the 2004 period. Temperatures during the 2005 heating season were warmer than normal but slightly colder than the prior year resulting in 4,327 degree days, an increase of 40 degree days or 1% greater than experienced in the previous fiscal period. Sales to firm customers of 53.8 Bcf were 2.4 Bcf less than in the Fiscal Year 2004. Associated interruptible revenues rose by 38.0% or \$12,274,000 to \$44,678,000 million reflecting a 0.4 Bcf or 9.9% increase in sales.

Gas Sales in Fiscal Year 2004 totaled 60.3 Bcf, a decline of 7.8 Bcf from the 2003 period. Temperatures during the 2004 heating season were warmer than normal and significantly warmer than the previous year resulting in 4,287 degree days, a reduction of 507 degree days or 10.6% less than experienced in the prior fiscal period. Sales to firm customers of 56.2 Bcf were 5.8 Bcf less than in the Fiscal Year 2003. Associated interruptible revenues decreased by 17.7% or \$6,986,000 to \$32,404,000 reflecting a 2.0 Bcf or 32.7% decline in sales.

Natural Gas

In Fiscal Year 2008 natural gas costs decreased by \$27,358,000 or 5.1% from the prior year to a level of \$511,938,000 million. Natural Gas utilization requirements declined by 4.6 Bcf reflecting a migration of gas sales customers towards transportation gas. The reduced natural gas utilized volume resulted in a \$37,641,000 decrease compared to the 2007 Fiscal Year. Natural gas prices increased slightly, resulting in an increase of \$13,502,000, 2.7% or 25 cents per Mcf. Pipeline demand charges increased \$6,793,000 compared to Fiscal Year 2007. Pipeline refunds increased \$10,012,000 in Fiscal Year 2008 compared to Fiscal Year 2007 as a result of a large one time pipeline settlement.

In Fiscal Year 2007 natural gas costs decreased by \$85,781,000 or 13.7% from the prior year to a level of \$539,296,000. Natural gas utilization requirements rose by 3.0 Bcf despite a heating season very similar to the prior fiscal year. The additional utilized volume resulted in a \$30,573,000 increase compared to the 2006 Fiscal Year. Natural gas prices fell resulting in decrease of \$117,227,000, 19.7% or \$2.02 per Mcf. Pipeline demand charges increased \$700,000 while natural gas refunds received from pipeline supplier settlements decreased \$200,000.

In Fiscal Year 2006 natural gas costs increased dramatically by \$115,375,000 or 22.6% from the prior year to a level of \$625,076,000. Gas utilization requirements declined by 9.9 Bcf reflecting a significantly warmer 2006 heating season, resulting in a \$66,072,000 decrease compared to the 2005 Fiscal Year. A significant rise in the cost of natural gas totaling \$195,578,000, 53.0% or \$3.55 per Mcf more than offset the reduced volume of gas utilized. Pipeline demand charges decreased by \$13,866,000. Pipeline refunds increased by \$200,000 from Fiscal Year 2005.

In Fiscal Year 2005, natural gas costs increased dramatically by \$58,833,000 or 13.0% from the prior year to a level of \$509,701,000. Sendout requirements declined by 3.6 Bcf reflecting continued customer conservation. The heating season was slightly colder than the Fiscal Year 2004 period, resulting in a \$20,211,000 decrease when compared to the 2004 Fiscal Year. Also, continued escalating prices for natural gas totaling \$73,347,000 per Mcf more than offset the lower volume of gas utilized for sendout. Pipeline demand charges increased by \$6,150,000, while the level of natural gas refunds received from pipeline supplier settlements rose by \$453,000 compared to the Fiscal Year 2004 period.

In Fiscal Year 2004, natural gas costs rose by \$23,436,000 or 5.5% from the previous year to a level of \$450,868,000. Sendout requirements declined by 7.4 Bcf, reflecting a warmer heating season compared to the much colder Fiscal Year 2003 winter period, resulting in a \$35,813,000 decrease compared to the 2003 Fiscal Year. In addition, a significant rise in the cost of natural gas totaling \$51,777,524, 15.7% or 75.5 cents per Mcf more than offset the reduced volume of gas utilized for sendout, while pipeline demand charges rose by \$1,915,000. The level of natural gas refunds received from pipeline supplier settlements declined to \$136,000, \$5,555,000 less than the prior year.

Accounts Receivable

Accounts receivable (net) of \$99,304,000 increased by \$10,686,000 or nearly 12.1% from August 31, 2007 to August 31, 2008, mainly due to firm transportation suppliers' billings and an increase in participation in the Customer Responsibility Program (CRP). The accumulated provision for uncollectible accounts totaling \$140,435,000 decreased by \$9,796,000 and should be satisfactory to cover uncollectible amounts in the estimated accounts receivable balance at August 31, 2008.

**ACCOUNTS RECEIVABLE, RESERVE FOR BAD DEBT EXPENSE; NET WRITE-OFF EXPENSES,
DELINQUENT CUSTOMERS AND REVENUE STATISTICS
(DOLLAR AMOUNTS IN THOUSANDS)**

FISCAL YEAR ENDED AUGUST 31

	Actual 2004	Actual 2005	Actual 2006	Actual 2007	Actual 2008
Billed Gas Revenues During the Year	\$786,406	\$846,729	\$899,174	\$868,586	\$842,287
Accounts Receivable	323,340	295,114	243,249	238,849	239,739
Reserve for Bad Debt	(230,216)	(207,480)	(168,889)	(150,231)	(140,435)
Net Accounts Receivable at 8/31	\$93,124	\$87,634	\$74,360	\$88,618	\$99,304
Reserve for Bad Debt as a Percentage of Accounts Receivable	71.2%	70.3%	69.4%	62.9%	58.6%
Net Write-Offs	\$69,332	\$93,160	\$78,732	\$58,658	\$46,796
Receivable as a Percentage of Billed Gas Revenues	41.1%	34.9%	27.1%	27.5%	28.5%
Bad Debt Expense:	\$71,000	\$70,424	\$40,132	\$40,000	\$37,000
As a Percentage of Billed Gas Revenues	9.0%	8.3%	4.5%	4.6%	4.4%
As a Percentage of Accounts Receivable	22.0%	23.9%	16.5%	16.7%	15.4%
Delinquent Customers at 8/31	167,576	165,479	162,202	149,721	147,010

PGW's most volatile and problematic expense item, outside of natural gas costs is bad debt expense and associated customer accounts receivable balances. Over the past five years, PGW has collected approximately 95% of annual customer billings. PGW's bad debt expense over the past five years has ranged from \$37,000,000 in Fiscal Year 2008 to \$71,000,000 in Fiscal Year 2004.

The substantial decreases over the five year period in bad debt expense were primarily due to the increased collection rate and timely write-off of accounts receivable balances. Enhancements and implementation of Act 201 changes to the billing system have given PGW full functionality to effectively manage its delinquent customer base.

PGW implemented a Collection Renewal Initiative ("CRI") in early Fiscal Year 2004. The CRI effort covers Customer Service operations involved in the collection of delinquent accounts receivable. The renewal effort is in response to increasing accounts receivable caused by higher natural gas prices during the winter heating seasons. Over the past two fiscal periods, PGW has increased its collection rate to 95.5 % in 2008 and 95.8% in 2007, respectively. With these collection initiatives in place, PGW believes that the worst of the billing related problems are in the past.

Management Agreement

PFMC has operated PGW pursuant to the Management Agreement since January 1, 1973. Under the Management Agreement, various aspects of PFMC's management of PGW are subject to review and approval by the Gas Commission and, where authorization of City Council is required, recommendation of the City's Director of Finance and/or the Gas Commission. The Gas Commission has various responsibilities for the oversight of the operations of PGW; the City's Director of Finance oversees certain financial practices of PGW; and the City's Law Department is the designated legal advisor to the Gas Commission and PGW. The Law Department has assigned

the representation of PGW to the Office of General Counsel of PGW. See "CITY GOVERNMENTAL OVERSIGHT — Gas Commission" and "PGW BUDGET, RATES AND FINANCES" for discussions of the Gas Commission.

The term of the Management Agreement commenced on January 1, 1973 for a period of two years. In the absence of notice of cancellation, the term is automatically extended for additional two year periods. The term is subject to cancellation by the City at any time, or upon the expiration of the two-year period, upon ninety days notice. No cancellation will be effective unless and until approved by resolution or ordinance of City Council.

Management

Under the Management Agreement, PFMC is responsible for providing executive management of PGW. The Management Agreement states that PFMC shall provide a chief executive officer, chief operating officer, chief financial officer and other personnel as deemed appropriate by PFMC. Certain PFMC personnel provided to PGW, including the chief executive officer, chief operating officer and the chief financial officer, are subject to the approval of the Gas Commission. PFMC's officers also serve as officers of PGW.

The following are brief biographical descriptions of the current PFMC/PGW Senior Officers:

Thomas E. Knudsen, President and Chief Executive Officer. Mr. Knudsen joined PGW as Interim Chief Financial Officer in March 2000. He served in that capacity until July 2001 when he was appointed Interim President and Chief Executive Officer. Mr. Knudsen was appointed to his present position by PFMC in June 2002. Prior to joining PGW, Mr. Knudsen was the founding partner of The Woodside Group, a management consulting firm located in Stamford, Connecticut specializing in utility economics and regulation. For over 25 years, Mr. Knudsen advised industrial, commercial and residential customers and groups, as well as regulatory commissions, regarding appropriate utility operations, budgeting, pricing and rate design issues. Mr. Knudsen's involvement with PGW dates from 1986, having served as a consultant to the Public Advocate in all rate and budget proceedings of PGW before the Gas Commission from 1986 until 2000. His prior experience includes management consulting with Touche Ross & Co. (now Deloitte & Touche), as Assistant to the Finance Administrator of the City of New York and the United States Navy Supply Corp. Mr. Knudsen received his Masters of Business Administration degree in Finance from Columbia University in 1968 and a Bachelor of Arts degree in Economics from Northwestern University in 1964. He also serves on the Energy Association of Pennsylvania's Board of Directors and has recently been reappointed to the American Gas Association's Board of Directors.

Craig E. White, Executive Vice President and Acting Chief Operating Officer. Mr. White was appointed Acting Chief Operating Officer in July 2001. He is responsible for Field Operations, Customer Service, Sales and Marketing, Corporate Preparedness, Information Services, and Gas Management issues. His previous positions at PGW include: Senior Vice President, Marketing and Supply Services; Vice President, Marketing and New Business Development; Manager, Gas Planning & Federal Regulatory Affairs; Administrator, Federal Regulatory Affairs; Federal Regulatory Specialist; Planning Analyst; Demand Analyst; and Accounting Specialist. Mr. White received his Bachelor of Science degree in Business Administration from Kutztown University in Kutztown, Pennsylvania, and Master of Business Administration degree in Financial Management from Drexel University. Mr. White has been a member of PGW's management team since January 1980. He also serves on the following: American Public Gas Association's Board, the American Gas Association's Leadership Council and the Energy Association of Pennsylvania's Executive Gas Board.

Joseph R. Bogdonavage, Senior Vice President – Finance. Mr. Bogdonavage was appointed Senior Vice President, Finance in November 2000. His responsibilities include the oversight of PGW's Operating & Capital Budget, Accounting & Reporting, and Treasury functions. Mr. Bogdonavage has over 36 years of diverse experience in the finance area of PGW. He previously held the positions of Director, Budget & Financial Forecasting; Manager, Budget & Financial Forecasting; Supervisor, Budget & Financial Forecasting; Accounting Assistant Supervisor; and Budget Analyst. Mr. Bogdonavage is a member of the American Gas Association's Financial and Administrative Committee and the Energy Association of Pennsylvania's Finance Committee. Mr. Bogdonavage received his Bachelor of Business Administration in Accounting in 1972 from Temple University.

Randall J. Gyory, Senior Vice President – Operations & Customer Affairs. Mr. Gyory was appointed Senior Vice President of Operations and Customer Affairs in August 2007. His responsibilities include overseeing the Distribution and Field Services Operations, Call Center Operations, Credit and Collections, Regulatory Compliance, Account Management, Bill Processing, Universal Service Programs, Customer Service Center Operations, Billing System operations and support. Prior to his current position, Mr. Gyory served as Vice President of Customer Affairs. He also managed PGW's Program Management Office and led a team of functional and business analysts in correcting and improving the billing system software issues associated with the transition from their legacy billing system to a client server system. In his twenty-nine years of experience at PGW, Mr. Gyory has spent the majority of his career in the Distribution Department where he held several positions in Maintenance, Construction and Engineering. Mr. Gyory received a Bachelor of Science degree in civil engineering from the University of Pittsburgh.

Thomas L. Kuczynski, Senior Vice President – Office of Business Transformation & Information Services. Mr. Kuczynski was appointed Senior Vice President of Business Transformation and Information Services in August 2007. Mr. Kuczynski rejoined PGW in February 2004 as Vice President - Information Services & CIO. He has over 30 years of experience in Information Technology including 18 years of prior experience at PGW. In his present position, Mr. Kuczynski is responsible for all aspects of the Office of Business Transformation and Information Services. He previously held the position of Director of Technology Strategic Planning for PG&E's National Energy Group ("NEG"). In this role, he was responsible for new technology research and development, strategy and architecture, business continuity planning, disaster recovery and security. Prior to joining NEG, Mr. Kuczynski spent one year at Delmarva Power where he provided IT Strategic Planning Services to the Energy Supply Group. Before Delmarva, Mr. Kuczynski spent 18 years at PGW where he led development efforts for PGW's customer information system, credit and collection, automated meter reading and distribution leak tracking. In 1993 Mr. Kuczynski was recognized by the American Gas Association with the Distribution Achievement Award for his efforts in designing and building PGW's first mobile field service system. Mr. Kuczynski is a graduate of La Salle College in Philadelphia, and the Executive MBA program at University of Maryland University College.

Abby L. Pozefsky, Esq., Senior Vice President – Administration and General Counsel. Ms. Pozefsky was appointed Senior Vice President and General Counsel in July 1998, and Senior Vice President, Administration and General Counsel in 2005. She manages the Human Resources, Organizational Development, Risk Management, Technical Compliance and Legal Departments. Ms. Pozefsky previously held the position of Chief Deputy City Solicitor of Regulatory Affairs for the City of Philadelphia Law Department, where she was also General Counsel for the Philadelphia Water Department and Airport. Having been licensed in four states, Ms. Pozefsky practiced law with a private law firm, a community legal services organization, and a state attorney general's office, and has taught on a university level. Ms. Pozefsky received her Bachelor of Arts degree from the University of Pennsylvania cum laude and a Juris Doctor degree from New York University Law School.

Cristina Coltro, Vice President – Customer Affairs. Ms. Coltro was appointed Vice President of Customer Affairs in 2007. Her responsibilities include overseeing the Call Center Operations, Credit and Collections, Regulatory Compliance, Commercial Resource Center, Account Management, Bill Processing, and Customer Service Center Operations. Prior to her current position, Ms. Coltro served as the Director of Regulatory Compliance, responsible for the Universal Services programs, Customer Review Unit, Dispute Resolution Unit, Program Management Office and Training Department. Ms. Coltro received her Bachelor of Science degree in Economics from Hunter College, New York, and a Master of Science degree in Energy and Environmental Management and Policy from the University of Pennsylvania. She also serves on the Utility Emergency Service funds (UESF) Board of Directors, and is a member of the Energy Association of Pennsylvania and the American Gas Association Customer Services committees.

Raquel N. Guzman, Esq., Vice President – Legal and Associate General Counsel. Ms. Guzman was appointed Vice President - Legal in August 2005 and Associate General Counsel in 2003. She, together with the General Counsel and Assistant General Counsel, is responsible for PGW's Legal Department. Prior to joining PGW's legal staff, Ms. Guzman was a Deputy City Solicitor for Regulatory Affairs for the City of Philadelphia and also practiced at a major Philadelphia law firm in its real estate department. She holds a Juris Doctor degree from the University of Pennsylvania Law School and an undergraduate degree from Harvard College.

Michael W. Handwerk, Vice President – Technical Compliance. Mr. Handwerk was appointed Vice President of Technical Compliance in September 2005. In this capacity, he is responsible for services to Operations involving regulatory compliance, chemical laboratory analyses and environmental related activities, as well as development and implementation of operational changes and best practices. Mr. Handwerk's previous position was Director, Operations Compliance & Technical Services. He has been with PGW since 1979. Mr. Handwerk is a member of the American Gas Association's Operations Safety Regulatory Action Committee (OSRAC) and the American Public Gas Association's Operations Committee. He is also a member of the Energy Association of Pennsylvania's Gas Transmission and Distribution Committee, and the American Chemical Society. Mr. Handwerk has a B.S. degree in Chemistry from Elizabethtown College, a B.A. degree in Corporate Management from Ursinus College, and a M.B.A. in Financial Management from Saint Joseph's University.

Steven P. Hershey, Vice President – Regulatory & External Affairs. Mr. Hershey joined PGW as Vice President, Community Initiatives in January 2004 and was appointed Vice President – Regulatory & External Affairs in January 2006. In his current position, Mr. Hershey's primary responsibility is working with the President and CEO and senior management regarding certain regulatory and stakeholder matters and developing initiatives to enhance PGW's regulatory and legislative goals as well as improving PGW's relationship with various stakeholders, including customers. Prior to joining PGW, Mr. Hershey was a partner in the law firm of Eckert, Seamans, Cherin & Mellott, LLC of Philadelphia, Pennsylvania. He represented clients in matters involving energy, telecommunications, and utility policy, implementation of competition, rate setting, conservation, customer service and economics. Prior to becoming a partner at Eckert, Seamans, Cherin & Mellott, LLC, Mr. Hershey was a Supervising Attorney for Community Legal Services of Philadelphia, Pennsylvania. While at CLS, Mr. Hershey served as Lead Attorney for the Public Advocate, representing the interests of residential customers of Philadelphia utilities from 1985 to 1998. Mr. Hershey's involvement with PGW dates back to approximately 1977 when he began representing PGW's residential customers. Mr. Hershey has more than 30 years of experience in the utility and energy field, including the practice of law. Mr. Hershey holds a B.A. degree from Hamilton College and a Juris Doctor degree from Georgetown University Law Center.

Paul A. Mondimore, Vice President – Field Operations. Mr. Mondimore was appointed Vice President, Field Operations in October 2002. He is responsible for PGW's Distribution and Field Services Departments. He previously held many positions at PGW in the Distribution Department since commencing employment in June 1981 including: Director, Distribution Department; Project Manager, Mobile Dispatch Project; General Supervisor; and Supervisor. Mr. Mondimore received his Bachelor of Science degree in Civil Engineering from Drexel University. He has been a member of the American Gas Association, AGA Best Practices Group and the Energy Association of Pennsylvania.

Douglas A. Moser, Vice President – Gas Management. Mr. Moser was appointed Vice President, Gas Management in October 2002. He is responsible for PGW's Gas Processing; Gas Supply, Transportation & Control; Gas Planning, Rates & Federal Regulatory; and Engineering & Facilities Departments. Since commencing employment in September 1979 at PGW, he has held the following positions: Senior Project Manager in the Strategic Planning Department; Manager, Gas Control and Manager, Gas Acquisition in the Gas Supply Department; and Engineering Assistant, Production Engineer, Supervisor, Gas Conditioning, and Operations Engineer in the Gas Processing Department. Mr. Moser received his Bachelor of Science degree in Chemical Engineering from Pennsylvania State University and his Master in Business Administration degree from Widener University.

Jo Ann Muniz, Vice President – Supply Chain. Ms. Muniz was appointed Vice President of Supply Chain in August 2007. She is responsible for PGW's Fleet Operations, Procurement and Materials Management Departments. Since commencing employment in July 1980 as an Engineering Assistant in Gas Supply, she has held many positions at PGW including: Fleet Engineer in Fleet Operations; Staff Engineer in the Engineering Department; and Internships in Field Services and Customer Affairs; Co-Project Manager of the Work Management and Mobile Project Team; Project Manager of Customer Service Training and Process Development; Director, Procurement and Contract Services and Director, Fleet Operations and Materials Management. She most recently held the position of Director, Support Services. She serves as Chair of the Energy Association of Pennsylvania's Materials and Procurement Management Committee. She holds a B.S. in Mechanical Engineering from Temple University and a M.S. in Electrical Engineering from Pennsylvania State University.

William C. Muntzer, Vice President – Human Resources. Mr. Muntzer was appointed Vice President, Human Resources in August 2008. Mr. Muntzer oversees the administration function of Human Resources and Labor Relations. He has approximately 27 years experience of utility management in Philadelphia, Pennsylvania. Areas of responsibility include project management, local, state and federal regulatory work, advocacy, information technology, planning, rate design, marketing and utility operations. Mr. Muntzer also has experience in the manufacturing sector: responsibilities included inventory control, planning, production scheduling and shipping. Recent accomplishments include several major utility initiatives including the implementation of the Pennsylvania Gas Choice Initiative, replacement of a city wide dispatching system for over 400 field employees, the refurbishment of a large meter testing facility, and oversight of a Management Audit conducted on behalf of the Pennsylvania Public Utility Commission. Mr. Muntzer earned his undergraduate and graduate degrees at LaSalle University's Business School.

Joseph A. Smith, Vice President – Marketing & Sales. Mr. Smith was appointed Vice President, Marketing & Sales in May 2005. Mr. Smith oversees the operations of Major Accounts, Sales and Customer Support and Business Development/Technical Services. He previously held the position of Director, Major Accounts; Manager, Major Accounts as well as other positions within the Marketing Department. In addition, he has held several positions in PGW's Field Operations Department. Mr. Smith received his Bachelors Degree in Business Administration in 2004. Mr. Smith has served as the President of the Association of Energy Engineers (AEE), in which he now serves as a Board member. He is currently a member of the American Public Gas Association's Marketing Committee and the American Society of Heating, Refrigeration and Air Conditioning Engineers (ASHRAE).

John P. Straub, Vice President – Corporate Preparedness. Mr. Straub was appointed Vice President of Corporate Preparedness (formerly known as Labor, Safety and Preparedness) in April 2003. He is responsible for matters including Safety, Security, Policies & Procedures, Business Continuity & Disaster Planning, and Occupational Health & Safety. Mr. Straub previously held the position of Vice President – Human Resources Department. Before coming to PGW in January 1999, Mr. Straub headed the Special Litigation Group for the City of Philadelphia's Law Department where he was responsible for the management and supervision of all employment law related matters and litigation involving the City of Philadelphia. Mr. Straub also previously worked as an Assistant District Attorney for the Philadelphia District Attorney's office. He holds a Juris Doctor degree from Temple University School of Law and is a graduate of Villanova University.

Lorraine S. Webb, Vice President - Organizational Development. Ms. Webb was appointed Vice President of Organizational Development in May 2005. She is responsible for Staffing, Performance Management, Succession Planning, EEO, Affirmative Action, Training and Development and the Leadership Development program. Ms. Webb previously held the position of Director of Strategic Planning and prior to that Director of Human Resources for PGW. Before joining PGW, Ms. Webb held various positions in the field of human resources. Previous positions included Manager of Human Resources, Affirmative Action Officer for Ciba Geigy (now Novartis), as well as Senior Career Transition Counselor for the Ayers Group of New York. Ms. Webb holds a B.A. degree from State University of New York-Binghamton. She is a member of SHRM.

Eloise N. Young, Vice President – Information Services & Chief Information Officer. Ms. Young was appointed Chief Information Officer of the Philadelphia Gas Works in August 2007. As CIO, Ms. Young is responsible for delivering information technology capabilities to PGW. Prior to this appointment, Ms. Young served in a number of positions in PGW's Information Services Department including Director of Technical Strategy and Support, Manager of Systems Services, System Administrator in both the Unix and CICS environments, DBA, and applications developer. Ms. Young received a Bachelor of Science degree in Information Technology from the University of Phoenix in 2003.

Joseph F. Golden, Jr., Controller. Mr. Golden was appointed Controller in March 2001. He is responsible for the treasury and accounting functions at PGW. Prior titles held by Mr. Golden at PGW include: Treasurer; Manager - Treasury Department; Senior Staff Accountant; and Staff Accountant. Mr. Golden started his career with PGW in August of 1986. Mr. Golden has prior work experience in public accounting, treasury accounting and cash management, and manufacturing. Mr. Golden holds a Bachelor of Science degree in Accounting from Villanova University, a Master of Business Administration degree from Drexel University, and a Juris Doctor degree, cum laude, from Temple University School of Law.

Management and Governance of the Gas Works

Thomas E. Knudsen was appointed as President and Chief Executive Officer in 2002. PGW's permanent management organization is outlined in the Independent Consultant's Engineering Report attached hereto as APPENDIX B. Governance includes (i) ownership of PGW property and establishment of legislation for the functioning of PGW by the City; (ii) approval by City Council of capital budgets and certain gas supply contracts for PGW; (iii) review and approval by the Gas Commission of personnel provided by PFMC and operating budgets, and recommendation by the Gas Commission to City Council of certain gas supply contracts, real estate matters and capital budgets; and (iv) provisions of executive management functions and directions for operation of PGW facilities by PFMC. PGW personnel are responsible for the day to day management of the construction, operation and maintenance of the gas system. Any changes in governance of PGW must be made pursuant to ordinances adopted by City Council.

Labor Relations

As of March 2009, PGW employed 1,718 people. Presently, approximately 71% of PGW's employees are represented by the Gas Works Employees' Union Local 686 ("Local 686"). Local 686 transferred affiliation from the Service Employees International Union ("SEIU") to the Utility Workers Union of America ("UWUA") in 2003. On October 17, 2006, a new two-year Collective Bargaining Agreement was ratified by the Gas Works Employees' Union, Local 686 and the UWUA. The two-year extension went into effect on May 19, 2008 and will be valid through May 15, 2010. The Collective Bargaining Agreement includes an incremental wage increase of 3.5% in May 2009.

Facilities

Gas Facilities. The principal PGW gas facilities include plants for the liquefaction, storage and/or vaporization of natural gas in the Richmond and Passyunk sections of the City. Located at these plants are two LNG facilities, a deactivated propane/air facility and two gas holders, one of which has been removed from service.

Gate Stations. Natural gas is received through nine city gate stations from two pipeline transmission companies, Spectra Energy ("Spectra") and Transcontinental Gas Pipe Line Corporation. The facilities at each of the city gate stations perform two basic functions, metering the flow of gas and controlling the pressure delivered to PGW's distribution system. Dispatchers at the gas control center, located at PGW's operating offices at 1800 N. 9th Street, Philadelphia, monitor and control gas flow and pressure from the nine city gate stations to the high pressure distribution system. The gas control dispatchers also provide direction to the LNG production plant operators concerning startup, shutdown and gas flow output from the LNG facilities. Operations are facilitated through the use of a computer system which includes a backup unit and an auxiliary power supply.

Propane/Air Facility. The propane/air facility exists at the Passyunk location only. This facility has been idle since 1994 due to PGW removing this capacity from service. Its use is not anticipated in the current six-year gas supply projection.

Gas Holder Storage Facilities. The Richmond Plant has a low pressure gas holder. The Passyunk Plant holder has been removed from service. The Richmond holder has an operating capacity of 1,000 Mcf. It was installed in the manufactured gas era and is in working order. It is used to enhance operational flexibility of the Richmond LNG Plant.

LNG Facilities. There are two LNG facilities, the Richmond Plant and the Passyunk Plant. The smaller LNG storage and vaporization facility at the Passyunk Plant receives its liquefied gas supply from the larger Richmond Plant via cryogenic trailer trucks. The Passyunk LNG facility consists of one LNG storage tank of 3,066,000 gallons gross capacity (i.e., the equivalent of 253,300 thousand cubic feet ("Mcf") of natural gas) and two LNG vaporizers, each having a capacity of 45,000 Mcf per day resulting in 45,000 Mcf per day planned capacity and 45,000 Mcf per day reserve.

The Richmond LNG plant is one of the largest liquefaction facilities in the United States and also includes storage and vaporization facilities. A new liquefaction facility was completed and tested in March 2005, which replaced the original modified liquefaction facility which was subsequently moth balled. The new facility utilizes an open expander loop technology. It has a daily liquefaction capacity of 16,000 to 18,000 Mcf per day. This technology utilizes energy from the high transmission delivery pressure of the interstate pipeline system throughput to run the expander/compressors, significantly reducing fuel requirements. In addition, these facilities have the capability to liquefy natural gas year round providing greater operational flexibility. Further, this technology utilizes significantly fewer components than the older modified cascade facility and should result in lower operation and maintenance costs. The maximum capacity of the liquefaction facilities of 18,000 Mcf per day will not be available at all times during the summer months because the demand on the PGW system is not sufficient to create the throughput necessary to run at this capacity.

The vaporization and storage facilities at the Richmond Plant are not affected by the new liquefaction facilities. The two storage tanks at the Richmond Plant have a combined gross capacity of 48,970,000 gallons of LNG (4,045,800 Mcf). Regasification of the liquid natural gas is accomplished with six vaporizers having a total output of 411,000 Mcf per day plus 100,000 Mcf per day in reserve. The Richmond Plant also has facilities to receive LNG from and deliver LNG to cryogenic trailer trucks.

Distribution Facilities. The principal gas distribution facilities consist of approximately 3,024 miles of main, 466,814 service lines, 208 regulator stations, approximately 563,287 meters (of which approximately 519,890 are active) and miscellaneous valves, instruments and other appurtenances. PGW operates five different operating pressure systems; each system is connected to the others by control regulators. The high-pressure systems operate at approximately 110, 60 and 35 pounds per square inch gauge (psig); the intermediate pressure system operates at 5 psig; the low-pressure system operates between 6 and 9 inches of water column (approximately 0.25 pounds per square inch). The majority of customers are served from the low-pressure system.

Approximately 53% (by length) of the gas mains are cast iron, 33% are steel, 4% are ductile iron, and 10% are plastic. Of the steel mains, approximately 49% are wrapped, coated, and cathodically protected. Approximately 35% of the service lines are steel (of which 13% are protected) and 64% are plastic.

Other Facilities. PGW has its executive and operating offices located at 800 West Montgomery Avenue, which is a 150,000 square foot office building constructed in 1988. The former general office building, located at 1800 N. 9th Street, houses administrative operations in addition to distribution and field service dispatch centers, gas control dispatching, a customer information center, operating stations, a post office, duplicating center, radio repair shop, training facilities, parking facilities, telecommunication and warehousing, as well as information systems center and a metal fabrication shop. Additional facilities include six district offices, the Tioga station for Distribution crews, two LNG plants, and three operating stations for field service crews. There are also five other warehousing facilities, a meter shop, and an automotive maintenance and repair facility. The automotive maintenance and repair facility is responsible for the upkeep of PGW's fleet of approximately 694 vehicles 100 portable compressors and 42 trailers. PGW also maintains three minor automobile repair facilities, bulk fuel dispensing equipment, and materials and supplies.

Environmental Matters

PGW's operations and facilities are subject to federal, state and local environmental requirements, including the need to obtain certain permits and approvals. Because these requirements are subject to change, additional or different requirements may be imposed upon PGW in the future. No assurances can be given that PGW would be able to fully comply with any such change or requirement, or that compliance with such requirements would not materially increase PGW's capital or operating costs, or have a material adverse effect on Gas Works Revenues.

Like many providers of utility services throughout the northeastern United States, PGW has been in operation for more than 168 years, and many of its facilities were built decades ago. As a result of preliminary internal environmental evaluations of its facilities, PGW believes that several PGW facilities, which had been used in gas manufacturing, contain contaminants from those operations or from other sources. Additionally, certain equipment and fixtures that PGW removed from service years ago may no longer comply with current

environmental requirements. In order to address these issues, PGW and the City voluntarily approached the Pennsylvania Department of Environmental Protection ("PADEP") and proposed to resolve these issues under PADEP's Land Recycling and Environmental Remediation Standards (Act 2).

PGW has determined the extent to which it is necessary to remediate environmental conditions impacting its facilities through environmental site assessment studies that were conducted by an environmental consulting firm (the "Firm") on relevant properties in 2002, 2003 and 2004. In 2004, PGW received a set of five remedial investigation reports by the Firm that were based upon the findings of the environmental site assessment studies. Based on the reports developed by the Firm, PGW submitted Notice of Intent to Remediation ("NIR") Forms with copies of the five Firm reports to the PADEP for review at the end of 2004. In early 2005, PGW conducted a series of public meetings to inform the public of PGW's upcoming remediation projects, and also to address any specific concerns raised by local residents regarding PGW's future remediation plans.

PGW has developed a project schedule and budget to address and conduct any necessary remedial work for impacted PGW properties over the next five years. PGW expects that this will provide PGW with allocated resources in a manner calculated to avoid any material adverse effect on PGW or on PGW's revenues. Nevertheless, until the Project schedule work plans are finalized with the PADEP, it is not possible to determine with quantifiable certainty what the costs of several remediation projects will be. Preliminary indications are that PGW expenditures are estimated to be \$10,828,000 over the next six years. These estimates, which were calculated in accordance with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, may be subject to substantial revision. PGW has recorded a total environmental remediation liability of \$24,043,000 through FY 2040 at the end of fiscal year 2008 for these and all known estimated future environmental costs in accordance with GASB 49. The majority of these expenses are expected to be covered by amounts generated from settlements of PGW's environmental insurance policies.

Gas Supply and Federal Regulation

In 1992, the Federal Energy Regulatory Commission ("FERC") issued Order 636 which restructured the interstate pipeline industry to provide non-discriminatory, open-access to all transporters. All interstate pipelines regulated by the FERC were required to exit the gas supply business as a result of Order 636. The interstate pipelines were historically permitted by the FERC to pass through, on a dollar-for-dollar basis, all of their gas supply costs to the pipelines' customers. Therefore, the revenues of the pipelines pledged to their bonds remained unchanged by Order 636 simply because of the historical pass-through nature of the pipelines' gas supply costs.

In the restructured, unbundled marketplace resulting from Order 636, PGW had to contract individually for its gas supply, storage and transportation requirements on the pipelines. PGW now has in place firm year round and seasonal contracts for natural gas supply for its firm requirements. Further, PGW has contracted for natural gas storage services with four different pipelines operating storage facilities. This permits, among other things, the injection of summer supply and its storage and subsequent withdrawal to meet higher winter demands of its firm heating customers. Finally, PGW has contracted for firm transportation service with the two directly connected pipelines, as well as with the necessary upstream pipelines feeding these pipelines, to deliver all volumes purchased, together with those volumes withdrawn from storage.

The two interstate pipelines delivering natural gas to PGW have limited delivery capacity and cannot meet PGW's peak-day or winter season requirements. Therefore, PGW owns and operates supplemental LNG facilities to meet incremental demand in excess of flowing gas and underground storage supplies. PGW's supplies of natural gas and LNG are adequate to meet its projected demand under either normal or design (colder than normal) conditions in the future.

Competition

PGW is subject to the Natural Gas Choice and Competition Act No. 1999-21, PL. 122, 66 Pa. C.S. Section 2201 et seq. (the "Gas Choice Act"). Pursuant to the Gas Choice Act, customers have the option of choice among natural gas suppliers on and after September 1, 2003. See the section below titled "EFFECTS OF NATURAL GAS CHOICE AND COMPETITION ACT" for a full discussion of the Gas Choice Act's impact on competition. PGW competes to supply natural gas to interruptible customers who are capable of switching to

alternative fuels, including fuel oil, steam, propane and electricity. PGW also competes to supply natural gas to transportation customers who might seek to buy gas from a competitive natural gas supplier and use PGW's distribution system for transportation of that gas. PGW has negotiated contracts with such customers. In addition, PGW's rate schedules offer gas transportation service, on both a firm and interruptible basis, to potential customers. PGW also has Boiler and Power Plant Services ("BPS") and Load Balancing Service ("LBS") interruptible sales rates that permit discounts to compete with alternative fuels, provided that the rate per Mcf is not less than 110% of the monthly weighted average gas costs for gas sold under these rate schedules.

Insurance

PGW 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, PGW purchases insurance coverage where appropriate. PGW's real and personal property is insured against the risk of loss or damage in the amount of \$250,000,000, subject to a \$500,000 per accident deductible at the Richmond and Passyunk Plants and a \$100,000 deductible per accident at all other locations. PGW's property insurance includes coverage for damages incurred from a terrorist attack. In addition, PGW maintains boiler and machinery, blanket crime, and other forms of property insurance.

PGW maintains \$210,000,000 in liability (including terrorism) coverage insuring against the risk of damage or injury to the public with a \$1,000,000 deductible per occurrence.

PGW is a qualified self insured employer in the Commonwealth of Pennsylvania for workers' compensation. In addition, PGW maintains excess workers' compensation liability coverage up to \$35,000,000 with a \$500,000 per occurrence retention. Above that is another layer of coverage for statutory limits which means that regardless of the size of the loss, the policy will pay whatever PGW must pay. The excess liability coverage described above applies after the \$500,000 retention is exhausted. PGW is also qualified to self-insure its automobile liability in the Commonwealth.

PGW maintains Public Officials (Directors and Officers) liability coverage with a \$10,000,000 annual aggregate limit and a \$500,000 retention.

Pension Plan and Other Postemployment Benefits

Pension Plan. PGW maintains a noncontributory pension plan (the "Pension Plan") covering all eligible employees, which provides certain retirement benefits at age 65, or earlier in certain situations, and certain death and disability benefits. The Pension Plan currently has an unfunded actuarial accrued liability. In recent years, payments to beneficiaries under the Pension Plan have exceeded PGW's annual required pension contribution. The annual required contribution is determined using the most recent actuarial study of the Pension Plan. Based on the actuarial valuation completed in April, 2008, the Pension Plan had an estimated unfunded actuarial accrued liability of \$64.8 million at the end of Fiscal Year 2008. The unfunded actuarial accrued liability is presently being amortized over 20 years. In Fiscal Year 2008 PGW's annual required contribution to the Pension Plan was \$14.2 million, such contribution consisted of \$8.0 million of normal cost and \$6.2 million representing partial amortization of the unfunded balance of the Pension Plan assets. PGW's annual required contribution for Fiscal Year 2009 is projected to be and budgeted at \$14.4 million (consisting of \$8.1 million of normal cost and \$6.3 million representing partial amortization of the unfunded balance of Pension Plan assets). See APPENDIX A – "Notes to Financial Statements (10) Pension Costs."

Other Postemployment Benefits. PGW provides certain post-employment health care and life insurance benefits to approximately 1,920 and 1,935 participating retirees and their beneficiaries and dependents, respectively. PGW pays up to 100% of premiums for medical, hospital and prescription drug coverage for retirees and their participating dependents. PGW also pays a portion of the premiums for life insurance for each eligible retiree. Currently, PGW provides for the cost of health care and life insurance benefits for retirees and their beneficiaries and dependents on a pay-as-you-go basis. In Fiscal Year 2008, expenditures for such purposes were approximately \$18.3 million and are projected to be approximately \$20.9 million in Fiscal Year 2009.

PGW adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45 (GASB 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, as of September 1, 2006 and had a zero net Other Postemployment Benefits (OPEB) obligation at transition. PGW adopted the provisions of GASB 45 a year earlier than required by GASB because PGW is a component unit of the City of Philadelphia for financial reporting purposes, and its fiscal year 2007 financial statements were consolidated into the City's financial statements for the fiscal year ended June 30, 2008. The difference between the fiscal year 2008 annual required contribution (ARC) of \$44.1 million and the expenses paid by the company of \$18.3 million resulted in an additional liability of \$25.8 million, bringing the cumulative OPEB liability at the end of fiscal year 2008 to \$52.2 million, which is recorded in other liabilities and deferred credits.

PGW engaged actuarial consultants to provide an actuarial valuation of PGW's other postemployment benefits ("OPEB") obligations for current retirees and active employees as of August 31, 2007. The report, issued in September 2007, estimated that PGW's total OPEB actuarial accrued liability as of August 31, 2008 was \$591,599,000 (assuming a 5% discount rate) if PGW continued to provide for its OPEB obligations on a pay-as-you-go basis. The report further estimated that PGW's actuarial accrued liability would be reduced to \$380,000,000 (assuming an 8.25% discount rate) if PGW adopted a policy of funding its Annual Required Contribution ("ARC"). Based on these estimates, PGW's annual OPEB cost for the then current and estimated future retirees (taking into consideration projected increases in health care costs) was projected to increase from \$46,291,000 in 2008 (inclusive of the \$22,350,000 actually paid) to \$70,210,000 per annum over the ensuing approximate 18-year period on a pay-as-you-go basis and from \$39,000,000 (inclusive of the \$22,350,000 actually paid) in 2008 to \$49,767,000 per annum over the ensuing approximate 18-year period if PGW adopted a policy of funding its ARC based on a 20-year amortization of the unfunded actuarial accrued liability.

Litigation

In the ordinary course of their business operations, PGW and/or PFMC are from time to time sued or threatened with litigation. Most frequently such litigation alleges property damage or personal injury to third parties. However, other forms of litigation also arise from time to time. PGW is aware of no litigation pending or threatened in which a final adverse determination, singly or in the aggregate, would have a material adverse effect on PGW's operations or financial condition. PGW believes it has set aside sufficient reserves to meet liabilities arising out of litigation to the extent not covered by insurance. See "PHILADELPHIA GAS WORKS — Litigation Relating to the Gas Choice Act" below.

Effects of the Natural Gas Choice and Competition Act

In June 1999, the Legislature enacted and the Governor signed the Gas Choice Act, which amended the Public Utility Code by providing for the implementation of choice of suppliers of natural gas for all retail customers of gas distribution companies. The Gas Choice Act requires each natural gas utility under Pennsylvania Public Utility Commission ("PUC") jurisdiction (including PGW) to "unbundle" and establish separate charges for natural gas supply services and natural gas distribution services. It provided that each natural gas distribution utility will file a restructuring proceeding with the PUC and, in the context of that proceeding, the utility's tariff has been revised to reflect the unbundling referred to above and to implement customer choice. In addition, the Gas Choice Act provided that PGW be subject to regulation by the PUC effective July 1, 2000, and directed that PGW file for restructuring of the rates. PGW filed for restructuring on July 1, 2002. Most issues related to restructuring proceeding were resolved by September 1, 2003, and PGW customers have had the option of choice among natural gas suppliers effective September 1, 2003 as explained above in the section titled "PHILADELPHIA GAS WORKS — Competition." PGW will continue to be the supplier of last resort for retail customers who do not choose another gas supplier in most instances, unless, upon petition of PGW, the PUC approves an alternative supplier of last resort or, after July 1, 2004, the PUC approves a petition from a party to serve in that capacity for certain groups of customers. As of May 1, 2009, no party has petitioned the PUC to serve as an alternative supplier of last resort.

Notwithstanding the initiation of customer choice in gas suppliers, PGW's gas distribution business remains a regulated monopoly. After the initiation of gas choice, customers may purchase gas from other natural gas suppliers or choose to continue to buy natural gas from PGW. Whomever consumers choose as their supplier, all customers continue to receive their gas through PGW's distribution system of mains and pipes to homes and

businesses, and continue to pay a distribution charge to PGW for that service. PGW continues to provide gas to its customers that elect PGW as their supplier and to those who cannot obtain natural gas from an alternate supplier.

The structure of the unbundled services and the rates for each service are set forth in PGW's restructured tariff, which went into effect on September 1, 2003 (the "Restructuring Filing"). These unbundled rates are designed to realize the same level of margin revenues experienced by PGW prior to restructuring.

The Gas Choice Act contains provisions which are designed to (i) preserve the tax-exempt status of bonds or other obligations issued by the City for PGW, including the Bonds, (ii) preserve the ability of the City to comply with its covenants, including the City's covenants with respect to the imposition and collection of rates and charges, to the Holders of such bonds and other obligations, including the Bonds, and (iii) require rates be set for PGW utilizing the ratemaking methodology and requirements that were applicable to PGW's natural gas distribution operation prior to the assumption of jurisdiction by the PUC. The Gas Choice Act provides, among other things:

- As of July 1, 2000, PGW is regulated by the PUC and, except as otherwise provided in the Gas Choice Act, the provisions of the Public Utility Code apply to PGW and the PUC sets rates for PGW's customers.
- Notwithstanding customer choice in gas supplies, PGW gas distribution business will be regulated as a monopoly.
- In setting rates and notwithstanding any other provision of the Public Utility Code, the PUC must permit PGW to impose, charge and collect rates or charges as necessary to permit the City to comply with its covenants to the Holders of any Approved Bonds, as defined in the Gas Choice Act. All bonds issued by the City on behalf of PGW under the Act, including the Bonds, are Approved Bonds.
- The PUC is obligated to use the same rate-making methodology and requirements used by PGW until all Approved Bonds are repaid or defeased. The methodology employed by PGW is a "cash flow" method, not a "rate of return" method.
- The PUC is barred from requiring the City or PGW to take any action (or to omit taking any action) under the Public Utility Code if such action or omission would have the effect of causing the interest on any tax exempt bonds issued by the City, including the Bonds, to be includable in the gross income of the Holders of such bonds for federal income tax purposes.
- The Gas Choice Act permits, but does not require, the PUC to approve a senior citizen discount. On September 30, 2004, the PUC denied PGW's request to continue the senior discount program for post-September 1, 2003, applicants. Since September 1, 2003, the program is not available to new participants.
- Effective June 30, 2000, Gas Commission powers and duties were abrogated to the extent inconsistent with the Gas Choice Act.
- The City cannot be required to take any action under the Public Utility Code if the effect of the action is to cause a variance in the City's financial plan approved by the Pennsylvania Intergovernmental Cooperation Authority.
- The City's executive or legislative powers to "legislate or otherwise determine the powers, functions, budgets, activities and mission of PGW" are not abrogated or limited.

Senior Citizen Discount Program

The Senior Citizen Discount Program is a closed program. PGW currently has approximately 37,000 participants in its Senior Citizen Discount Program. All participants currently in the program were "grandfathered" in when the PUC discontinued it in September 2003. In 2004 there were approximately 70,000 "grandfathered" participants in the program. The senior citizen discount amounts to a 20% reduction on the participant's total gas bill each month.

Act 201 — "Responsible Utility Customer Protection Act"

In November 2004, the Pennsylvania Legislature passed and the Governor signed Act 201, entitled the "Responsible Utility Customer Protection Act." Under specified conditions, PGW may shut off service to delinquent customers during the winter and on Fridays. To shut off service to non-low-income customers during winter months, PGW is no longer required to first obtain PUC permission. PGW may now require customers whose service has been shut off to pay past due bills, arrange for a payment agreement, pay a reconnect fee, and/or pay a deposit before it restores service. Act 201 also permits PGW to hold any adult living in a home where service has been shut off accountable for all or part of an overdue balance before the adult can obtain service in his or her name.

Act 201 provides a number of other tools to help PGW collect payment. Under Act 201:

1. The time allowed to terminate service following shut-off notification was extended to 60 days.
2. Shut-off with notice is permitted if the customer does not pay a required deposit, does not follow through with payment arrangements or refuses to allow PGW access to its equipment.
3. Shut-off without notice is permitted for theft of service, obtaining service through fraud, tampering with a gas meter or unsafe service conditions.
4. Winter (December 1- March 31) termination is now permitted under specified conditions without PUC prior approval if the customer's household income exceeds 150 percent of the federal poverty level.

CITY GOVERNMENTAL OVERSIGHT

Gas Commission

The Management Agreement provides for a five member Gas Commission consisting of the City Controller, two members appointed by City Council and two members appointed by the Mayor, and vests in the Gas Commission the responsibility for overseeing the operation by PFMC of PGW. The City Controller holds office during his incumbency. The members appointed by the City Council and the Mayor each serve for terms of four years and hold office until their successors are appointed and qualified. The current members of the Gas Commission are listed below:

Marian B. Tasco, Chairwoman. Ms. Tasco represents the Ninth District in City Council where she also serves as Majority Leader. Councilwoman Tasco was appointed to the Gas Commission by City Council on August 2, 1992 and has served as Chairwoman since that time. She was reappointed to the Gas Commission by City Council on January 24, 2008 for a term ending January 7, 2012.

Alan L. Butkovitz. Mr. Butkovitz is the City Controller of the City. Mr. Butkovitz has served as Controller and a member of the Gas Commission since January 2, 2006. Mr. Butkovitz's current term expires on January 3, 2010. He has duly appointed Harvey M. Rice, First Deputy City Controller, and Robert Jaffe, Director of Legal Policy for the City Controller's Office, to serve as an Alternate Commissioner in his absence.

Carmen E. Adames. Ms. Adames is the President of Adames Professional Services, an accounting and business consulting firm primarily serving Hispanic-owned businesses. She is the past Treasurer and past President of the Philadelphia Hispanic Chamber of Commerce. She was appointed to the Gas Commission by Mayor Michael A. Nutter on March 26, 2008.

Royal E. Brown. Mr. Brown is the Vice President, Treasury Services for Independence Blue Cross. Mr. Brown was appointed to the Gas Commission by then Mayor Edward G. Rendell on August 8, 1996 and has served continuously since that time. He was reappointed to the Gas Commission by Mayor Michael A. Nutter on March 26, 2008.

Curtis Jones, Jr. Mr. Jones represents the Fourth District in City Council where he also serves as Chairman of the Committee on Transportation & Public Utilities. He was appointed to the Gas Commission by City Council on January 24, 2008 for a term ending January 7, 2012.

The Management Agreement grants the Gas Commission certain specified powers and duties and other powers not specifically granted to PFMC. The powers and duties granted to the Gas Commission include the fixing of PGW rates and charges (now the jurisdiction of the PUC), approval of personnel provided by PFMC, review of gas supply contracts for approval by City Council, approval of changes in tests and standards of gas quality and pressure, approval of PGW's operating budget, review of PGW's capital budgets and recommendations thereon to City Council, approval of certain loans (but not issuance of bonds), access to and review of all books, records and accounts of PGW, prescription of insurance requirements, promulgation of standards for procurement and disposal of material, supplies and services and approval of all real property acquisitions, sales and leases for further approval of City Council.

PGW BUDGET, RATES AND FINANCES

The revenues which PGW uses to pay debt service on its indebtedness and to fund its operations are derived primarily from the sale of gas distribution and related services to its customers. Rate and tariff charges for the sale of gas services are proposed by PGW based on, among other factors, anticipated revenues and expenses, required working capital, required debt service coverage and need for funds for capital expenditures.

Budget Approval

The Management Agreement requires PGW to prepare an annual operating budget and an operating forecast for the three years following the budget year. The operating budget and forecast are subject to the approval of the Gas Commission. PGW also prepares annually a proposed capital budget and a forecast for the five years following the budget year. The Gas Commission and the Director of Finance of the City review the capital budget and forecast and forward it, together with their recommendations, to City Council for its approval.

The Gas Commission holds public hearings on the budgets at which PGW and other interested parties are permitted to present evidence to support their positions. Community Legal Services, Inc. was appointed by the Gas Commission in 1988 to serve as Public Advocate and continues to represent residential customers in budget proceedings. The Gas Commission considers a number of factors before determining whether to accept, modify or reject the budgets proposed by PGW. Based on its findings, the Gas Commission issues an order regarding the operating budget. The capital budget and forecast are reviewed by the Director of Finance of the City and by the Gas Commission, and are forwarded to City Council for approval. The Gas Commission order regarding the operating budget and the City Council ordinance regarding the capital budget may direct PGW to reduce expenses in certain areas or increase spending on certain items or to undertake specific projects. This process remains unchanged after passage of the Gas Choice Act which provides that the City continues to determine PGW's budget function.

Rates and Charges

The rates charged by PGW for providing gas service are subject to various statutory provisions. The 1975 General Ordinance, the 1998 General Ordinance, the Note Ordinance and the Management Agreement, the complete text of which was authorized by ordinance, each contain a rate covenant. See APPENDIX D for further descriptions of the 1975 General Ordinance and the 1998 General Ordinance. PGW's rates are also subject to regulation under the Public Utility Code by virtue of the Gas Choice Act.

Section 2212(b) of the Public Utility Code transferred rate setting authority for PGW from the Gas Commission to PUC, effective July 1, 2000. Section 2212(e) of the Public Utility Code requires the PUC, notwithstanding any other Public Utility Code provision, to follow the "same ratemaking methodology and requirements" that were applied by the Gas Commission, when determining PGW's revenue requirements and overall rates and charges. The Gas Choice Act requires the PUC to follow that ratemaking methodology until all "approved bonds have been retired, redeemed, advance refunded or otherwise defeased." Approved Bonds are those

obligations issued in accordance with the Act or the Inventory and Receivables Financing Act and which were outstanding as of July 1, 2000, or which are issued on or after July 1, 2000, unless City Council declares such bonds not to be "approved." All 1975 Ordinance Bonds and 1998 Ordinance Bonds are Approved Bonds. As discussed below, the PUC, in its October 4, 2001 Order confirmed PGW's ratemaking methodology by stating; "That, in accordance with Section 2212(e) of the Gas Choice Act, we herein set rates for Philadelphia Gas Works in accordance with its previous ratemaking methodology and requirements. In this instance, Philadelphia Gas Works' previous ratemaking methodology, as contained in its Management Agreement and affirmed by the Pennsylvania courts, is the cash flow method."

As acknowledged by the PUC in its October 4, 2001 Order, the specific elements of PGW's "prior ratemaking methodology and requirements" are set forth in the Management Agreement. The Management Agreement directs the Gas Commission to fix rates and charges which, together with Project Revenues, will in each Fiscal Year produce revenues sufficient, at a minimum:

- (a) to pay all the operation and maintenance costs and expenses of PGW, including but not limited to, depreciation, employee retirement costs and a management fee to PFMC equal to the actual costs of PFMC in managing PGW, to pay expenses of the Gas Commission, to pay debt service (including sinking fund deposits) becoming due in such Fiscal Year on debt incurred for PGW and to meet applicable rate covenants and sinking fund reserve requirements;
- (b) to make annual payments to the City in the aggregate principal amount of \$18 million;
- (c) to provide appropriations for prepayment of debt reduction and capital additions not otherwise provided which are determined by the Gas Commission to be reasonable and which are approved by City Council; and
- (d) to provide cash or equivalent for working capital in such reasonable amounts as may be determined by PFMC and approved by the PUC.

The Management Agreement provides that, for purposes of complying with such rate requirements, the amount of operating expenses which do not represent an actual outflow of funds (e.g., depreciation) may be included in determining whether revenues are sufficient to meet other costs, expenses and requirements. Further, Section VII, 1(c) of the Management Agreement obligates rates to be set to comply with the covenants of PGW's bonds and commercial paper program.

Section 2212(e) of the Public Utility Code also states that, notwithstanding any other provision of the Public Utility Code, the PUC is required to set PGW's rates to permit the City to comply with its covenants to the Holders of any Approved Bonds. There are three bond covenants that are relevant with respect to establishing PGW's revenue requirement: a) a covenant that requires PGW to produce net revenues at least equal to 150% of the annual debt service obligation; b) a covenant that requires PGW and its owner, the City of Philadelphia, to charge rates that permit PGW to have sufficient cash to pay all of its third party obligations, including its debt service obligations, during each Fiscal Year in full when they are due; and c) a covenant that requires PGW and the City to continuously maintain and operate PGW's gas works system.

In regulating PGW, the PUC is further required by Section 2212(f) of the Public Utility Code to permit PGW to impose, charge and collect rates and charges as necessary to make its annual payment to the City as PGW's owner. Additionally, the PUC has stated in its September 21, 2001 Order, "Thus, we conclude that PGW's payment of \$18,000,000 to the City of Philadelphia should be included in its rates requested in this proceeding."

PGW recovers its costs through various mechanisms (discussed below) reflected in its tariff. Changes in the cost of raw materials, primarily natural gas costs, are reflected in rates embodied in a Gas Cost Rate ("GCR"). Discounts provided to low income customers and senior citizens are recovered in a separate Universal Service Charge. The remainder of PGW's costs, including debt service payments, operating expenses (other than costs covered in the GCR) and the annual payment to its owner, the City of Philadelphia, are recovered in PGW's base rates, either through monthly customer charges or volumetric charges.

PGW's base rates are set, in accordance with the Cash Flow method, to enable PGW to recover a normal level of expenses and annual obligations, together with an allowance for cash working capital or liquidity. In PGW's most recent rate proceedings, the PUC authorized rates that produced debt service coverages that complied with PGW's 1998 General Ordinance and 1975 General Ordinance requirements and produced revenues sufficient to provide coverage of all obligations including the Base Payment. Any resulting rate increase is then recovered by increases in the customer or volumetric charges of the various classes of customers taking service from PGW.

Gas Cost Rate

PGW's largest expense item is the cost of the natural gas delivered into its distribution system. Prior to industry restructuring mandated under FERC Order No. 636, the cost of bundled pipeline sales service was reviewed and approved by FERC.

Currently, changes in these costs are recovered on a dollar-for-dollar basis through the operation of the GCR as authorized by the PUC. PGW's tariff permits PGW to charge annual projected changes in natural gas costs in its GCR factor, after review and approval by the PUC. The GCR is designed to permit PGW, on an annual or quarterly basis, to adjust its gas cost charge to firm sales customers to approximate its actual cost of natural gas. PGW calculates its anticipated annual cost for natural gas and allocates that cost to its customers on a level basis for payment during the Fiscal Year. GCR collections are then matched against actual costs for the year to date, and the GCR is adjusted annually or quarterly if necessary, to credit or charge customers in the upcoming period for overpayment or underpayment of natural gas costs to date.

Base Rate Filings

Permanent Base Rates. Base rates for PGW are established, using the Cash Flow method, to produce a targeted amount of revenue for PGW based on various assumptions, such as normal weather conditions and a projected and normalized level of revenues, expenses, capital expenditures and required working capital and liquidity. Base rates in effect at any time cannot be modified by PGW except pursuant to a proposed rate filing by PGW for new base rates, and only to the extent such proposed modification is approved by the PUC for implementation on a going forward basis.

Prior to passage of the Gas Choice Act transferring rate setting authority for PGW from the Gas Commission to the PUC, PGW's last base rate increase was approved by the Gas Commission in December 1991 to generate an additional \$15,000,000 of annual revenue.

On January 5, 2001, PGW filed a proposal with the PUC to permanently increase its base rates by \$65,000,000 annually. By a PUC order entered on December 6, 2001, PGW was awarded total permanent rate relief of \$33,558,000, including \$11,000,000 of rate relief that the PUC had granted on an interim basis in November 2000.

On February 25, 2002, PGW filed a proposal with the PUC to permanently increase its base rates by an additional \$60,000,000 annually. Additional permanent base rate relief of \$36 million was approved by the PUC on August 8, 2002. This \$36,000,000 of base rate relief had initially been approved by the PUC on an interim basis by order entered April 12, 2002, as part of PGW's request for extraordinary rate relief. As a result, the \$36,000,000 was effective on April 16, 2002.

On December 22, 2006, PGW filed for a \$100,000,000 increase in base rates. PGW sought the rate increase primarily to cover the increase in non-gas operating expenses and interest expense since its 2002 rate case, provide sufficient funds available for debt service to meet its rate covenants under the 1975 General Ordinance and the 1998 General Ordinance, to provide for sufficient cash working capital and ensure, that in the long term, PGW has adequate liquidity when needed through internally generated funds without having to continually resort to borrowing funds externally for capital improvements. On September 13, 2007, the PUC granted PGW a \$25,000,000 increase in base rates, effective September 20, 2007. PGW appealed the PUC's order to the Commonwealth Court where it was affirmed by an opinion and order issued February 4, 2009. On May 4, 2009, PGW filed a petition for allowance of appeal of the Commonwealth Court decision with the Pennsylvania Supreme

Court. PGW alleged that, while the PUC professed to have utilized the specific cash flow ratemaking method mandated by Section 2212 of the Gas Choice Act, its actual application failed to adequately consider PGW's cash working capital and internal generation needs.

On November 14, 2008, PGW filed for extraordinary base rate relief of \$60,000,000, effective January 1, 2009. The request was granted December 19, 2008. PGW filed the request primarily with the intention of improving financial ratios to cover increased financing costs in the future and providing for the continuation of more reliable service. In granting the extraordinary relief, the PUC required PGW to file a permanent base rate case no later than December 31, 2009. The Office of Small Business Advocate filed a petition for reconsideration of the PUC's extraordinary rate order, challenging the allocation of the rate increase. The PUC dismissed the petition on March 26, 2009. The PUC imposed several conditions on PGW's receipt of extraordinary rate relief, all of which PGW has accepted: PGW was required to: (1) file its Business Transformation Initiative -Full Plan with the PUC for review, followed up by annual reports on its implementation and savings; (2) provide monthly reports of financial and operational performance, and the results of cost containment efforts; (3) submit a performance-based incentive compensation plan for all management employees for comment by the PUC; (4) submit, ninety (90) days in advance of negotiating its next employee collective bargaining agreement, a plan for improving performance and implementing efficiencies for hourly employees; (5) convene a collaborative process to explore options for transitioning default service supply customers to alternative suppliers; (6) take appropriate steps to seek repeal of the City of Philadelphia ordinance mandating the annual \$18 million payment to the City.

Weather Normalization. The Weather Normalization Adjustment Clause ("WNA") was approved by the PUC Order dated August 8, 2002. The purpose of the WNA is to neutralize the impact of weather on PGW's revenues. This allows PGW to achieve the recovery of appropriate costs as authorized by the PUC. The WNA results in neither a rate increase nor a rate decrease, but acts as a billing adjustment. The main benefits of the WNA are the stabilization of cash flow and the reduction of the need for short-term borrowing from year to year. The WNA is applied to customer invoices rendered during the period of October 1 through May 31 of each year for each billing cycle. The WNA will continue in place unless the PUC issues an order directing that it be discontinued.

Restructuring's Effect on PGW Rates

Consistent with the requirements of the Gas Choice Act, as of September 1, 2003, PGW has provided service pursuant to unbundled tariff terms and conditions of service. The principal changes that occurred were: 1) the rates of all PGW customers are separated into a distribution component and a natural gas commodity component; 2) as of September 1, 2003, all customers have the right to purchase natural gas from an alternative natural gas supplier, but are required to utilize PGW's distribution system to deliver the commodity to the customer's meter; 3) PGW will provide certain services to suppliers, for a tariffed charge, to facilitate the supplier's sale of natural gas to customers and the delivery of gas supply to PGW's city gate; and 4) PGW is the Supplier of Last Resort for all residential, small commercial and industrial and human needs customers who do not take service from an alternative natural gas supplier.

The rate unbundling and choice options available as of September 1, 2003 were designed by PGW to be revenue neutral such that PGW's earnings levels will not change as a result of restructuring.

PGW was also required as part of its restructuring filing, and has so filed with the PUC, a plan to come into compliance with all applicable PUC rules and regulations (i.e., PGW's Compliance Filing on September 1, 2003). The Gas Choice Act also establishes that any incremental costs that PGW incurs in complying with new regulatory requirements may be recovered in a non-bypassable surcharge to be embedded in PGW's base rates. As of September 1, 2003, PGW charged incremental restructuring costs in a Restructuring Surcharge which were charged to all firm customers on a non-bypassable basis and was reconcilable so as to result in dollar-for-dollar recovery. In 2007, the Restructuring Surcharge was removed from the tariff by PGW because the related costs were recovered or are being recovered elsewhere. Additionally, on September 30, 2004, the PUC denied PGW's request to continue the senior discount program for post-September 1, 2003 applicants and its appeal to the Commonwealth Court of Pennsylvania was denied. There are currently approximately 37,000 "grandfathered senior citizen discount participants." All current participants are "grandfathered" into the existing program and will continue to receive the 20% discount unless the program is modified or ended by the enactment of an ordinance by the City.

Capital Improvement Program

Net proceeds of revenue bond sales (other than sales of refunding bonds) are placed into restricted segregated accounts for the Capital Improvement Program and are requisitioned for expenditures as required for the Capital Improvement Program or to reimburse PGW for expenditures made in advance of issuance of bonds. For use of the proceeds of the Bonds, see "PLAN OF FINANCE AND ESTIMATED SOURCES AND USES OF FUNDS." PGW determines its capital improvement requirements from projected customer additions, pipeline gas availability, peak day gas requirements, enforced relocation due to highway and bridge construction and the need to maintain its plant and equipment in a safe, adequate and reliable manner. For further discussion of the Capital Improvement Program, see "FISCAL YEAR 2007 AND 2008 CAPITAL BUDGET AND FORECASTS" below and APPENDIX B — "Independent Consultant's Engineering Report."

The following table represents information regarding actual net capital expenditures for each of the five Fiscal Years 2004-2008 as well as unaudited information for the periods September 1, 2007 through March 31, 2008 and September 1, 2008 through March 31, 2009:

	PHILADELPHIA GAS WORKS CAPITAL EXPENDITURES*					PERIOD	
	(DOLLAR AMOUNTS IN THOUSANDS)					SEPTEMBER 1 THROUGH MARCH 31 (UNAUDITED)	
	(FISCAL YEAR ENDED AUGUST 31)					2008	2009
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>		
Gas Processing	\$ 9,843	\$ 5,008	\$ 3,615	\$ 3,332	\$ 2,515	\$ 1,429	\$ 1,024
Distribution	40,096	43,572	44,583	48,549	47,748	26,545	26,573
Field Services	3,266	5,288	5,221	6,621	5,813	2,976	3,028
Information Technology	1,304	1,928	1,819	1,228	1,139	543	257
Other	5,407	11,114	6,075	10,288	4,527	3,421	4,279
Departments ⁽¹⁾							
Total ⁽²⁾	<u>59,916</u>	<u>66,910</u>	<u>61,313</u>	<u>70,018</u>	<u>61,742</u>	<u>34,914</u>	<u>35,161</u>
Capital Fund	<u>(55,601)</u>	<u>(68,000)</u>	<u>(60,295)</u>	<u>(65,000)</u>	<u>(70,000)</u>	NA	NA
Drawdowns							
Other Funding	<u>4,315</u>	<u>(1,090)</u>	<u>1,018</u>	<u>5,018</u>	<u>(8,258)</u>	NA	NA
Sources (Uses) for Capital Expenditures							

* This information was obtained from PGW's historical records.

(1) Includes Approved and Budgeted Programs for Field Operations, Building Services, Customer Affairs and Systems Technology

(2) Net of reimbursements, contributions and salvage.

Other Funding Sources

PGW provides for a portion of capital costs to be funded through the use of, internally generated funds. Internally generated funds consist of net revenues after payment of City Charges. See "PGW BUDGET, RATES AND FINANCES — Debt Service Coverage Ratio." A decline in net revenues reduces internally generated funds and requires that the shortfall be funded from the issuance of bonds or other indebtedness or the incurrence of capital leases. In Fiscal Years 2004-2008, PGW provided \$1,000,000 of other funding sources of actual capital expenditures.

Fiscal Year 2008 and 2009 Operating Budgets

On May 29, 2008, PGW filed its fiscal 2009 Operating Budget. The PGC conducted informal discovery concerning the budget in July and August 2008 and public hearings in September 2008. The PGC authorized interim spending authority of \$88,140,000 for the period September 1, 2008 through December 31, 2008, pursuant to a Motion dated September 23, 2008. A final Order approving interim spending was approved by the PGC at its September 23, 2008 meeting. Briefs were filed on October 15, 2008, a Recommended Decision was received on October 27, 2008 and a final budget approval was granted by the PGC on December 2, 2008.

On July 13, 2007, PGW filed its fiscal year 2008 Operating Budget. The PGC conducted hearings concerning this budget in August 2007 and approved PGW's proposed operating revenues and expenses with net adjustments of \$4,197,000.

Fiscal Year 2008 and 2009 Capital Budgets and Forecasts

On January 2, 2009, PGW filed a proposed FY 2010 Capital Budget in the amount of \$74,407,000. On April 13, 2009, the PGC, after review and evaluation, approved a recommendation to City Council for a budget of \$72,215,000. An Ordinance approving this budget was approved by City Council on May 21, 2009; the Ordinance was signed by the Mayor on June 4, 2009.

During Fiscal Year 2009, PGW projects net capital expenditures of approximately \$50,459,000, with an additional \$381,339,000 forecasted for the five year forecast period. Approximately 83% of Fiscal Year 2009 capital expenditures are for Distribution, Field Services and Gas Processing Department projects.

On January 2, 2008, PGW filed a proposed fiscal year 2009 Capital Budget in the amount of \$73,436,000. After review and evaluation, the PGC on April 30, 2008 approved a recommendation to City Council for a budget of \$71,956,000. The PGC's recommendation was approved by City Council on June 19, 2008 and the ordinance signed by the Mayor on July 2, 2008.

On January 2, 2007, PGW filed with the Philadelphia Gas Commission ("PGC") its fiscal year 2008 Capital Budget requesting spending authority in the amount of \$118,243,000. This budget request was amended by PGW to reflect the deferral of two projects, construction of Phase II LNG Replacement and Implementation of Billing Collection Customer Service (BCCS) for a reduction of \$47,300,000. The PGC conducted hearings concerning this budget in February 2007. Briefs were filed on March 13, 2007. The Hearing Examiner issued a Recommended Decision on March 27, 2007 for consideration by the Commissioners further reducing the budget by \$295,000. The PGC's Resolution and Order recommending approval of the fiscal year 2008 Capital Budget to City Council was passed on April 25, 2007. This recommendation of \$70,648,000 was approved by City Council on June 15, 2007. The Mayor signed the Ordinance approving the fiscal year 2008 Capital Budget on September 20, 2007.

On September 27, 2007, PGW filed with the PGC a proposal to amend the approved fiscal year 2008 Capital Budget for two new line items totaling \$1,433,000. These line items were Supplemental Funding - Consolidate Fire Protection System - Richmond Plant for \$1,171,000 and Disaster Recovery for Richmond and Passyunk Plans for \$262,000. On October 23, 2007, PGW filed a proposal to further amend the budget by adding another new line item Partial Reauthorization - Customer Service Data Warehouse for \$169,000. Concurrently, PGW proposed a reduction of \$1,523,000 in fiscal year 2008 budget authorization to compensate for the additional funding requested. The PGC, after review and evaluation, recommended that City Council approve an amended budget for fiscal year 2008 in the amount of \$70,727,000. Subsequently, City Council approved the PGC's recommendation on March 6, 2008, with the Mayor signing the budget ordinance on March 12, 2008.

On April 21, 2008, the Philadelphia Facilities Management Corporation (PFMC) Board approved PGW's Request to file an amendment to the fiscal year 2008 budget in the amount of \$2,300,000 for funding to support the Risk-Based Collections and Field Operations projects. These projects are critical efforts in support of PGW's Business Transformation effort. The PGC, after review and evaluation, approved a recommendation to City Council supporting PGW's amendment on July 2, 2008. City Council approved the PGC's recommendation on October 23, 2008 and the Mayor signed the ordinance on November 5, 2008.

Over the six year forecast period, approximately 84% of PGW's capital expenditures are in Gas Processing, Distribution and Field Services. These expenditures will support new and replacement main and services and meter and regulator facilities, as well as projects to maintain PGW's gas processing facilities in proper condition.

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Selected Operating Data

The following data is based upon PGW's historical records.

	SELECTED OPERATING DATA FISCAL YEARS ENDED AUGUST 31					PERIOD SEPTEMBER 1 THROUGH MARCH 31 (UNAUDITED)	
	2004	2005	2006	2007	2008	2008	2009
Summary of Customers at End of Period							
Residential	471,941	470,758	459,842	479,553	478,716	489,888	491,184
Industrial and Commercial:							
Firm	26,243	25,990	25,718	25,970	25,919	26,341	26,353
Interruptible	470	397	312	105	68	198	167
Municipal and PHA	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>
Total Customers	<u>498,656</u>	<u>497,147</u>	<u>485,874</u>	<u>505,630</u>	<u>504,705</u>	<u>516,429</u>	<u>517,706</u>
Gas Sales By Classification (Mmcf)							
Residential:							
Heating	40,826	39,033	32,980	35,245	34,357	26,843	29,359
Non-Heating	1,951	1,955	1,521	1,040	802	703	514
Industrial and Commercial:							
Firm	11,543	11,156	10,104	10,491	10,202	7,518	8,078
Interruptible	4,103	4,510	2,426	2,704	1,791	1,587	1,009
Other	<u>1,796</u>	<u>1,573</u>	<u>1,755</u>	<u>1,580</u>	<u>1,833</u>	<u>3,856</u>	<u>3,888</u>
Total Gas Sales & Transport	<u>60,219</u>	<u>58,227</u>	<u>48,786</u>	<u>51,060</u>	<u>48,985</u>	<u>40,507</u>	<u>42,848</u>
Supply & Disposition of Gas (Mmcf)							
Natural Gas Purchased	64,244	65,695	53,886	55,905	53,380	36,379	36,190
Liquefied Natural Gas	<u>2,609</u>	<u>2,199</u>	<u>1,084</u>	<u>1,948</u>	<u>1,280</u>	<u>947</u>	<u>1,236</u>
Total Gas Supply	<u>66,853</u>	<u>67,894</u>	<u>54,970</u>	<u>57,853</u>	<u>54,660</u>	<u>37,326</u>	<u>37,426</u>
Deduct:							
Additions to (Withdrawals) from							
Gas Storage	290	2,457	(166)	(261)	1,088	(7,205)	(8,738)
PGW's Use and Other	<u>6,344</u>	<u>7,210</u>	<u>6,350</u>	<u>7,054</u>	<u>4,587</u>	<u>4,025</u>	<u>3,316</u>
Total Gas Sales	<u>60,219</u>	<u>58,227</u>	<u>48,786</u>	<u>51,060</u>	<u>48,985</u>	<u>40,506</u>	<u>42,848</u>
Average Monthly Usage of Residential Customers (Mcf):							
Heating	8.0	7.6	6.6	7.0	6.6	NA	NA
Non-Heating	2.6	2.7	2.7	1.9	1.7	NA	NA
Average Monthly Bill Of Residential Customers:							
Heating	\$104.57	\$110.68	\$139.66	\$136.70	\$131.01	NA	NA
Non-Heating	\$45.00	\$49.09	\$61.55	\$44.22	\$41.48	NA	NA
Degree Days							
Normal Degree Days	4,287	4,327	3,819	3,773	3,746	3,431	3,832
Normal Degree Days	4,555	4,555	4,555	4,525	4,510	4,095	4,031
Percentage of Normal Degree Days	94%	95%	84%	83%	83%	84%	95%

Maximum 24-Hour Sendout								
(Mcf)	620,413	591,133	490,923	589,588	533,349	533,349	574,126	
Peak-day Average Temperature	13	15	21	14	23	23	15	
(Degrees)								

Summary of Statements of Income and Expenses

Information for each of the Fiscal Years ended August 31 should be read in conjunction with and was derived from the audited financial statements and notes thereto.

(Dollar Amounts in Thousands)

	FISCAL YEARS ENDED AUGUST 31					PERIOD SEPTEMBER 1 THROUGH MARCH 31 (UNAUDITED)	
	2004	2005	2006	2007	2008	2008	2009
Operating Revenues							
Residential:							
Heating	\$534,406	\$565,533	\$593,797	\$587,648	\$588,536	\$431,468	\$502,301
Non-Heating	33,159	35,537	34,182	24,439	20,040		
Industrial and Commercial:						12,717	12,978
Firm	159,977	171,838	200,313	187,076	173,080	126,805	142,077
Interruptible	32,404	44,678	33,509	31,439	26,679	22,917	14,674
Gas Transportation	2,945	4,679	6,459	8,850	8,575	6,055	6,109
Other Gas Revenues (Municipal, Philadelphia Housing Authority ("PHA"), Unbilled Revenues and GCR Adjustment)	20,465	8,285	61,701	653	14,518	68,240	66,747
Appliance & Other	10,065	10,895	10,482	9,398	8,607	4,784	4,926
Total Gas Revenues	<u>793,421</u>	<u>841,445</u>	<u>940,443</u>	<u>849,503</u>	<u>840,035</u>	<u>672,986</u>	<u>749,812</u>
Other Operating Revenues	18,889	21,912	13,525	9,848	9,592	5,453	5,546
Total Operating Revenues	<u>812,310</u>	<u>863,357</u>	<u>953,968</u>	<u>859,351</u>	<u>849,627</u>	<u>678,439</u>	<u>755,358</u>
Operating Expenses							
Natural Gas & Raw Material	450,868	509,704	625,093	539,300	511,976	423,488	493,170
Gas Processing	17,284	18,584	15,234	16,240	14,436	7,971	9,367
Field Services	29,557	28,455	35,667	36,100	37,126	23,469	23,381
Distribution	15,778	15,115	15,179	17,119	17,319	9,907	11,306
Customer Activities	105,417	104,194	70,971	69,422	67,380	44,543	51,247
Administrative & General	64,670	60,995	59,484	83,240 ⁽²⁾	86,550 ⁽²⁾	46,397 ⁽²⁾	53,857 ⁽²⁾
Pensions	14,973	14,702	17,563	15,217	14,258	8,199	8,268
Taxes, other than income	6,638	6,218	6,124	6,730	5,677	2,860	3,925
Depreciation	33,966	35,045	34,725	36,380	39,524	22,871	22,076
Total Operating Expenses	<u>739,151</u>	<u>793,012</u>	<u>880,040</u>	<u>819,748</u>	<u>794,246</u>	<u>589,705</u>	<u>676,597</u>
Operating Income	73,159	70,345	73,928	39,603	55,381	88,734	78,761
Interest and Other Income	3,580	4,778	8,518	13,073	15,732	10,242	7,186
Income before Interest Expense	76,739	75,123	82,446	52,676	71,113	98,976	85,947
Interest Expense	59,580	63,851	65,687	68,780	68,006	40,263	40,970
Net Income (Loss) ⁽¹⁾	<u>\$17,159</u>	<u>\$11,272</u>	<u>\$16,759</u>	<u>(\$16,104)</u>	<u>\$3,107</u>	<u>\$58,713</u>	<u>\$44,977</u>

⁽¹⁾ Net Income (Loss) is before payment of the \$18,000,000 Base Payment portion of City Charges.

⁽²⁾ Includes Post Employment Benefits

Debt Service Coverage Ratio

The annual operating budget approved by the Gas Commission estimates the level of revenues required to reach at least the minimum debt service coverage ratio mandated by the 1975 General Ordinance and the 1998

General Ordinance. The following table presents historical revenue and debt service coverage calculated under the 1975 General Ordinance and the 1998 General Ordinance.

**HISTORICAL REVENUES AND DEBT SERVICE COVERAGE
(DOLLAR AMOUNTS IN THOUSANDS)**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Operating Revenues	\$812,310	\$863,357	\$953,968	\$859,351	\$849,627
Interest and Other Income	2,635	22,126	25,866	30,448	33,107
AFUDC (Interest)	<u>907</u>	<u>907</u>	<u>981</u>	<u>408</u>	<u>338</u>
Total Funds	815,852	886,390	980,815	890,207	883,072
Adjustments	<u>234</u>	<u>(3,109)</u>	<u>3,451</u>	<u>(6,650)</u>	<u>(11,851)</u>
Project Revenues	816,086	883,281	984,266	883,557	871,221
Operating Expenses	739,151	793,012	880,040	819,748	794,246
Less:					
Depreciation	38,868	39,547	37,955	39,708	42,868
Other Adjustments	<u>478</u>	<u>443</u>	<u>894</u>	<u>27,163⁽²⁾</u>	<u>26,655⁽²⁾</u>
Net Operating Expenses	699,805	753,022	841,191	752,877	724,723
Funds Available To Cover Debt Service	116,281	130,259	143,075	130,680	146,498
Debt Service Requirements:					
Revenue Bonds 1975	48,630	38,806	41,949	35,359	34,225
PMA/Capital Leasing	3,997	1,998	-	-	-
Revenue Bonds 1998	39,655	45,999 ⁽¹⁾	32,838 ⁽¹⁾	47,611	59,695
Subordinate Revenue Bonds 1998	1,988	1,987	1,986	1,987	1,986
Commercial Paper Notes	<u>2,085</u>	<u>2,864</u>	<u>5,968</u>	<u>8,098</u>	<u>4,099</u>
Total Debt Service	96,355	91,654	82,741	93,055	100,005
Net Funds Available for Other Purposes:	19,926	38,605	60,334	37,625	46,493
Debt Service Coverage:					
Senior Revenue Bonds 1975	2.39	3.36	3.41	3.70	4.28
Senior Revenue Bonds 1998	1.61	1.94	3.08	2.00	1.88
Subordinate Revenue Bonds 1998	12.07	21.87	34.38	24.01	26.47
Coverage of Debt Service & City Payment	1.01	1.18	1.41	1.17	1.23

⁽¹⁾ Capitalized Interest of \$2,283,000 and \$6,000,000 excluded from the 1998 Ordinance Coverage Calculation in Fiscal Year 2005 and 2006, respectively.

⁽²⁾ Other adjustments include non-cash Postemployment Benefits for Fiscal Year 2007 and 2008 totaling \$26,421,000 and \$25,834,000, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS RESULTS OF OPERATIONS AND FINANCIAL CONDITION FOR THE SEVEN MONTHS ENDED MARCH 31, 2009 AND 2008 (UNAUDITED)

The narrative overview and analysis of the financial statements of Philadelphia Gas Works for the seven months ended March 31, 2009 and 2008 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 audited financial statements as of and for the years ended August 31, 2008 and 2007 attached hereto in APPENDIX A.

Financial Highlights

- The seven-month period ended March 31, 2009 reflected a 4.9% warmer than normal winter. The seven-month period ending March 31, 2009 was 11.7% cooler than the prior comparative period and firm gas sales increased by 2.6 Billion cubic feet (Bcf). In addition, the Weather Normalization Adjustment (WNA), which was in effect from October 2008 through March 2009, resulted in heating customers receiving credits totaling \$1.7 million as a result of the temperatures experienced during the period. The period ended March 31, 2008 reflected a 15.7% warmer than normal winter. The seven-month period ended March 31, 2008 was 1.5% cooler than the same period the prior year and firm gas sales decreased by 1.4 Bcf. In addition, the Weather Normalization Adjustment (WNA), which was in effect from October 2007 through May 2008, resulted in heating customers receiving charges totaling \$10.8 million as a result of the temperatures experienced during the period.

- PGW achieved a collection rate of 93.3% during the rolling twelve months ended March 31, 2009, as compared to 97.6% for the comparable period ended March 31, 2008. The collection rate of 93.3% is calculated by dividing the total gas receipts collected in a rolling 12 month period by the total gas billings that were applied to PGW customers' accounts during the same period. The same methodology was utilized for the comparative period ended March 31, 2008.

Condensed Statements of Revenues and Expenses (Thousands of Dollars)

	Seven Months Ended March 31	
	2009	2008
Total gas revenues	\$749,812	\$672,986
Other revenues	<u>5,546</u>	<u>5,453</u>
Total operating revenues	755,358	678,439
Total operating expenses		<u>589,705</u>
	<u>676,597</u>	
Operating income	78,761	88,734
Interest and other income	7,186	10,242
Total interest expense	<u>(40,970)</u>	<u>(40,263)</u>
Excess (deficiency) of revenues over (under) expenses	<u>\$44,977</u>	<u>\$58,713</u>

Operating Revenues

Operating revenues for the period ended March 31, 2009 were \$755.4 million, an increase of \$76.9 million or 11.3% from same period ended March 31, 2008. The increase for the period ended March 31, 2009 was due to a colder heating season. Operating revenues for the period ended March 31, 2008 were \$678.4 million, an increase of \$7.2 million or 1.1% from the same period ended March 31, 2007.

Total sales volumes, including gas transportation deliveries, for the period ended March 31, 2009 increased by 4.7 Bcf to 58.3 Bcf or 8.8% from the same period ended March 31, 2008. For the period ended March 31, 2008 total sales volumes, including gas transportation deliveries, increased by 2.0 Bcf to 53.6 Bcf or 3.8% from the same period ended March 31, 2007.

The number of customers served by PGW as of March 31, 2009 and March 31, 2008 were approximately 518,000 and 516,000, respectively. Commercial accounts were approximately 26,000, reflecting no change from March 31, 2009 and March 31, 2008. Industrial accounts decreased by 4.6% from the prior period's level to 833. Residential customers increased to 491,000 customers, an increase of 1,200 from the prior year.

Operating Expenses

Total operating and maintenance expenses, including fuel costs, for the seven-period ended March 31, 2009 were \$654.5 million (net of depreciation), an increase of \$87.7 million or 15.5% from the same period ended March 31, 2008. The increase for the March 31, 2009 period is a result of increased utilization of natural gas as compared

to the same period ended March 31, 2008. Total expenses decreased by \$23.8 million or 4.0% for the period ended March 31, 2008 compared to the same period ended March 31, 2007. The decrease for the March 31, 2008 period reflects a small decrease in the commodity price of gas as well as decreased demand for Natural Gas.

Cost of Fuel – The cost of natural gas utilized increased by \$69.7 million or 16.5% to \$493.2 million for the seven-month period ended March 31, 2009 compared with \$423.5 million in the same period ended March 31, 2008. The average commodity price per Thousand cubic feet (Mcf) increased by \$1.22 or \$56.4 million, while the volume of gas utilized increased by 1.7 Bcf, 3.8% or \$13.7 million. Demand charges decreased by \$0.4 million, as compared to the comparative period ended March 31, 2008.

The cost of natural gas utilized decreased by \$16.5 million or 3.7% to \$423.5 million for the period ended March 31, 2008 compared with \$440.0 million for the same period ended March 31, 2007. The average commodity price per Mcf decreased by \$0.32 or \$14.1 million, while the volume of gas utilized decreased by 1.8 Bcf, or \$14.8 million. In addition, pipeline supplier refunds for the period decreased by \$0.3 million while demand charges increased by \$12.1 million, compared to the same period ended March 31, 2007. 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 current assets or 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 gas for the seven-month periods ended March 31, 2009 and 2008 were \$9.34 and \$8.12 per Mcf, respectively.

Other Operating Expenses – Expenditures for street operations, infrastructure improvements, and plant operations for the seven-month period ended March 31, 2009 totaled \$44.1 million compared to \$41.3 million for the comparative period ended March 31, 2008. This is a result of higher labor costs. In addition, the cost for customer services, collections, account management, marketing and the administrative area increased by \$5.0 million or 9.3% in the seven-month period ended March 31, 2009 primarily due to costs related to health care premiums, risk management claims, litigation and cost related to business transformation.

Provision for Uncollectible Accounts – The provision for uncollectible accounts for the seven-month period ended March 31, 2009 totaled \$33.7 million, an increase of \$6.2 million or 22.4% over the comparative period ended March 31, 2008, which totaled \$27.5 million, based on the most recent accounts receivable collectibility evaluation. The accumulated provision for uncollectible accounts at March 31, 2009 reflects a balance of \$146.1 million, compared to the \$151.5 million balance as of March 31, 2008. 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.

Condensed Balance Sheets
(Thousands of Dollars)

Assets	March 31	
	2009	2008
Utility plant, net	\$1,074,135	\$1,051,989
Restricted investment funds	223,486	308,118
Current assets:		
Accounts receivable (net of accumulated provision for uncollectible accounts of \$146,057 and \$151,539 for 2009 and 2008, respectively)	249,471	241,270
Other current assets and deferred debits, cash and cash equivalents, gas inventories, materials and supplies	<u>208,925</u>	<u>143,492</u>
Total current assets	458,396	384,762
Other assets and deferred debits	<u>101,086</u>	<u>98,548</u>
Total assets	<u>\$1,857,103</u>	<u>\$1,843,417</u>
Fund Equity and Liabilities		
Fund equity	\$ 260,885	\$ 271,514
Total long-term debt	1,123,805	1,223,857
Current liabilities:		
Note payable	148,000	89,300
Current portion of long-term debt	75,984	43,967
Other current liabilities and deferred credits	<u>149,924</u>	<u>151,181</u>
Total current liabilities	373,908	284,448
Other liabilities and deferred credits	<u>98,505</u>	<u>63,598</u>
Total fund equity and liabilities	<u>\$1,857,103</u>	<u>\$1,843,417</u>

Assets

Utility Plant – Utility plant, net of depreciation, totaled \$1,074.1 million as of March 31, 2009, an increase of \$22.1 million or 2.1% compared with the March 31, 2008 balance of \$1,052.0 million. Capital expenditures for construction of distribution facilities, purchase of equipment, information technology enhancements, and other general improvements were \$5.1 million for the seven-period ended March 31, 2009 compared to \$4.8 million for the period ended March 31, 2008. PGW funded capital expenditures through drawdowns from the Capital Improvement Fund in the amounts of \$0.0 million, and \$31.6 million at March 31, 2009 and March 31, 2008, respectively. The major capital expenditures are associated with PGW’s gas supply infrastructure, namely, gas mains and customer service lines.

Restricted Investment Funds – Restricted investment funds decreased by \$84.6 million as of March 31, 2009 from March 31, 2008 primarily due to drawdown from the Capital Improvement Fund offset by interest income. Interest income on these funds, to the extent not drawn, is reflected as an increase and approximated \$3.5 million for the period ended March 31, 2009 and \$4.1 million for the period ended March 31, 2008.

Accounts Receivable – At March 31, 2009 accounts receivable (net) totaled \$249.5 million, an increase of \$8.2 million, or 3.4% from March 31, 2008. Accounts receivable (net) of \$241.3 million increased by \$21.4 million, or 9.7% from March 31, 2007. The accumulated provision for uncollectible accounts, totaling \$146.1 million decreased by \$5.4 million for March 31, 2009 as compared to March 31, 2008. The accumulated provision for uncollectible accounts totaled \$151.5 million on March 31, 2008 and \$174.1 million on March 31, 2007.

Other Current Assets and Deferred Debits, Cash and Cash Equivalents, Gas Inventories, Materials, and Supplies – As of March 31, 2009 cash and cash equivalents were \$100.0 million, an increase of \$58.4 million from March 31, 2008. Gas storage increased by \$2.6 million or 3.2%. The increase in gas inventory reflects an increase in the gas cost per Mcf Materials and supplies of \$93.2 million, which principally include gas inventory, maintenance spare parts, and material, increased by \$1.7 million and were \$91.4 million at March 31, 2008 and \$83.9 million at March 31, 2007. Other current assets and deferred debits totaled \$15.8 million at March 31, 2009 up \$5.4 million from March 31, 2008. At March 31, 2008 other current assets and deferred debits totaled \$10.4 million, up \$2.0 million from March 31, 2007.

Other Assets and Deferred Debits – At March, 31 2009 other assets and deferred debits including unamortized bond issuance costs, unamortized loss on reacquired debt, and a deferred regulatory asset for environmental expenses totaled \$101.0 million. This represents an increase of \$2.5 million from March 31, 2008, mainly due to an increase in a deferred regulatory asset for environmental expenses related to the implementation of GASB 49 on September 1, 2007, offset partially by unamortized loss of reacquired debt.

Liabilities

Long-Term Debt – Long-term debt, including the current portion, and unamortized discount and premium in the amount of \$24.2 million, totaled \$1,199.8 million for the period ended March 31, 2009, \$68.0 million less than the previous period ended March 31, 2008, as a result of PGW paying off its \$45 million loan from the City and normal debt principal payments. This represents 82.1% of total capitalization in FY 2009.

Short-Term Debt – Due to the highly seasonal nature of PGW's business, short-term debt is utilized to meet working capital requirements. PGW, pursuant to the provisions of the City of Philadelphia Note Ordinance, may sell short-term notes in a principal amount, which together with interest, may not exceed \$200.0 million outstanding at any one time. The letter of credit supporting PGW's commercial paper program fixed the maximum level of outstanding notes plus interest at \$150.0 million in both FY 2009 and FY 2008. These notes are intended to provide additional working capital and are supported by an irrevocable letter of credit and a security interest in PGW's revenues. The notes outstanding at March 31, 2009 had a weighted average interest rate of 0.57% and a remaining weighted average time to maturity of 41 days. The principal amounts outstanding at March 31, 2009 and 2008 were \$148.0 million and \$89.3 million, respectively.

In addition, the City provided PGW with a \$45.0 million, 0.0% interest loan in FY 2001. In FY 2007, PGW paid \$2.0 million of the loan leaving an outstanding balance of \$43.0 million. In FY 2008, PGW paid \$20.5 million and \$22.5 million in December 2007 and August 2008, respectively to completely repay the remaining balance of the loan.

Accounts Payable – In the period ended March 31, 2009 accounts payable increased \$1.8 million or 2.7% compared with the period ended March 31, 2008. In the period ended March 31, 2008 accounts payable decreased \$5.4 million or 8.5% compared with the same period ended March 31, 2007 primarily due to a decrease in natural gas payables.

Other Liabilities and Deferred Credits – At March 31, 2009 other liabilities and deferred credits totaling \$98.5 million increased \$34.9 million compared to March 31, 2008. The increase in the period ended March 31, 2009 is the effect of recording the change in the liability for OPEB in the amount of \$25.7 million as of August 31, 2008, and an increase in the environmental remediation liability resulting from the implementation of GASB 49 during fiscal year 2008.

Other Financial Factors

Liquidity/Cash Flow – PGW had no commercial paper outstanding at June 30, 2009, resulting in the full availability of all \$150.0 million of the Commercial Paper Program. Additionally, PGW had \$102.6 million available in its Capital Improvement Fund to be utilized for construction expenditures. These funding sources may be utilized to provide liquidity. The Operating Fund cash balance at June 30, 2009 was \$16.9 million. Additionally,

the City has granted back PGW's annual \$18.0 million payment, in each of the last four fiscal years, thereby improving PGW's overall liquidity position.

PGW's total OPEB actuarial accrued liability as of March 31, 2009 was \$599.1 million if PGW continued to provide for its OPEB obligations on a pay-as-you-go basis. PGW's actuarial accrued liability would be reduced to \$405.6 million if PGW adopted a policy of funding its ARC. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of 30 years. The actuarial valuation utilized a discount rate of 8.25% for purposes of developing the liabilities and ARC to demonstrate the effect of funding the Plan. This rate is based on the investment return expected on investments segregated in a funded trust. The annual OPEB cost was \$27.4 million for the period ended March 31, 2009 and is projected to increase to \$43.5 million per year over the ensuing 20-year period on a pay-as-you-go basis. The annual OPEB cost was \$26.5 million for the period ended March 31, 2008.

In November 2008, PGW filed for an extraordinary or emergency base rate increase of approximately \$60.0 million or 5.2% and simultaneously requested an \$85.0 million or 7.4% decrease in the GCR for a net 2.2% overall rate decrease of approximately \$25.0 million. The proposed base rate increase will serve several purposes. First, the increase will cover the additional financing costs that PGW anticipates it will incur in the next few months. Second, the increase will improve PGW's financial position so as to enhance its ability to access the financial markets and maintain its bond rating. Third, the increase will provide additional liquidity and financial flexibility in this tight credit market. On December 18, 2008, the PUC issued its decision approving a base rate increase of \$60.0 million or 5.2% and a decrease in the GCR of \$107.0 million for a net decrease in rates of \$47.0 million or 4.2%. These rates are effective as of January 1, 2009.

PGW did not receive an extension or replacement of the current Liquidity Facility consisting of the Standby Bond Purchase Agreement; the Sixth Series Bonds were required to be purchased by the Fiscal Agent on the mandatory tender date of January 2, 2009. As of June 30, 2009, \$311.6 million of the Sixth Series Bonds are held by the providers of the Standby Bond Purchase Agreement as bank bonds. Per the terms of the Standby Bond Purchase Agreement, if the Standby Bond Purchase Agreement is not renewed, and no substitute liquidity facility is provided, any bank bonds held at that time will be amortized in ten payments payable in December and July for the next five years. Pursuant to the Standby Bond Purchase Agreement, the first amortization payment was due on August 3, 2009. The City received an extension on such payment until August 21, 2009. PGW recorded as current debt at June 30, 2009 one tenth of the outstanding Sixth Series Bonds as of June 30, 2009 (\$61.2 million.).

The fair value of the interest rate swap related to the Sixth Series Bonds as of June 30, 2009, including accrued interest, was negative \$33,430,598. This means that PGW would have to pay this amount to terminate the swap. Per the swap agreement, the refunding or defeasance of the Sixth Series Bonds, in whole or in part, without the prior written consent of both the counterparty and the insurer, may constitute an event of termination unless certain conditions are met. There is a termination risk related to the interest rate swap agreement if the credit ratings of the Swap Provider, on the one-hand, or PGW and Financial Security Assurance Inc. (the "Swap Insurer"), on the other hand, fall below certain designated ratings levels. If the Swap Provider's ratings fall below A3 or A- (Moody's/S&P), PGW may terminate the Swap unless the Swap Provider transfers the Swap to a new swap provider acceptable to PGW or provides credit enhancement or collateral in form and substance acceptable to PGW. The Swap Provider may terminate the swap if both PGW's bond rating falls below Baa2 or BBB (Moody's/S&P) and the Swap Insurer's credit rating falls below A2 and A (Moody's/S&P), and PGW fails to provide a Credit Support Provider acceptable to the Swap Provider or post collateral in form and substance acceptable to the Swap Provider. While PGW's current credit rating is below the designated levels, the Swap Insurer's rating is currently AAA and Aa3.

UNDERWRITING

Subject to the terms and conditions of the Purchase Agreement between the City and Wachovia Bank, National Association, a subsidiary of Wells Fargo & Company ("Wachovia"), the City has agreed to sell to Wachovia, and Wachovia, as underwriter for the Eighth Series B Bonds and the Eighth Series C Bonds, has agreed to purchase the Eighth Series B Bonds and the Eighth Series C Bonds, at a purchase price of \$154,760,653.37 (which is equal to the par amount of \$155,000,000, less the underwriter's discount of \$239,346.63). Wells Fargo

Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wachovia Bank, National Association.

Subject to the terms and conditions of the Purchase Agreement between the City and Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill"), the City has agreed to sell to Merrill and Merrill, as underwriter for the Eighth Series D Bonds, has agreed to purchase the Eighth Series D Bonds, at a purchase price of \$49,921,397.46 (which is equal to the par amount of \$50,000,000, less the underwriter's discount of \$78,602.54). Merrill, the Underwriter and Remarketing Agent on the Eighth Series D Bonds, and Bank of America, N.A, the letter of credit provider on the Eighth Series D Bonds, are both wholly-owned, indirect subsidiaries of Bank of America Corporation.

Subject to the terms and conditions of the Purchase Agreement between the City and J.P. Morgan Securities Inc., ("JP Morgan"), the City has agreed to sell to JPMorgan and JPMorgan, as underwriter for the Eighth Series E Bonds, has agreed to purchase the Eighth Series E Bonds, at a purchase price of \$49,918,762.23 (which is equal to the par amount of \$50,000,000, less the underwriter's discount of \$81,237.77).

The underwriters may offer and sell the Bonds to certain dealers and others (including sales for deposit into investment trusts, certain of which may be sponsored or managed by one or more of the underwriters) at prices lower than the public offering prices stated on the inside cover page hereof.

REMARKETING

Eighth Series B Bonds—Remarketing Agent

Wachovia Bank, National Association (the "Eighth Series B Remarketing Agent") has been appointed initially as exclusive remarketing agent for the Eighth Series B Bonds. Subject to certain conditions, upon the delivery or deemed delivery of Eighth Series B Bonds tendered for purchase by any owners thereof, the Eighth Series B Remarketing Agent will offer for sale and use its best efforts to remarket such tendered Bonds, any such remarketing to be made on the date such tendered Bonds are to be purchased, at a price equal to 100% of the principal amount thereof plus accrued interest, if any. The Eighth Series B Remarketing Agent may be removed or replaced by the City and may also resign in accordance with the provisions of the Bond Authorization and a Remarketing Agreement entered into between the City and the Eighth Series B Remarketing Agent (the "Eighth Series B Remarketing Agreement").

The Eighth Series B Remarketing Agent's responsibilities include determining the interest rate from time to time and remarketing the Eighth Series B Bonds that are optionally or mandatorily tendered by the owners thereof (subject, in each case, to the terms of the Bond Authorization and the Eighth Series B Remarketing Agreement), all as further described in this Official Statement. The Remarketing Agent is appointed by the City and is paid by the City for its services. As a result, the interests of the Remarketing Agent may differ from those of existing Holders and potential purchasers of the Eighth Series B Bonds.

The Eighth Series B Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, routinely purchases such obligations for its own account. The Eighth Series B Remarketing Agent is permitted, but not obligated, to purchase tendered Eighth Series B Bonds for its own account and, in its sole discretion, may routinely acquire such tendered Eighth Series B Bonds in order to achieve a successful remarketing of the Eighth Series B Bonds (i.e., because there otherwise are not enough buyers to purchase the Eighth Series B Bonds) or for other reasons. However, the Eighth Series B Remarketing Agent is not obligated to purchase Eighth Series B Bonds, and may cease doing so at any time without notice. The Eighth Series B Remarketing Agent may also make a market in the Eighth Series B Bonds by routinely purchasing and selling Eighth Series B Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Eighth Series B Remarketing Agent is not required to make a market in the Eighth Series B Bonds. The Remarketing Agent may also sell any Eighth Series B Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Eighth Series B Bonds. The purchase of Eighth Series B Bonds by the and Eighth Series B Remarketing Agent may create the appearance that there is

greater third party demand for the Eighth Series B Bonds in the market than is actually the case. The practices described above also may result in fewer Eighth Series B Bonds being tendered in a remarketing.

Pursuant to the Bond Authorization and the Eighth Series B Remarketing Agreement, the Eighth Series B Remarketing Agent is required to determine the applicable rate of interest that, in its judgment, is the lowest rate that would permit the sale of the Eighth Series B Bonds bearing interest at the applicable interest rate at par plus accrued interest, if any, on and as of the applicable interest rate determination date. The interest rate will reflect, among other factors, the level of market demand for the Eighth Series B Bonds (including whether the Eighth Series B Remarketing Agent is willing to purchase Eighth Series B Bonds for its own account). There may or may not be Eighth Series B Bonds tendered and remarketed on an interest rate determination date, the Remarketing Agent may or may not be able to remarket any Eighth Series B Bonds tendered for purchase on such date at par and the Eighth Series B Remarketing Agent may sell Eighth Series B Bonds at varying prices to different investors on such date or any other date. The Eighth Series B Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the Eighth Series B Bonds at the remarketing price. In the event the Eighth Series B Remarketing Agent owns any Eighth Series B Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such Eighth Series B Bonds on any date, including the interest rate determination date, at a discount to par to some investors.

The Eighth Series B Remarketing Agent may buy and sell Eighth Series B Bonds other than through the tender process. However, it is not obligated to do so and may cease doing so at any time without notice and may require Holders that wish to tender their Eighth Series B Bonds to do so through the Tender Agent with appropriate notice. Thus, investors who purchase the Eighth Series B Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Eighth Series B Bonds other than by tendering the Eighth Series B Bonds in accordance with the tender process.

Eighth Series C Bonds—Remarketing Agent

Wachovia Bank, National Association (the "Eighth Series C Remarketing Agent") has been appointed initially as exclusive remarketing agent for the Eighth Series C Bonds. Subject to certain conditions, upon the delivery or deemed delivery of Eighth Series C Bonds tendered for purchase by any owners thereof, the Eighth Series C Remarketing Agent will offer for sale and use its best efforts to remarket such tendered Bonds, any such remarketing to be made on the date such tendered Bonds are to be purchased, at a price equal to 100% of the principal amount thereof plus accrued interest, if any. The Eighth Series C Remarketing Agent may be removed or replaced by the City and may also resign in accordance with the provisions of the Bond Authorization and a Remarketing Agreement entered into between the City and The Eighth Series C Remarketing Agent (the "Eighth Series C Remarketing Agreement").

The Eighth Series C Remarketing Agent's responsibilities include determining the interest rate from time to time and remarketing the Eighth Series C that are optionally or mandatorily tendered by the owners thereof (subject, in each case, to the terms of the Bond Authorization and The Eighth Series C Remarketing Agreement), all as further described in this Official Statement. The Remarketing Agent is appointed by the City and is paid by the City for its services. As a result, the interests of the Remarketing Agent may differ from those of existing Holders and potential purchasers of The Eighth Series C Bonds.

The Eighth Series C Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, routinely purchases such obligations for its own account. The Eighth Series C Remarketing Agent is permitted, but not obligated, to purchase tendered Eighth Series C Bonds for its own account and, in its sole discretion, may routinely acquire such tendered Eighth Series C Bonds in order to achieve a successful remarketing of the Eighth Series C Bonds (i.e., because there otherwise are not enough buyers to purchase the Eighth Series C Bonds) or for other reasons. However, the Eighth Series C Remarketing Agent is not obligated to purchase Eighth Series C Bonds, and may cease doing so at any time without notice. The Eighth Series C Remarketing Agent may also make a market in the Eighth Series C Bonds by routinely purchasing and selling Eighth Series C Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, The Eighth Series C Remarketing Agent is not required to make a market in the Eighth Series C Bonds. The Remarketing Agent may also sell any Eighth Series C Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative

arrangements with affiliates or others in order to reduce its exposure to the Eighth Series C Bonds. The purchase of Eighth Series C Bonds by the and Eighth Series C Remarketing Agent may create the appearance that there is greater third party demand for the Eighth Series C Bonds in the market than is actually the case. The practices described above also may result in Eighth Series C Bonds being tendered in a remarketing.

Pursuant to the Bond Authorization and the Eighth Series C Remarketing Agreement, the Eighth Series C Remarketing Agent is required to determine the applicable rate of interest that, in its judgment, is the lowest rate that would permit the sale of the Eighth Series C Bonds bearing interest at the applicable interest rate at par plus accrued interest, if any, on and as of the applicable interest rate determination date. The interest rate will reflect, among other factors, the level of market demand for the Eighth Series C Bonds (including whether The Eighth Series C Remarketing Agent is willing to purchase Eighth Series C Bonds for its own account). There may or may not be Eighth Series C Bonds tendered and remarketed on an interest rate determination date, the Remarketing Agent may or may not be able to remarket any Eighth Series C Bonds tendered for purchase on such date at par and The Eighth Series C Remarketing Agent may sell Eighth Series C Bonds at varying prices to different investors on such date or any other date. The Eighth Series C Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the Eighth Series C Bonds at the remarketing price. In the event The Eighth Series C Remarketing Agent owns any Eighth Series C Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such Eighth Series C Bonds on any date, including the interest rate determination date, at a discount to par to some investors.

The Eighth Series C Remarketing Agent may buy and sell Eighth Series C Bonds other than through the tender process. However, it is not obligated to do so and may cease doing so at any time without notice and may require Holders that wish to tender their Eighth Series C Bonds to do so through the Tender Agent with appropriate notice. Thus, investors who purchase the Eighth Series C Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Eighth Series C Bonds other than by tendering the Eighth Series C Bonds in accordance with the tender process.

Eighth Series D Bonds—Remarketing Agent

Merrill Lynch, Pierce, Fenner & Smith Incorporated has been appointed to serve as remarketing agent (the “Eighth Series D Remarketing Agent”) for the Eighth Series D Bonds. The Eighth Series D Remarketing Agent may resign or be removed and a successor remarketing agent may be appointed in accordance with the terms of the Bond Authorization and a Remarketing Agreement between the Eighth Series D Remarketing Agent and the City (the “Eighth Series D Remarketing Agreement”).

The Eighth Series D Remarketing Agent's responsibilities include determining the interest rate from time to time and remarketing Eighth Series D Bonds that are optionally or mandatorily tendered by the owners thereof, all as further described in this Official Statement. The Eighth Series D Remarketing Agent is appointed by the City and is paid by the City for its services. As a result, the interests of the Eighth Series D Remarketing Agent may differ from those of existing holders and potential purchasers of Eighth Series D Bonds.

The Eighth Series D Remarketing Agent is permitted, but not obligated, to purchase tendered Eighth Series D Bonds for its own account. The Eighth Series D Remarketing Agent, in its sole discretion, routinely acquires tendered Eighth Series D Bonds for its own inventory in order to achieve a successful remarketing of the Eighth Series D Bonds (i.e., because there otherwise are not enough buyers to purchase the Eighth Series D Bonds) or for other reasons. However, the Eighth Series D Remarketing Agent is not obligated to purchase Eighth Series D Bonds, and may cease doing so at any time without notice. The Eighth Series D Remarketing Agent may also make a market in the Eighth Series D Bonds by routinely purchasing and selling Eighth Series D Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Eighth Series D Remarketing Agent is not required to make a market in the Eighth Series D Bonds. The Eighth Series D Remarketing Agent may also sell any Eighth Series D Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Eighth Series D Bonds. The purchase of Eighth Series D Bonds by the Eighth Series D Remarketing Agent may create the appearance that there is greater third party demand for the Eighth Series

D Bonds in the market than is actually the case. The practices described above also may reduce the supply of Eighth Series D Bonds that may be tendered in a remarketing.

The Eighth Series D Remarketing Agent is required to determine on the Weekly Rate Calculation Date the minimum rate of interest which, in the judgment of the Eighth Series D Remarketing Agent under then existing market conditions, would result in the sale of such Eighth Series D Bonds on the Weekly Rate Calculation Date at a price equal to the Purchase Price. The interest rate will reflect, among other factors, the level of market demand for the Eighth Series D Bonds (including whether the Eighth Series D Remarketing Agent is willing to purchase Eighth Series D Bonds for its own account). The Eighth Series D Remarketing Agreement requires that the Eighth Series D Remarketing Agent use its best efforts to sell tendered bonds at a price equal to the Purchase Price. There may or may not be Eighth Series D Bonds tendered and remarketed on a Weekly Rate Calculation Date, the Eighth Series D Remarketing Agent may or may not be able to remarket any Eighth Series D Bonds tendered for purchase on such date at a price equal to the Purchase Price and the Eighth Series D Remarketing Agent may sell Eighth Series D Bonds at varying prices to different investors on such date or any other date. The Eighth Series D Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the Eighth Series D Bonds at the remarketing price. In the event the Eighth Series D Remarketing Agent owns any Eighth Series D Bonds for its own account, the Eighth Series D Remarketing Agent may, in its sole discretion in a secondary market transaction outside the tender process, offer the Eighth Series D Bonds on any date, including the Weekly Rate Calculation Date, at a discount to par to some investors.

While the Eighth Series D Remarketing Agent may buy and sell Eighth Series D Bonds, it is not obligated to do so and may cease doing so at any time without notice. Thus, investors who purchase the Eighth Series D Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Eighth Series D Bonds other than by tendering the Eighth Series D Bonds in accordance with the tender process.

Eighth Series E Bonds—Remarketing Agent

J.P. Morgan Securities Inc. (the "Eighth Series E Remarketing Agent") has been appointed initially as exclusive remarketing agent for the Eighth Series E Bonds. The Eighth Series E Remarketing Agent's responsibilities include determining the interest rate from time to time and remarketing Eighth Series E Bonds that are optionally or mandatorily tendered by the owners thereof (subject, in each case, to the terms of the Remarketing Agreement entered into between the City and The Eighth Series E Remarketing Agent (the "Eighth Series E Remarketing Agreement")), all as further described in this Official Statement. The Eighth Series E Remarketing Agent is appointed by the City and is paid by the City for its services. As a result, the interests of the Eighth Series E Remarketing Agent may differ from those of existing holders and potential purchasers of Eighth Series E Bonds.

The Eighth Series E Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, routinely purchases such obligations for its own account in order to achieve a successful remarketing of the obligations (i.e., because there are otherwise not enough buyers to purchase the obligations) or for other reasons. The Eighth Series E Remarketing Agent is permitted, but not obligated, to purchase tendered Eighth Series E Bonds for its own account and, if it does so, it may cease doing so at any time without notice. The Eighth Series E Remarketing Agent may also make a market in the Eighth Series E Bonds by routinely purchasing and selling Eighth Series E Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agent is not required to make a market in the Eighth Series E Bonds. The Remarketing Agent may also sell any Eighth Series E Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Eighth Series E Bonds. The purchase of Eighth Series E Bonds by the Remarketing Agent may create the appearance that there is greater third party demand for the Eighth Series E Bonds in the market than is actually the case. The practices described above also may result in fewer Eighth Series E Bonds being tendered in a remarketing.

Pursuant to the Eighth Series E Remarketing Agreement, the Eighth Series E Remarketing Agent is required to determine the applicable rate of interest that, in its judgment, is the lowest rate that would permit the sale of the Eighth Series E Bonds bearing interest at the applicable interest rate at par plus accrued interest, if any, on and as of the applicable Weekly Rate Calculation Date. The interest rate will reflect, among other factors, the level of

market demand for the Eighth Series E Bonds (including whether the Eighth Series E Remarketing Agent is willing to purchase Eighth Series E Bonds for its own account). There may or may not be Eighth Series E Bonds tendered and remarketed on a Weekly Rate Calculation Date, the Remarketing Agent may or may not be able to remarket any Eighth Series E Bonds tendered for purchase on such date at par and the Eighth Series E Remarketing Agent may sell Eighth Series E Bonds at varying prices to different investors on such date or any other date. The Eighth Series E Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the Eighth Series E Bonds at the remarketing price. In the event a Eighth Series E Remarketing Agent owns any Eighth Series E Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such Eighth Series E Bonds on any date, including the Weekly Rate Calculation Date, at a discount to par to some investors.

The Eighth Series E Remarketing Agent may buy and sell Eighth Series E Bonds other than through the tender process. However, it is not obligated to do so and may cease doing so at any time without notice and may require holders that wish to tender their Eighth Series E Bonds to do so through the Tender Agent with appropriate notice. Thus, investors who purchase the Eighth Series E Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Eighth Series E Bonds other than by tendering the Eighth Series E Bonds in accordance with the tender process.

As of the date of this Official Statement, JPMorgan Chase Bank, National Association, as a liquidity provider on the Refunded Bonds, holds a substantial amount of the Refunded Bonds. Proceeds of the Eighth Series E Bonds, which are being remarketed by J.P. Securities Inc, a bank affiliate of JPMorgan Chase Bank, National Association, will be used to redeem such Refunded Bonds.

RATINGS

Moody's Investors Service ("Moody's") and Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. ("S&P") have assigned to the Eighth Series B Bonds the ratings of "Aaa/VMIG 1" and "AAA/A-1+", respectively. The ratings are based upon (i) the ratings of the Eighth Series B Credit Provider, (ii) the long-term ratings of the City's Gas Works Revenue Bonds, and (iii) Moody's and S&P's credit correlation of the ratings of the Eighth Series B Credit Provider and PGW. The Eighth Series B Credit Provider's long-term and short-term ratings for Moody's and S&P as of the date of this Official Statement are "Aa2/P-1" and "AA/A-1+", respectively. The underlying ratings assigned to the Eighth Series B Bonds by Moody's, S&P and Fitch Ratings, Inc. are "Baa2" with a negative outlook, "BBB-" with a stable outlook and "BBB-" with a stable outlook, respectively.

Moody's and S&P have assigned to the Eighth Series C Bonds the ratings of "Aaa/VMIG 1" and "AAA/A-1+", respectively. The ratings are based upon (i) the ratings of the Eighth Series C Credit Provider, (ii) the long-term ratings of the City's Gas Works Revenue Bonds, and (iii) Moody's and S&P's credit correlation of the ratings of the Eighth Series C Credit Provider and PGW. The Eighth Series C Credit Provider's long-term and short-term ratings for Moody's and S&P as of the date of this Official Statement are "Aa1/P-1" and "AA-/A-1+", respectively. The underlying ratings assigned to the Eighth Series B Bonds by Moody's, S&P and Fitch Ratings, Inc. are "Baa2" with a negative outlook, "BBB-" with a stable outlook and "BBB-" with a stable outlook, respectively.

In the Preliminary Official Statement dated August 6, 2009, the short-term rating from S&P relating to the Eighth Series D Bonds, was stated to be "AA/ A-1+", as shown on an erroneous rating report furnished to the City by S&P. S&P has furnished to the City a corrected rating report assigning to the Eighth Series D Bonds the rating of "AA/A-1." Moody's has assigned to the Eighth Series D Bonds the rating of "Aaa/VMIG 1." The ratings are based upon (i) the ratings of the Eighth Series D Credit Provider, (ii) the long-term ratings of the City's Gas Works Revenue Bonds, and (iii) Moody's and S&P's credit correlation of the ratings of the Eighth Series D Credit Provider and PGW. The Eighth Series D Credit Provider's long-term and short-term ratings for Moody's and S&P as of the date of this Official Statement are "Aa3/P-1" and "A+/A-1", respectively. The underlying ratings assigned to the Eighth Series B Bonds by Moody's, S&P and Fitch Ratings, Inc. are "Baa2" with a negative outlook, "BBB-" with a stable outlook and "BBB-" with a stable outlook, respectively.

Moody's and S&P have assigned to the Eighth Series E Bonds the ratings of "Aaa/VMIG 1" and "AAA/A-1+", respectively. The ratings are based upon (i) the ratings of the Eighth Series E Credit Provider, (ii) the

long-term ratings of the City's Gas Works Revenue Bonds, and (iii) Moody's and S&P's credit correlation of the ratings of the Eighth Series E Credit Provider and PGW. The Eighth Series E Credit Provider's long-term and short-term ratings for Moody's and S&P as of the date of this Official Statement are "Aa1/P-1" and "AA-/A-1+", respectively. The underlying ratings assigned to the Eighth Series B Bonds by Moody's, S&P and Fitch Ratings, Inc. are "Baa2" with a negative outlook, "BBB-" with a stable outlook and "BBB-" with a stable outlook, respectively.

Any explanation of these ratings may only be obtained from the rating agencies. A credit rating is not a recommendation to buy, sell or hold securities. No assurance is given that such ratings will be maintained for any given period of time or that they may not be lowered or withdrawn entirely by the rating agencies if, in their judgment, circumstances so warrant. Any such downward change in or withdrawal of any of such ratings may have an adverse effect on the market price of the Bonds.

The Eighth Series B Credit Provider is not obligated to maintain its present or any other credit rating and shall have no liability if any such credit rating is lowered, withdrawn or suspended.

The Eighth Series C Credit Provider is not obligated to maintain its present or any other credit rating and shall have no liability if any such credit rating is lowered, withdrawn or suspended.

The Eighth Series D Credit Provider is not obligated to maintain its present or any other credit rating and shall have no liability if any such credit rating is lowered, withdrawn or suspended.

The Eighth Series E Credit Provider is not obligated to maintain its present or any other credit rating and shall have no liability if any such credit rating is lowered, withdrawn or suspended.

The City is not required to maintain any particular rating on the Bonds and shall have no liability if a rating is lowered, withdrawn or suspended.

TAX MATTERS

Federal

Exclusion of Interest From Gross Income

In the opinion of Co-Bond Counsel, under existing statutes, regulations, rulings, and court decisions, assuming that the City complies with covenants relating to certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), interest on the Bonds will not be includible in gross income of the holders thereof for federal income tax purposes, is exempt from individual and corporate federal alternative minimum tax ("AMT"), and is not includible in adjusted current earnings for purposes of corporate AMT.

In rendering its opinion, Co-Bond Counsel has assumed compliance by the City with its covenants contained in the 1998 General Ordinance and the Bond Authorizations, and the representations in the Tax Compliance Certificate relating to actions to be taken by the City after issuance of the Bonds necessary to effect or maintain the exclusion from federal gross income of the interest on the Bonds. These covenants relate to, inter alia, the use of and investment of proceeds of the Bonds, and rebate to the United States Treasury of specified arbitrage earnings, if any. Failure to comply with such covenants could result in interest on the Bonds becoming includible in gross income for federal income tax purposes from the date of issuance of the Bonds.

Other Federal Tax Matters

Ownership or disposition of the Bonds may result in other federal tax consequences to certain taxpayers, including, without limitation, certain S corporations, foreign corporations with branches in the United States, property and casualty insurance companies, taxpayers who have an initial basis in the Bonds greater or less than the principal amount thereof, individual recipients of Social Security or Railroad Retirement benefits, and taxpayers,

including banks, thrift institutions and other financial institutions subject to Code Section 265, who may be deemed to have incurred or continued indebtedness to purchase or to carry the Bonds.

Co-Bond Counsel is not rendering any opinion regarding any federal tax matters other than those described under the caption Exclusion of Interest from Gross Income and expressly stated in the forms of Co-Bond Counsel opinions included as APPENDIX F. Purchasers of the Bonds should consult their independent tax advisors with regard to all federal tax matters.

Pennsylvania

In the opinion of Co-Bond Counsel, under the laws of the Commonwealth of Pennsylvania as enacted and construed on the date hereof, interest on the Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax, and the Bonds are exempt from personal property taxes in Pennsylvania; however, any profits, gains, or income derived from the sale, exchange, or other disposition of the Bonds will be subject to Pennsylvania taxes and local taxes within the Commonwealth.

The Bonds and the interest thereon may be subject to state and local taxes in jurisdictions other than the Commonwealth of Pennsylvania under applicable state and local tax laws. Purchasers of the Bonds should consult their independent tax advisors with regard to all state and local tax matters.

CERTAIN LEGAL MATTERS

All legal matters incident to the authorization, issuance and sale of the Bonds are subject to approval of the legality of the issuance of the Bonds by Blank Rome LLP and Andre C. Dasent, P.C., both of Philadelphia, Pennsylvania, Co-Bond Counsel. The proposed forms of such opinions are included herein as APPENDIX F. Certain legal matters will be passed upon for the Underwriters by Saul Ewing LLP and Kelly, Monaco and Naples, LLP Co-Counsel to the Underwriters, both of Philadelphia, Pennsylvania. Certain legal matters will be passed upon for the City by the City of Philadelphia Law Department. Certain legal matters will be passed upon for PGW by the Office of General Counsel of Philadelphia Gas Works and by Eckert Seamans Cherin and Mellott, LLC of Harrisburg, Pennsylvania. Certain legal matters will be passed upon for the Credit Providers by Duane Morris LLP, Philadelphia, Pennsylvania.

FINANCIAL ADVISOR

Public Financial Management, Inc., of Philadelphia, Pennsylvania, has served as financial advisor (the "Financial Advisor") to the City in respect of the sale of the Bonds. The Financial Advisor assisted in the preparation of this Official Statement, and in other matters relating to the planning, structuring and issuance of the Bonds, and has provided other advice. Public Financial Management, Inc. is a financial advisory and consulting organization and is not engaged in the business of underwriting or marketing of municipal securities or any other negotiable instruments.

INDEPENDENT AUDITORS

The basic financial statements and supplementary information of the Philadelphia Gas Works as of and for the years ended August 31, 2008 and August 31, 2007 included in APPENDIX A to this Official Statement have been audited by KPMG LLP, as stated in their report appearing therein.

Any financial information other than in APPENDIX A to this Official Statement has not been audited by any firm of independent auditors and no opinion on such information is expressed in this Official Statement.

INDEPENDENT CONSULTANT'S REPORT

The report prepared by Black & Veatch Corporation, and contained herein as APPENDIX B, has been included in reliance upon the expertise of that company as an independent consulting firm having broad experience in the design and analysis of the operation of gas works or gas distribution systems of the magnitude and scope of

PGW and having skill in assessing assumptions used in the preparation of forecast financial statements of gas works systems.

CERTAIN RELATIONSHIPS

Public Financial Management, Inc., financial advisor to the City, acts as a consultant to PGW on certain management and labor relations issues and has provided testimony before the PUC on several of PGW's rate cases. Blank Rome LLP and Andre C. Dasent, P.C. provide certain legal services to the City and to PGW. Saul Ewing LLP provides certain legal services to the City. Kelly, Monaco and Naples, LLP provides certain legal services to the City. Black & Veatch Corporation provides certain professional services (unrelated to the Independent Consultant's Report) to PGW.

NO LITIGATION

To the knowledge of the City of Philadelphia Law Department and, solely with respect to the opinion described in (E) below, based upon certain representations from PGW's General Counsel, after customary inquiry, no litigation is pending against the City before any court, public board or agency, or threatened in writing against the City (A) to restrain or enjoin the issuance, sale, execution or delivery of the Bonds, (B) which contests the validity or enforceability of the Bonds or any proceedings of the City taken with respect to the issuance, sale, execution or delivery thereof, (C) which contests the pledge or application of any monies or security provided for the payment of the Bonds, (D) challenges the existence or powers of the City or (E) in which a final adverse determination, singly or in the aggregate, would have a material and adverse effect on PGW's operations or financial condition.

Upon delivery of the Bonds, the City Solicitor shall furnish a written confirmation, to the effect, among other things, that, except for litigation which is disclosed in this Official Statement, to the knowledge of the Law Department after customary inquiry, no litigation is pending against the City before any court, public board or agency, or threatened in writing against the City (A) to restrain or enjoin the issuance, sale, execution or delivery of the Bonds, (B) which contests the validity or enforceability of the Bonds or any proceedings of the City taken with respect to the issuance, sale, execution or delivery thereof, (C) which contests the pledge or application of any monies or security provided for the payment of the Bonds, (D) challenges the existence or powers of the City or (E) in which a final adverse determination, singly or in the aggregate, would have a material and adverse effect on PGW's operations or financial condition.

NEGOTIABLE INSTRUMENTS

The Act provides that bonds issued thereunder shall have all the qualities and incidents of securities under the Uniform Commercial Code of the Commonwealth of Pennsylvania and shall be negotiable instruments.

CERTAIN REFERENCES

All summaries of the provisions of the Bonds and the security therefor, the Act, the General Ordinances and the Supplemental Ordinances set forth herein and in APPENDIX D hereof, and all summaries and references to other materials not purported to be quoted in full are only brief outlines of certain provisions thereof and do not constitute complete statements of such documents or provisions. Reference is made hereby to the complete documents relating to such matters for the complete terms and provisions thereof. So far as statements are made in this Official Statement involving matters of opinion, whether or not expressly so stated, they are made merely as such and not as representations of fact.

CONTINUING DISCLOSURE

The City will enter into a Continuing Disclosure Agreement with Digital Assurance Certification, L.L.C. with respect to the Bonds, which shall constitute a written undertaking for the benefit of the owners and beneficial owners of the Bonds. The proposed form of Continuing Disclosure Agreement is attached to this Official Statement as APPENDIX E.

ADDITIONAL INFORMATION

Upon written request to the office of the Director of Finance and payment of the costs of duplication and mailing, the Annual Report of the City for the fiscal year ended June 30, 2008, and the audited combined financial statements of the City for the fiscal year ended June 30, 2008, will be made available, as well as other pertinent information. Such a request should be addressed to: Office of the Director of Finance, Accounting Bureau, 1330 Municipal Services Building, 1401 John F. Kennedy Boulevard, Philadelphia, Pennsylvania 19102. The City will provide copies of the foregoing documents to one or more nationally recognized municipal securities information depositories. The City will provide financial and other information regarding PGW from time to time to Standard & Poor's Ratings Service, a Division of The McGraw-Hill Companies, Inc., Moody's Investors Service and Fitch Ratings, Inc. in connection with securities ratings assigned by those rating agencies to obligations payable from Project Revenues or Gas Works Revenues. The City intends to continue these practices in future years on an annual basis on behalf of PGW as well as all obligations issued for PGW.

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This Official Statement has been duly executed and delivered by the following officers on behalf of the City of Philadelphia.

CITY OF PHILADELPHIA, PENNSYLVANIA

By: /s/ Michael A. Nutter
Honorable Michael A. Nutter, Mayor

By: /s/ Alan L. Butkovitz
Honorable Alan L. Butkovitz, City Controller

By: /s/ Shelley R. Smith
Shelley R. Smith, City Solicitor

Approved:

By: /s/ Rob Dubow
Rob Dubow Director of Finance

APPENDIX A

FINANCIAL STATEMENTS OF PGW FOR FISCAL YEARS ENDED
AUGUST 31, 2008 AND 2007

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

Basic Financial Statements and Supplementary Information

August 31, 2008 and 2007

(With Independent Auditors' Report Thereon)

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

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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 balance sheets of Philadelphia Gas Works (the Company), a component unit of the City of Philadelphia, as of August 31, 2008 and 2007, and the related statements of revenues and expenses, cash flows, and changes in fund equity, as of and for the years then ended. These financial statements are the responsibility of the Company's management. 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 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 the Company's internal control over financial reporting. Accordingly, we express no such opinion. 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. We believe that our audits provide a reasonable basis for our 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, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

The required supplementary information of management's discussion and analysis on pages 3 to 12 and the schedules of pension funding progress, other postemployment benefits funding progress, and other postemployment benefit employer contributions on pages 52 to 54 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. This supplementary information is the responsibility of the Company's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit such information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included on pages 55 to 58 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



As discussed in note 1(n), the Company adopted the provisions of Governmental Accounting Standards Board Statement (GASB) No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and GASB Statement No. 50, *Pension Disclosures*, as of September 1, 2006.

KPMG LLP

December 29, 2008

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Required Supplementary Information (Unaudited)
Management's Discussion and Analysis
August 31, 2008 and 2007

The narrative overview and analysis of the financial statements of Philadelphia Gas Works (the Company or PGW) for the years ended August 31, 2008 and 2007 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) 2008 reflected a 16.9% warmer than normal winter. The FY 2008 period was 0.7% warmer than the prior year and firm gas sales decreased by 2.4 Billion cubic feet (Bcf). In addition, the Weather Normalization Adjustment (WNA), which was in effect from October 2007 through May 2008, resulted in heating customers receiving charges totaling \$12.2 million as a result of the temperatures experienced during the period. FY 2007 reflected a 16.6% warmer than normal winter. The FY 2007 period was 1.2% warmer than the prior year; however, firm gas sales increased by 2.0 Bcf. In addition, the WNA, which was in effect from October 2006 through May 2007, resulted in heating customers receiving charges totaling \$6.5 million as a result of the temperatures experienced during the period.
- PGW achieved a collection rate of 95.5% in the current period, 95.8% in FY 2007 and 96.6% in FY 2006. The collection rate of 95.5% is calculated by dividing the total gas receipts collected in FY 2008 by the total gas billings that were applied to PGW customers' accounts from September 1 through August 31. The same methodology was utilized in FY 2007 and FY 2006, respectively.
- The Company adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45 (GASB 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as of September 1, 2006 and had a zero net Other Postemployment Benefits (OPEB) obligation at transition. PGW adopted the provisions of GASB 45 a year earlier than required by GASB because the Company is a component unit of the City of Philadelphia (the City) for financial reporting purposes and the Company's FY 2007 financial statements will be consolidated into the City's financial statements for the fiscal year ended June 30, 2008. The difference between the FY 2008 Annual Required Contribution (ARC) of \$44.1 million and the expenses paid by the Company of \$18.3 million resulted in a liability of \$25.8 million which has been recorded in other liabilities and deferred credits and expensed in FY 2008. The difference between the FY 2007 ARC of \$45.2 million and the expenses paid by the Company of \$18.8 million resulted in a liability of \$26.4 million which was recorded in other liabilities and deferred credits and expensed in FY 2007.
- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (GASB 49), is effective for the Company's fiscal year beginning September 1, 2008; however, the Company has chosen to implement the provisions of GASB 49 a year earlier than required by GASB because the Company is a component unit of the City for financial reporting purposes and the Company's FY 2008 financial statements will be consolidated into the City's financial statements for the fiscal year ended June 30, 2009. This statement establishes a framework for the recognition and measurement of pollution remediation liabilities. A pollution remediation obligation addresses the current or potential detrimental effects of existing pollution by participation in pollution remediation activities.

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
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Management's Discussion and Analysis
August 31, 2008 and 2007

Prior to the implementation of GASB 49, the Company recognized liabilities related to its voluntary participation in remediation activities under Pennsylvania Act 2, *Land Recycling and Environmental Remediation Standards Act of 1995*, which established the land recycling program, and its mandatory participation in activities under Pennsylvania Act 32, *Storage Tank and Spill Prevention Act of 1989*, which established a comprehensive program to prevent leaks and spills from underground and above ground tanks in accordance with existing U.S. generally accepted accounting principles (U.S. GAAP) related to the accrual of liabilities.

The Company revised its methodology for estimating its pollution remediation obligations to conform with GASB 49 in the current year, which resulted in an additional \$8.3 million liability which is reflected in other liabilities and deferred credits at August 31, 2008. GASB 49 requires pollution remediation liabilities to be measured at the beginning of the first period presented in the financial statements. The Company has not restated prior periods and instead recognized the effect of GASB 49 implementation in the current year, because the increase in the liability related to the implementation of GASB 49 is not material.

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.

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 are comprised of:

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 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 four statements presented are:

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

The balance sheet includes all of PGW's assets and liabilities, with the difference between the two reported as equity. Over time, increases or decreases in fund equity are indicators of whether PGW's financial position is improving or deteriorating.

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

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Required Supplementary Information (Unaudited)
Management's Discussion and Analysis
August 31, 2008 and 2007

The statement of changes in fund equity provides a rollforward of the fund equity balance of PGW based upon the results from the statement of revenues and expenses.

Condensed Statements of Revenues and Expenses

(Thousands of dollars)

	Years ended August 31		
	2008	2007	2006
Total gas revenues	\$ 831,428	840,105	929,961
Other revenues	18,199	19,246	24,007
Total operating revenues	849,627	859,351	953,968
Total operating expenses	794,246	819,748	880,040
Operating income	55,381	39,603	73,928
Interest and other income	15,732	13,073	8,518
Total interest expense	(68,006)	(68,780)	(65,687)
Excess (deficiency) of revenues over (under) expenses	\$ 3,107	(16,104)	16,759

Operating Revenues

Operating revenues in FY 2008 were \$849.6 million, a decrease of \$9.8 million or 1.1% from the FY 2007 level. The decrease in FY 2008 was due to a milder winter. Operating revenues in FY 2007 were \$859.4 million, a decrease of \$94.6 million or 9.9% from the FY 2006 level. The decrease in FY 2007 was principally due to lower fuel costs which are a component of operating revenues through the gas cost rate (GCR). Please see the discussion of the cost of fuel in the Operating Expenses section below.

Total sales volumes, including gas transportation deliveries, in FY 2008 increased by 2.5 Bcf to 66.3 Bcf or 3.9% from FY 2007 sales volumes of 63.8 Bcf. In FY 2007 total sales volumes increased by 4.4 Bcf to 63.8 Bcf or 7.4% from FY 2006 sales volumes of 59.4 Bcf. Firm gas sales of 45.5 Bcf were 2.4 Bcf or 5.0% lower than FY 2007 firm gas sales of 47.9 Bcf were 1.7 Bcf or 3.7% higher than FY 2007. Interruptible customer sales decreased by 0.9 Bcf compared to FY 2007 and increased by 0.3 Bcf compared to FY 2006. Gas transportation sales in FY 2008 increased by 5.9 Bcf to 19.0 Bcf from the 13.1 Bcf level experienced in FY 2007. In FY 2007, the volume increased by 2.4 Bcf to 13.1 Bcf from the 10.7 Bcf level experienced in FY 2006.

The number of customers served by PGW at the end of FY 2008 decreased by 0.2% from the previous year to approximately 505,000 customers. The number of customers served by PGW at the end of FY 2007 and FY 2006 were approximately 506,000 and 486,000, respectively. Commercial accounts were approximately 25,000, reflecting no change from the previous two fiscal years. Industrial accounts decreased by 11.1% from the prior year's level to 800. Industrial accounts were 900 and 1,000 customers in FY 2007 and FY 2006, respectively.

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Management's Discussion and Analysis
August 31, 2008 and 2007

Residential customers decreased to 479,000 customers, a decrease of 1,000 from the prior year. The number of residential customers in FY 2007 increased to approximately 480,000 customers, an increase of 20,000 over the FY 2006 level.

Operating Expenses

Total operating and maintenance expenses, including fuel costs, in FY 2008 were \$794.2 million, a decrease of \$25.5 million or 3.1% from FY 2007. Total expenses decreased by \$60.3 million or 6.9% from FY 2007 compared to FY 2006. The decrease for FY 2008 reflects substantially lower natural gas utilization and an increase in refunds received from pipeline suppliers. The decrease for FY 2007 reflects substantially higher natural gas prices from FY 2006.

Cost of Fuel – The cost of natural gas utilized decreased by \$27.3 million or 5.1% to \$512.0 million in FY 2008 compared with \$539.3 million in FY 2007. The average commodity price per Thousand cubic feet (Mcf) increased by \$0.25 or \$13.5 million, while the volume of gas utilized decreased by 4.6 Bcf, 7.9% or \$37.6 million. In addition, pipeline supplier refunds in FY 2008 increased by \$10.0 million while demand charges increased by \$6.8 million, compared to FY 2007.

The cost of natural gas utilized decreased by \$85.8 million or 13.7% to \$539.3 million in FY 2007 compared with \$625.1 million in FY 2006. The average commodity price per Mcf decreased by nearly \$2.02 or \$117.2 million, while the volume of gas utilized increased by 3.0 Bcf, 5.4% or \$30.6 million, in FY 2007 despite a 1.2% decrease in degree days from FY 2006. In addition, pipeline supplier refunds in FY 2007 decreased by \$0.2 million while demand charges increased by \$0.7 million, compared to FY 2006.

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 current assets or 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 gas for FY 2008, FY 2007, and FY 2006 were \$8.48, \$8.23, and \$10.25 per Mcf, respectively.

Other Operating Expenses – Expenditures for street operations, infrastructure improvements, and plant operations in FY 2008 were \$68.9 million, down from the FY 2007 total of \$69.5 million as a result of lower labor costs and up from the FY 2006 total of \$66.1 million as a result of an increase in the value of gas used from the time customers request shutoff to the occupancy of the premise by a subsequent customer. This cost was partially reduced by lower operating expenses due to warmer weather conditions. In addition, the cost for customer services, collection and account management, marketing, and the administrative area increased by \$4.9 million or 5.7% in FY 2008 primarily due to costs related to the business transformation initiative and a decrease in the gas used by the utility. This category decreased by \$4.1 million or 4.5% in FY 2007, which was offset somewhat by higher premiums for active and retired employee health insurance coverage. Pension costs decreased by \$1.0 million and \$2.3 million in FY 2008 and FY 2007, respectively, based on the most recent actuarial valuation of the pension plan.

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(A Component Unit of the City of Philadelphia)
Required Supplementary Information (Unaudited)
Management's Discussion and Analysis
August 31, 2008 and 2007

Provision for Uncollectible Accounts – The provision for uncollectible accounts in FY 2008 totaled \$37.0 million, a decrease of \$3.0 million or 7.5% lower than FY 2007, which totaled \$40.0 million, a decrease of \$0.1 million or 0.3% compared to FY 2006 based on the most recent accounts receivable collectibility evaluation. The accumulated provision for uncollectible accounts at August 31, 2008 reflects a balance of \$140.4 million, compared to the \$150.2 million balance in FY 2007 and \$168.9 million in FY 2006. 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.

Depreciation Expense – Depreciation expense increased by \$3.1 million in FY 2008 compared with FY 2007. Depreciation expense increased by \$1.7 million in FY 2007 compared with FY 2006. The effective composite depreciation rates for FY 2008, FY 2007 and FY 2006 were 2.4%, 2.3% and 2.3%, respectively. Cost of removal is charged to expense as incurred.

Interest and Other Income – Interest and other income was \$2.7 million greater than FY 2007 as the result of increased earnings on higher restricted fund balances. Interest and other income in FY 2007 was \$4.6 million greater than FY 2006 as the result of increased earnings rates on higher restricted fund balances.

Interest Expense – Total interest expense decreased by \$0.8 million or 1.1% in FY 2008 compared with FY 2007 and increased by \$3.1 million or 4.7% in FY 2007 compared with FY 2006. Interest on long-term debt was \$3.9 million higher than the FY 2007 level as a result of the full year effect of the FY 2007 issuance of revenue bonds in May 2007. Other interest costs decreased by \$4.8 million or 28.0% in FY 2008 principally due to the reduction in the borrowing cost of the commercial paper program. Other interest costs increased by \$2.2 million or 14.6% in FY 2007 and increased by \$4.0 million or 36.4% in FY 2006 reflecting additional costs associated with PGW's commercial paper program and the amortization of the loss on reacquired debt.

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Management's Discussion and Analysis
August 31, 2008 and 2007

Excess (Deficiency) of Revenues Over (Under) Expenses – In FY 2008, the Company's excess of revenues over expenses was \$28.9 million prior to recording the expense of \$25.8 million related to OPEB. As a result, the Company ended with an excess of revenues over expenses of \$3.1 million. The Company had an excess of revenues over expenses of \$10.3 million in FY 2007 prior to recording the expense of \$26.4 million related to OPEB and \$16.8 million in FY 2006.

Condensed Balance Sheets
(Thousands of dollars)

Assets	August 31		
	2008	2007	2006
Utility plant, net	\$ 1,062,095	1,040,373	1,007,648
Restricted investment funds	219,788	277,139	135,625
Current assets:			
Accounts receivable (net of accumulated provision for uncollectible accounts of \$140,435, \$150,231, and \$168,889 for 2008, 2007, and 2006, respectively)	99,304	88,618	74,360
Other current assets and deferred debits, cash and cash equivalents, gas inventories, materials, and supplies	242,503	205,083	181,394
Total current assets	341,807	293,701	255,754
Other assets and deferred debits	105,975	103,727	106,983
Total assets	\$ 1,729,665	1,714,940	1,506,010
Fund Equity and Liabilities			
Fund equity	\$ 226,408	223,301	239,405
Total long-term debt	1,127,163	1,201,792	1,076,131
Current liabilities:			
Note payable	90,000	51,600	55,000
Current portion of long-term debt	76,030	86,995	39,591
Other current liabilities and deferred credits	126,235	103,276	73,854
Total current liabilities	292,265	241,871	168,445
Other liabilities and deferred credits	83,829	47,976	22,029
Total fund equity and liabilities	\$ 1,729,665	1,714,940	1,506,010

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Assets

Utility Plant – Utility plant, net of depreciation, totaled \$1,062.1 million in FY 2008, an increase of \$21.7 million or 2.1% compared with the FY 2007 balance of \$1,040.4 million. The FY 2007 balance of \$1,040.4 million, increased by \$32.8 million or 3.3% compared with the FY 2006 balance of \$1,007.6 million. Capital expenditures for construction of distribution facilities, purchase of equipment, information technology enhancements, and other general improvements were \$61.2 million in FY 2008 compared to \$69.1 million in FY 2007 and \$60.7 million in FY 2006. PGW funded capital expenditures through drawdowns from the Capital Improvement Fund in the amounts of \$60.9 million, \$60.7 million and \$63.1 million in FY 2008, FY 2007 and FY 2006, respectively. The major capital expenditures are associated with PGW's gas supply infrastructure, namely, gas mains and customer service lines.

Restricted Investment Funds – Restricted investment funds decreased by \$57.4 million in FY 2008 primarily due to the drawdown from its Capital Improvement Fund offset by interest income. Interest income on these funds, to the extent not drawn, is reflected as an increase and approximated \$2.7 million in FY 2008 and \$6.8 million in FY 2007. A drawdown from the Sinking Fund's capitalized interest account in the amount of \$0.1 million was utilized to offset the debt service payment in FY 2007. In FY 2006, this amount was \$6.0 million.

Accounts Receivable – In FY 2008 accounts receivable (net) of \$99.3 million increased by \$10.7 million, or 12.1% from FY 2007 due to firm transportation suppliers' billings and an increase in participation in the Customer Responsibility Program (CRP). Accounts receivable (net) increased by \$14.3 million, or 19.2% in FY 2007 compared to FY 2006. The accumulated provision for uncollectible accounts, totaling \$140.4 million decreased by \$9.8 million in FY 2008 and totaled \$150.2 million in FY 2007 and \$168.9 million in FY 2006.

Other Current Assets and Deferred Debits, Cash and Cash Equivalents, Gas Inventories, Materials, and Supplies – In FY 2008 cash and cash equivalents were \$49.3 million, a decrease of \$2.4 million from FY 2007, and totaled \$51.7 million in FY 2006. Gas storage increased by \$41.4 million or 29.9%. The increase in gas inventory reflects an increase in the gas cost per Mcf plus an increase in the amount of storage at year-end. Materials and supplies of \$187.5 million, which principally include gas inventory, maintenance spare parts, and material, increased by \$39.7 million and were \$147.8 million in FY 2007 and \$149.4 million in FY 2006. Other current assets and deferred debits totaled \$5.6 million in FY 2008, up \$0.1 million from FY 2007. In FY 2007 other current assets and deferred debits totaled \$5.6 million, down \$19.6 million from FY 2006, primarily due to the recovery of under-recovered GCR amounts from the prior year.

Other Assets and Deferred Debits – In FY 2008 other assets and deferred debits including unamortized bond issuance costs, unamortized loss on reacquired debt, and a deferred regulatory asset for environmental expenses totaled \$106.0 million, an increase of \$2.3 million from FY 2007, mainly due to an increase in the workers' compensation injuries and damages reserve. In FY 2007 the total was \$103.7 million and reflected an increase of \$3.3 million from FY 2006. The major portion of this change was related to the bond issuance costs on the \$313.4 million of debt issued in FY 2006, offset partially by deferred environmental costs.

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Liabilities

Long-Term Debt – Long-term debt, including the current portion and unamortized discount and premium, totaled \$1,203.2 million in FY 2008, \$85.6 million less than the previous year as a result of the Company paying off the City Loan and normal debt principal payments. This represents 84.2% of total capitalization in FY 2008. Long-term debt, including the current portion and unamortized discount, premium, and note payable – City Loan totaled \$1,288.8 million in FY 2007, \$173.1 million greater than the previous year as a result of principal payments on outstanding debt and the issuance of the Seventh Series and Nineteenth Series revenue bonds during FY 2007. This represents 85.2% of total capitalization in FY 2007. The total long-term debt for FY 2006 totaled \$1,115.7 million, which represented 82.3% of total capitalization.

Debt Service Coverage Ratio and Ratings – PGW has a mandatory debt service coverage ratio of 1.50 times debt service on the 1975 Ordinance Bonds and the 1998 Ordinance Bonds, respectively. In FY 2008, the debt service coverage was at 4.28 times debt service on the outstanding 1975 Ordinance Bonds and 1.88 times debt service on the Senior 1998 Ordinance Bonds compared to debt service coverage ratios of 3.70 and 2.00 times, respectively, in FY 2007 and 3.36 and 1.94 times, respectively, in FY 2006. PGW's current bond ratings are "Baa2" from Moody's Investors Service (Moody's), "BBB-" from Standard and Poor's Ratings Service (S&P), and "BBB-" from Fitch Ratings.

Short-Term Debt – Due to the highly seasonal nature of PGW's business, short-term debt is utilized to meet working capital requirements. PGW, pursuant to the provisions of the City of Philadelphia Note Ordinance, may sell short-term notes in a principal amount, which together with interest, may not exceed \$200.0 million outstanding at any one time as compared to \$150.0 million in FY 2006. The letter of credit supporting PGW's commercial paper program fixed the maximum level of outstanding notes plus interest at \$150.0 million in FY 2008 and FY 2007, respectively. These notes are intended to provide additional working capital and are supported by an irrevocable letter of credit and a security interest in PGW's revenues. The notes outstanding at August 31, 2008 had a weighted average interest rate of 1.63% and a remaining weighted average time to maturity of 61 days. The principal amounts outstanding at August 31, 2008 and 2007 were \$90.0 million and \$51.6 million, respectively. In addition, the City provided PGW with a \$45.0 million, 0.0% interest loan in FY 2001. In FY 2007, PGW paid \$2.0 million of the loan leaving an outstanding balance of \$43.0 million. In FY 2008, PGW paid \$20.5 million and \$22.5 million in December 2007 and August 2008, respectively to completely repay the remaining balance of the loan.

Liquidity/Cash Flow – At December 18, 2008, \$2.0 million was available from the Commercial Paper Program. Additionally, PGW had \$111.7 million available in its Capital Improvement Fund to be utilized for construction expenditures. These funding sources may be utilized during the fall and early winter period to provide liquidity until billings from the winter heating season are collected. The cash balance at December 18, 2008 was \$65.5 million.

Accounts Payable – In FY 2008 accounts payable increased \$6.9 million or 11.4% compared with FY 2007 primarily due to an increase in natural gas payables. In FY 2007 accounts payable increased \$3.1 million or 7.8% compared with FY 2006 reflecting a \$3.3 million increase in accounts payables associated with natural gas partially offset by a \$0.2 million decrease in trade payables.

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Other Liabilities and Deferred Credits – In FY 2008 other liabilities and deferred credits totaling \$83.8 million increased \$35.8 million compared to FY 2007. In FY 2007 other liabilities and deferred credits totaling \$48.0 million increased \$26.0 million compared to FY 2006. The increase in FY 2008 is the effect of recording the change in the liability for OPEB in the amount of \$25.8 million, an increase in the injuries and damages reserve and an increase in the environmental remediation liability. The increase in FY 2007 is the effect of recording the liability for OPEB in the amount of \$26.4 million.

Other Financial Factors

The City has made a major commitment to PGW by granting back its annual \$18.0 million payment, in each of the last three fiscal years, thereby improving PGW's overall liquidity position. PGW must continue to focus its efforts on becoming a competitive utility in the deregulated marketplace. PGW remains committed to achieving its tradition of providing high-quality service to customers, while continuing as a valuable enterprise of the City.

The Company's total OPEB actuarial accrued liability as of August 31, 2008 was \$591.6 million if the Company continued to provide for its OPEB obligations on a pay-as-you-go basis. The Company's actuarial accrued liability would be reduced to \$382.7 million if the Company adopted a policy of funding its ARC. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of 30 years. The actuarial valuation utilized a discount rate of 8.25% for purposes of developing the liabilities and ARC to demonstrate the effect of funding the Plan. This rate is based on the investment return expected on investments segregated in a funded trust.

The annual OPEB cost was \$52.3 million for the fiscal year ended August 31, 2008 and is projected to increase to \$70.2 million per year over the ensuing 20-year period on a pay-as-you-go basis. The annual OPEB cost was \$45.2 million for the fiscal year ended August 31, 2007.

On December 22, 2006, PGW filed for a \$100.0 million base rate increase with the Public Utility Commission (PUC). On September 28, 2007, the PUC approved a rate increase of \$25.0 million. PGW appealed this decision to Commonwealth Court on or about October 18, 2007 and this matter is still pending in the courts. The \$25.0 million rate increase was implemented in November 2007.

In November 2008, the Company filed for an extraordinary or emergency base rate increase of approximately \$60.0 million or 5.2% and simultaneously requested an \$85.0 million or 7.4% decrease in the GCR for a net 2.2% overall rate decrease of approximately \$25.0 million. The proposed base rate increase will serve several purposes. First, the increase will cover the additional financing costs that the Company anticipates it will incur in the next few months. Second, the increase will improve the Company's financial position so as to enhance its ability to access the financial markets and maintain its bond rating. Third, the increase will provide additional liquidity and financial flexibility in this tight credit market. On December 18, 2008, the PUC issued its decision approving a base rate increase of \$60.0 million or 5.2% and a decrease in the GCR of \$107.0 million for a net decrease in rates of \$47.0 million or 4.2%. These rates are effective as of January 1, 2009.

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The Company had \$90.0 million of commercial paper that was outstanding at August 31, 2008. Subsequent to year-end, all outstanding commercial paper matured, and additional commercial paper was issued. As of December 18, 2008, \$148.0 million of commercial paper was outstanding which matures on February 12, February 13 and March 12, 2009.

As of December 18, 2008, \$271.4 million of the Sixth Series Bonds are held by the providers of the Standby Bond Purchase Agreement as bank bonds. The providers of the Standby Bond Purchase Agreement continue, on a weekly basis, to remarket the bonds in accordance with the bond authorization. The Standby Bond Purchase Agreement expires on January 26, 2009. If the Standby Bond Purchase Agreement is not renewed, and no substitute liquidity facility is provided, any bank bonds held at that time will be amortized in ten payments payable the first business day of July and the first business day of December for the next five years. The Company has therefore recorded as current debt at August 31, 2008 one tenth of the outstanding Sixth Series Bonds as of August 31, including \$1.9 million due to mature in 2009 under the original amortization schedule and an additional \$29.3 million for a total of \$31.2 million.

The fair value of the interest rate swap as of December 18, 2008 was negative \$72.6 million. This means that the Company would have to pay this amount to terminate the swap. Per the swap agreement, the refunding or defeasance of the Sixth Series Bonds, in whole or in part, without the prior written consent of both the counterparty and the insurer, may constitute an event of termination unless certain conditions are met. There is a termination risk related to the interest rate swap agreement if PGW's bond rating falls below Baa2 or BBB (Moody's/S&P). Because the City's swap payments are insured by Financial Security Assurance Inc. (FSA) as long as FSA is rated at or above A2 or A (Moody's/S&P) the termination event based on the City's rating is stayed. Neither the Company's credit rating nor FSA's credit rating has declined below the levels required in the agreement as of December 18, 2008.

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, 2008 and 2007

(Thousands of dollars)

Assets	<u>2008</u>	<u>2007</u>
Utility plant, at original cost:		
In service	\$ 1,685,593	1,633,300
Under construction	46,969	48,013
Total	<u>1,732,562</u>	<u>1,681,313</u>
Less accumulated depreciation	670,467	640,940
Utility plant, net	<u>1,062,095</u>	<u>1,040,373</u>
Restricted investment funds:		
Sinking fund, revenue bonds	106,198	102,438
Capital improvement fund	111,207	172,134
City of Philadelphia	—	643
Workers' compensation escrow fund	2,383	1,924
Total restricted investment funds	<u>219,788</u>	<u>277,139</u>
Current assets:		
Cash and cash equivalents	49,338	51,698
Accounts receivable (net of provision for uncollectible accounts of \$140,435 and \$150,231 for 2008 and 2007, respectively)	99,304	88,618
Gas inventories, materials, and supplies	187,539	147,770
Other current assets and deferred debits	5,626	5,615
Total current assets	<u>341,807</u>	<u>293,701</u>
Unamortized bond issuance costs	38,738	42,086
Unamortized losses on reacquired debt	47,902	53,359
Other assets and deferred debits	19,335	8,282
Total assets	<u>\$ 1,729,665</u>	<u>1,714,940</u>

See accompanying notes to financial statements.

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

Balance Sheets

August 31, 2008 and 2007

(Thousands of dollars)

Fund Equity and Liabilities	2008	2007
Fund equity:		
Deficiency of capital assets, net of related debt	\$ (4,466)	(5,690)
Restricted	108,581	105,005
Unrestricted	122,293	123,986
Total fund equity	226,408	223,301
Long-term debt:		
Revenue bonds	1,127,163	1,201,792
Total long-term debt	1,127,163	1,201,792
Current liabilities:		
Note payable	90,000	51,600
Current portion of revenue bonds	76,030	43,995
Note payable – City Loan	—	43,000
Accounts payable	67,508	60,615
Customer deposits	7,325	9,049
Other current liabilities and deferred credits	32,581	15,524
Accrued accounts:		
Interest, taxes, and wages	15,821	15,088
Distribution to the City	3,000	3,000
Total current liabilities	292,265	241,871
Other liabilities and deferred credits	83,829	47,976
Total fund equity and liabilities	\$ 1,729,665	1,714,940

See accompanying notes to financial statements.

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

Statements of Revenues and Expenses

Years ended August 31, 2008 and 2007

(Thousands of dollars)

	2008	2007
Operating revenues:		
Gas revenues:		
Nonheating	\$ 78,687	90,798
Gas transport service	19,215	12,949
Heating	733,526	736,358
Total gas revenues	831,428	840,105
Appliance and other revenues	8,607	9,398
Other operating revenues	9,592	9,848
Total operating revenues	849,627	859,351
Operating expenses:		
Natural gas	511,976	539,300
Gas processing	14,436	16,240
Field services	37,126	36,100
Distribution	17,319	17,119
Collection and account management	15,447	15,221
Provision for uncollectible accounts	37,000	40,000
Customer services	12,305	11,783
Marketing	2,628	2,418
Administrative and general	60,716	56,819
Pensions	14,258	15,217
Other postemployment benefits	25,834	26,421
Taxes	5,677	6,730
Total operating expenses before depreciation	754,722	783,368
Depreciation	42,868	39,708
Less depreciation expense included in operating expenses above	3,344	3,328
Total depreciation	39,524	36,380
Total operating expenses	794,246	819,748
Operating income	55,381	39,603
Interest and other income	15,732	13,073
Income before interest expense	71,113	52,676
Interest expense:		
Long-term debt	56,075	52,146
Other	12,269	17,042
Allowance for funds used during construction	(338)	(408)
Total interest expense	68,006	68,780
Excess (deficiency) of revenues over (under) expenses	\$ 3,107	(16,104)

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended August 31, 2008 and 2007

(Thousands of dollars)

	2008	2007
Cash flows from operating activities:		
Receipts from customers	\$ 834,000	863,658
Payments to suppliers	(659,969)	(631,475)
Payments to employees	(105,596)	(106,018)
Claims paid	(2,691)	(2,958)
Other receipts	24,500	28,800
Net cash provided by operating activities	90,244	152,007
Cash flows from noncapital financing activities:		
Interest	3,548	4,766
Interest payments on notes payable	(4,099)	(8,098)
Net repayments of notes payable	38,400	(3,400)
Loan from City of Philadelphia	(43,000)	(2,000)
Restricted, City Loan deposit	643	(643)
Distribution to the City of Philadelphia	(18,000)	(18,000)
Grant back of distribution from the City of Philadelphia	18,000	18,000
Net cash used in noncapital financing activities	(4,508)	(9,375)
Cash flows from capital and related financing activities:		
Proceeds from long-term debt issued	—	245,350
Redemption of long-term debt	—	(45,450)
Long-term debt issuance costs	—	(5,652)
Long-term debt premium, discount, and issuance losses	—	(4,133)
Purchases of capital assets	(61,244)	(69,105)
Principal paid on long-term debt	(41,830)	(38,045)
Interest paid on long-term debt	(54,076)	(46,913)
Capital improvement fund deposits	—	(193,170)
Drawdowns on capital improvement fund	60,926	60,672
Interest income on capital improvement fund	8,089	4,497
Interest income on sinking fund	3,460	1,996
Sinking fund (deposits)	(3,759)	(8,086)
Other investment income	338	408
Net cash used in capital and related financing activities	(88,096)	(97,631)
Net increase (decrease) in cash and cash equivalents	(2,360)	45,001
Cash and cash equivalents at the beginning of the year	51,698	6,697
Cash and cash equivalents at the end of the year	\$ 49,338	51,698
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 55,381	39,603
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	39,812	36,732
Change in assets and liabilities:		
Receivables, net	(11,215)	3,387
Inventories	(39,769)	1,668
Accounts payable	6,892	3,133
Other liabilities and deferred credits	50,879	31,366
Other assets and deferred debits	(11,736)	36,118
Net cash provided by operating activities	\$ 90,244	152,007

See accompanying notes to financial statements.

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

Statements of Changes in Fund Equity

Years ended August 31, 2008 and 2007

(Thousands of dollars)

	<u>2008</u>	<u>2007</u>
Fund equity balance, beginning of the year	\$ 223,301	239,405
Excess (deficiency) of revenues over (under) expenses	3,107	(16,104)
Distribution to the City of Philadelphia	(18,000)	(18,000)
Grant back of distribution from the City of Philadelphia	18,000	18,000
Fund equity balance, end of the year	<u>\$ 226,408</u>	<u>223,301</u>

See accompanying notes to financial statements.

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

Notes to Financial Statements

August 31, 2008 and 2007

(1) Summary of Significant Accounting Policies

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

As described in note 2, the Company, is a component unit of the City, and consequently follows accounting principles promulgated by the Governmental Accounting Standards Board (GASB) as they apply to proprietary fund-type activities. In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Company does not apply accounting standards promulgated by the Financial Accounting Standards Board (FASB) issued after November 30, 1989. FASB Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*, is applicable to the Company. Under FASB Statement No. 71, certain assets or liabilities may be created by 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.

(b) Operating Budget

On May 29, 2008, the Company filed its fiscal year (FY) 2009 Operating Budget. The PGC conducted informal discovery concerning this budget in July and August 2008 and public hearings in September 2008. The PGC authorized interim spending authority of \$88,140,000 for the period September 1, 2008 through December 31, 2008, pursuant to a Motion, dated September 23, 2008. A final Order approving interim spending was approved by the Commission at its September 23, 2008 meeting. Briefs were filed on October 15, 2008, a Recommended Decision was received on October 27, 2008 and a final budget approval was granted by the Commission on December 2, 2008.

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August 31, 2008 and 2007

On July 13, 2007, the Company filed its FY 2008 Operating Budget. The PGC conducted hearings concerning this budget in August 2007 and approved the Company's proposed operating revenues and expenses with net adjustments of \$4,197,000.

(c) Capital Budget

On April 21, 2008, the Philadelphia Facilities Management Corporation (PFMC) Board approved the Company's Request to file an amendment to the FY 2008 budget in the amount of \$2,300,000 for funding to support the Risk-Based Collections and Field operations projects. These projects are critical efforts in support of the Company's Business Transformation effort. The Commission, after review and evaluation, approved a recommendation to City Council supporting the Company's amendment on July 2, 2008. City Council approved the Commission's recommendation on October 23, 2008 and the Mayor signed the ordinance on November 5, 2008.

On January 2, 2008 the Company filed a proposed FY 2009 Capital Budget in the amount of \$73,436,000. After review and evaluation, the PGC on April 30, 2008 approved a recommendation to City Council for a budget of \$71,956,000. The Gas Commission's recommendation was approved by City Council on June 19, 2008 and the ordinance signed by the Mayor on July 2, 2008.

On September 27, 2007 the Company filed with the PGC a proposal to amend the approved FY 2008 Capital Budget for two new line items totaling \$1,433,000. These line items were Supplemental Funding – Consolidate Fire Protection System – Richmond Plant for \$1,171,000 and Disaster Recovery for Richmond and Passyunk Plants for \$262,000. On October 23, 2007 the Company filed a proposal to further amend the budget by adding another new line item. Partial Reauthorization – Customer Service Data Warehouse for \$169,000. Concurrently, the Company proposed a reduction of \$1,523,000 in FY 2008 budget authorization to compensate for the additional funding requested. The Commission, after review and evaluation, recommended that City Council approve an amended budget for FY 2008 in the amount of \$70,727,000. Subsequently, City Council approved the PGC's recommendation on March 6, 2008, with the Mayor signing the budget ordinance on March 12, 2008.

On January 2, 2007, the Company filed with the PGC its FY 2008 Capital Budget requesting spending authority in the amount of \$118,243,000. This budget request was amended by the Company to reflect the deferral of two projects, Construction of Phase II Liquefied Natural Gas (LNG) Replacement and Implementation of Billing Collection Customer Service (BCCS) for a reduction of \$47,300,000. The PGC conducted hearings concerning this budget in February 2007. Briefs were filed on March 13, 2007. The Hearing Examiner issued a Recommended Decision on March 27, 2007 for consideration by the Commissioners further reducing the budget by \$295,000. The PGC's Resolution and Order recommending approval of the FY 2008 Capital Budget to City Council was passed on April 25, 2007. This recommendation of \$70,648,000 was approved by City Council on June 15, 2007. The Mayor of the City signed the Ordinance approving the FY 2008 Capital Budget on September 20, 2007.

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(d) Base Rates

In November 2008, the Company filed for an extraordinary or emergency base rate increase of approximately \$60,000,000 or 5.2% and simultaneously requested an \$85,000,000 or 7.4% decrease in the GCR for a net 2.2% overall rate decrease of approximately \$25,000,000. The base rate increase will serve several purposes. First, the increase will cover the additional financing costs that the Company anticipates it will incur in the next few months. Second, the increase will improve the Company's financial position so as to enhance its ability to access the financial markets and maintain its bond rating. Third, the increase will provide additional liquidity and financial flexibility in this tight credit market. On December 18, 2008, the PUC issued its decision approving a base rate increase of \$60,000,000 or 5.2% and a decrease in the GCR of \$107,000,000 for a net decrease in rates of \$47,000,000, or 4.2%. These rates are effective as of January 1, 2009.

On December 22, 2006, the Company filed for a \$100,000,000 base rate increase with the PUC. The funds provided by this increase in base rates were to be used to pay increased operating and maintenance costs, establish an adequate level of working capital, repay the \$45,000,000 City loan, reduce the outstanding level of short-term commercial paper, provide a source of internal funds for capital expenditures, meet bond covenant requirements in each fiscal year, and provide funds for long-term debt reduction. On September 28, 2007, the PUC approved a rate increase of \$25,000,000 which was effective in November 2007. The Company appealed this decision to Commonwealth Court on or about October 18, 2007 and this matter is pending in the courts.

The previous increase in base rates of \$36,000,000 was approved by the PUC on April 12, 2002.

(e) Weather Normalization Adjustment Clause

The Weather Normalization Adjustment Clause (WNA) was approved by PUC Order dated August 8, 2002. The purpose of the WNA 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 results in neither a rate increase nor a rate decrease, but acts as a billing adjustment. The main benefits of the WNA are the stabilization of cash flow and the reduction of the need for short-term borrowing from year to year. The WNA is applied to customer invoices rendered during the period of October 1 through May 31 of each year for each billing cycle. The WNA will continue in place unless the PUC issues an order directing that it be discontinued. The Company cannot predict when the PUC will complete its review of the WNA, and the review was not completed as of August 31, 2008. The adjustments for the years ended August 31, 2008 and 2007 were an increase in billings of \$12,238,000 and \$6,498,000, respectively.

(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 gas cost rate (GCR) factor. The GCR reflects the increases or decreases in natural gas costs and the cost of other raw materials. 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.

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At the end of the fiscal year, costs recovered through the GCR are compared to the actual cost of fuel and other specific costs. Customers are then credited or charged for over-recovery or under-recovery of costs. The GCR may be adjusted 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 and operating expenses, but do not affect operating income or net income. The Company at August 31, 2008 deferred approximately \$15,494,000 for GCR under-recovery.

GCR effective dates and rates

Effective date	GCR rate per Mcf*	Change
September 1, 2008	\$ 12.6527	(0.3709)
June 1, 2008	13.0236	2.3010
March 1, 2008	10.7226	0.1447
December 1, 2007	10.5779	0.4671
September 1, 2007	10.1108	(0.6143)
June 1, 2007	10.7251	0.2913
March 1, 2007	10.4338	(0.4781)
December 1, 2006	10.9119	(0.3439)
September 1, 2006	11.2558	(1.3074)
Prior	12.5632	—

* 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 are 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 \$2,847,000 and \$2,542,000 was charged to expense as incurred in FY 2008 and FY 2007, respectively, and is included in depreciation expense in the statements of revenues and expenses. 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 2008 and FY 2007 was 2.4% and 2.3%, respectively. The composite rates are supported by a depreciation study of utility plant as of August 31, 2004. The effective composite depreciation rates, as a percentage of cost, for FY 2008 were as follows:

Production plant	0.14% – 4.39%
Transmission, distribution, and storage	0.18% – 4.07%
General plant	1.62% – 9.97%

The next depreciation study is scheduled to be completed in FY 2010.

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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 4.96% in FY 2008 and FY 2007, respectively.

The following is a summary of utility plant activity for the fiscal years ended August 31, 2008 and 2007, respectively (thousands of dollars):

	August 31, 2008			
	Beginning balance	Additions and transfers	Retirements and transfers	Ending balance
Land	\$ 5,267	328	—	5,595
Distribution and collection systems	1,221,067	52,803	(2,474)	1,271,396
Buildings and equipment	406,966	9,792	(8,156)	408,602
Total utility plant, at historical cost	1,633,300	62,923	(10,630)	1,685,593
Under construction	48,013	61,879	(62,923)	46,969
Less accumulated depreciation for:				
Distribution and collection systems	(556,620)	(28,609)*	2,768	(582,461)
Buildings and equipment	(84,320)	(11,412)*	7,726	(88,006)
Utility plant, net	<u>\$ 1,040,373</u>	<u>84,781</u>	<u>(63,059)</u>	<u>1,062,095</u>

* Cost of removal in the amounts of \$2,847 and \$2,542 was charged to expense as incurred in FY 2008 and FY 2007, respectively, and is not included in accumulated depreciation.

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	August 31, 2007			
	Beginning balance	Additions and transfers	Retirements and transfers	Ending balance
Land	\$ 5,267	—	—	5,267
Distribution and collection systems	1,161,705	61,537	(2,175)	1,221,067
Buildings and equipment	388,697	25,500	(7,231)	406,966
Total utility plant, at historical cost	1,555,669	87,037	(9,406)	1,633,300
Under construction	65,122	70,055	(87,164)	48,013
Less accumulated depreciation for:				
Distribution and collection systems	(532,763)	(26,261)*	2,404	(556,620)
Buildings and equipment	(80,380)	(10,905)*	6,965	(84,320)
Utility plant, net	\$ 1,007,648	119,926	(87,201)	1,040,373

* Cost of removal in the amounts of \$2,847 and \$2,542 was charged to expense as incurred in FY 2008 and FY 2007, respectively, 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 and reconnection charges. Other operating revenues primarily consist of finance charges assessed on delinquent accounts.

Operating expenses include 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.

Revenue includes 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.

(i) Customers (Unaudited)

The Company's service territory encompasses the City. Of the Company's approximately 505,000 customers at August 31, 2008, nearly 95.0% were residential. Of the Company's approximately 506,000 customers at August 31, 2007, nearly 94.3% were residential.

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The Company offers a discounted payment plan for current receivables with a possible forgiveness of arrearages in three years. The total number of customers with discounted payment plans as of August 31, 2008 and 2007 was approximately 77,000 and 78,000, respectively.

The Senior Citizen Discount also provides customers with a discounted payment plan. The total number of customers receiving the discount as of August 31, 2008 and 2007 was approximately 40,000 and 44,000, respectively.

(j) Provision for Uncollectible Accounts

The Company estimates its accumulated provision for uncollectible accounts based on a financial analysis and a collectibility study performed at the fiscal year-end. The methodology used in performing the collectibility study has been reviewed with the PGC. For FY 2008 and FY 2007, 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 \$19,014,000 and \$17,166,000 for FY 2008 and FY 2007, respectively, have been reclassified to accounts payable at year end.

(k) Gas Inventories, Materials, and Supplies

Gas inventories, materials, and supplies, consisting primarily of fuel stock, gases stored to meet peak demand requirements, and spare parts, are stated at average cost at August 31, 2008 and 2007, as follows (thousands of dollars):

	2008	2007
Gas inventory	\$ 179,751	138,388
Material and supplies	7,788	9,382
Total	\$ 187,539	147,770

(l) Bond Issuance Costs, Debt Discount, and Premium

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

(m) Losses on Reacquired Debt

Losses on reacquired debt are deferred 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.

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(n) Pensions and Postemployment Benefits

The Company sponsors a public employee retirement system (PERS), a single-employer defined-benefit plan, to provide pension benefits for all of its employees. The pension plan (the Pension Plan) is noncontributory, covering all employees and providing 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 the Company to the Sinking Fund Commission of the City. Management believes that the Pension Plan is in compliance with all applicable laws.

The Company sponsors a single employer defined benefit healthcare plan and provides postemployment healthcare and life insurance benefits to approximately 1,920 and 1,935 participating retirees and their beneficiaries and dependents for FY 2008 and FY 2007, respectively, in accordance with their retiree medical program. The Company also provides such benefits to approximately 1,699 and 1,720 active employees and their dependents for FY 2008 and FY 2007, respectively, by charging the annual insurance premiums to expense.

GASB Statement No. 45 (GASB 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, becomes effective for the Company's fiscal year beginning September 1, 2007. This Statement requires the Company to account for and report the value of its future other postemployment benefit (OPEB) obligations currently rather than on a pay-as-you-go basis. The Company adopted the provisions of GASB 45 as of September 1, 2006. The Company had a zero net OPEB obligation at transition. As discussed in note 11, the difference between the FY 2008 annual OPEB expense of \$44,114,000 and the expenses paid by the Company of \$18,280,000 resulted in an increase in the liability of \$25,834,000 which has been recorded in other liabilities and deferred credits and expensed in FY 2008.

Additionally, the Company adopted the provisions of GASB Statement No. 50, *Pension Disclosures*, which more closely aligns the financial reporting requirements for pensions with those of OPEB, as of September 1, 2006.

(o) Cash Equivalents

For the purpose of reporting cash equivalents, all nonrestricted highly liquid investments with original maturities of three months or less are considered cash equivalents.

(p) 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.

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

(q) 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.

(r) Estimates

In preparing the financial statements in conformity with U.S. GAAP, management uses estimates. The Company has disclosed in the financial statements all estimates where it is reasonably possible that the estimate will change in the near term and the effect of the change could be material to the financial statements.

(s) Pollution Remediation

GASB Statement No. 49 (GASB 49), *Accounting and Financial Reporting for Pollution Remediation Obligations*, is effective for the Company's fiscal year beginning September 1, 2008, however, the Company has chosen to implement the provisions of GASB 49 a year earlier than required by GASB because the Company is a component unit of the City for financial reporting requirements and the FY 2008 financial statements will be consolidated into the City's financial statements for the fiscal year ended June 30, 2009. This statement establishes a framework for the recognition and measurement of pollution remediation liabilities. A pollution remediation obligation addresses the current or potential detrimental effects of existing pollution by participation in pollution remediation activities.

Prior to the implementation of GASB 49, the Company recognized liabilities related to its voluntary participation in remediation activities under Pennsylvania Act 2, *Land Recycling and Environmental Remediation Standards Act of 1995 (Act 2)*, which established the "land recycling program, and related to its mandatory participation in activities under Pennsylvania Act 32, *Storage Tank and Spill Prevention Act of 1989 (Act 32)*, which established a comprehensive program to prevent leaks and spills from underground and above ground tanks in accordance with existing U.S. GAAP related to the accrual of liabilities.

Under Act 2, the Notice of Intent to Remediate (NIR) process was conducted by the Company in October of 2004 and a total of four Public Involvement Plan meetings were conducted at multiple City Recreation Centers throughout Philadelphia during February and March of 2005. In March of 2005 (after the public meetings were conducted), the Company submitted a series of five Remedial Investigation Reports (RIRs) to the Act 2 for review. In July 2005, the Act 2 program approved all five RIRs submitted in March 2005.

In accordance with GASB 49, the Company revised its methodology for estimating its pollution remediation obligations to 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

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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 Act 2 and Act 32 remediation efforts, adjusted as additional information becomes available.

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, price changes, changes in technology, or changes in applicable regulations.

The implementation of GASB 49 resulted in an additional \$8,300,000 liability which is reflected in other liabilities and deferred credits at August 31, 2008. Although GASB 49 requires pollution remediation liabilities to be measured at the beginning of the first period presented in the financial statements, because the increase in the liability related to the implementation of GASB 49 is not material, the Company has not restated prior periods and instead recognized the effect of GASB 49 implementation in the current year.

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.

(1) *Reclassifications*

Certain prior year amounts have been reclassified to conform to current year presentation.

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

The Company is 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 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 2008, the applicable maximum amount was calculated to be \$1,011,000. In FY 2007, the applicable maximum amount was calculated to be \$976,000. The agreement requires the Company to make annual payments of \$18,000,000 to the City. In FY 2008 and FY 2007, the Company made the annual payment of \$18,000,000 to the City. The City then granted the \$18,000,000 back to the Company in both years.

The Company engages in various other transactions with the City. The Company provides gas service to the City. Operating revenues include \$13,914,000 and \$17,245,000 in FY 2008 and FY 2007, respectively, relating to sales to the City. Water and sewer services and licenses are purchased from the City. Such purchases totaled \$616,000 and \$615,000 in FY 2008 and FY 2007, respectively. Net amounts receivable from the City were \$375,000 and \$240,000 at August 31, 2008 and 2007, respectively.

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Certain activities of the PGC are paid for by the Company. Such payments totaled \$788,000 and \$684,000 in FY 2008 and FY 2007, respectively.

(3) Cash, Cash Equivalents, and Investments

(a) Cash and Cash Equivalents

Cash and cash equivalents consist primarily of bank deposits, money market accounts, and repurchase agreements. Bank balances of such deposits and accounts at August 31, 2008 and 2007 were \$52,504,000 and \$54,892,000, respectively. Book balances of such deposits and accounts at August 31, 2008 and 2007 were \$49,338,000 and \$51,698,000, respectively. Federal depository insurance on these balances at August 31, 2008 and 2007 was \$158,000 and \$222,000, respectively. The remaining balances are not insured.

For the Company's cash equivalents, the Company's cash balances fluctuate significantly during the year. Excess cash balances are usually invested in money market accounts and repurchase agreements.

The highest balance of money market accounts during the fiscal years ended August 31, 2008 and 2007 were \$135,200,000 and \$157,200,000, respectively. Money market accounts with a carrying amount (at fair value) of \$51,200,000 and \$53,702,000 at August 31, 2008 and 2007, respectively, are included in the balances presented above.

The highest balance of repurchase agreements during the fiscal year ended August 31, 2008 was \$62,600,000. There were no repurchase agreements outstanding at August 31, 2008 and 2007.

(b) Restricted Investment Funds

The investments in the Company's Sinking Fund, Capital Improvement Fund, Workers' Compensation Escrow Fund, and City Loan Escrow Account consist primarily of a Guaranteed Investment Contract (GIC), 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. The balance of the Capital Improvement Fund at August 31, 2008 and 2007 was \$111,207,000 and \$172,134,000, respectively. The unexpended Capital Improvement Fund proceeds are restricted to the purchase of utility plant. In FY 2008 and FY 2007, the Company utilized the Capital Improvement Fund to provide liquidity for the additions to utility plant.

Investments are recorded at fair value except for certain money market funds recorded at amortized cost. The adjustment to market value for the Capital Improvement Fund resulted in a loss of \$71,500 at August 31, 2008. The adjustment to market value for the Capital Improvement Fund resulted in a gain of \$8,000 at August 31, 2007. The adjustment to market value for the Sinking Fund resulted in gains of \$242,000 and \$214,000 at August 31, 2008 and 2007, respectively.

Pursuant to the Pennsylvania Department of Labor and Industry Bureau of Workers' Compensation Self-Insurance policy, the Company has to establish and maintain a restricted trust account. As of August 31, 2008 and 2007, the trust account balances were \$2,383,000 and \$1,924,000, respectively.

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

Investment type	August 31, 2008			
	Fair value	Weighted average maturity (years)	Credit rating	Rating agency
U.S. government agencies and instrumentalities:				
Federal Home Loan Mortgage Corporation medium term notes	\$ 32,244	0.4608	Aaa/AAA	Moody's/S&P
Federal Home Loan Mortgage gold partner certificate	491	1.6694	N/A	
Federal National Mortgage Association global benchmark notes	7,129	0.2794	Aaa/AAA	Moody's/S&P
Federal National Mortgage Association medium term notes	1,248	1.8506	Aaa/AAA	Moody's/S&P
Federal Home Loan Banks	9,405	0.8250	Aaa/AAA	Moody's/S&P
Total U.S. government agencies and instrumentalities	<u>50,517</u>			
Corporate obligations:				
Goldman Sachs Group senior un subordinate	968	0.7083	Aa-/AA3	Moody's/S&P
Prioca Global	997	0.2917	Aa/AA3	Moody's/S&P
Societe Generale National Association commercial paper	4,950	1.6694	N/A/A-1+	S&P
HSBC Finance Corporation commercial paper	985	0.2403	P1/A-1+	Moody's/S&P
American Express commercial paper	985	0.2403	P1/A-1+	Moody's/S&P
Banco Santander PR San Juan certificate of deposit	98	0.0280	FDIC Insured	
Bank of Florida certificate of deposit	99	0.1043	FDIC Insured	

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<u>Investment type</u>	<u>August 31, 2008</u>			
	<u>Fair value</u>	<u>Weighted average maturity (years)</u>	<u>Credit rating</u>	<u>Rating agency</u>
Bridgewater Savings Bank certificate of deposit	\$ 98	0.0208	FDIC Insured	
Countrywide Bank certificate of deposit	99	0.0180	FDIC Insured	
Eurobank Hato Rey certificate of deposit	99	0.0205	FDIC Insured	
First Suburban National Bank certificate of deposit	98	0.1876	FDIC Insured	
Ironstone Bank certificate of deposit	98	0.1298	FDIC Insured	
Mutual Bank certificate of deposit	99	0.0745	FDIC Insured	
Ravenswood Bank certificate of deposit	<u>97</u>	0.1835	FDIC Insured	
Total corporate obligations	<u>9,770</u>			
Total fair value of investments	<u>60,287</u>			
Cash and cash equivalents:				
Citigroup Funding Inc. commercial paper	4,966	0.1474	N/A/A-1+	S&P
UBS Finance Delaware LLC commercial paper	<u>2,988</u>	0.0595	N/A/A-1+	S&P
Total cash and cash equivalents	<u>7,954</u>			
Money market:				
Morgan Stanley Prime Portfolio Institutional Class Funds	21,772	N/A	N/A	
First American Government Obligations Fund Class Z	13,884	N/A	N/A	
First American Prime Obligations Class Z	<u>6,847</u>	N/A	N/A	
Total money market	<u>42,503</u>			
Accrued interest	<u>463</u>			
Total fair value of investments, including cash deposits	<u>\$ 111,207</u>			
Portfolio weighted modified duration		0.5898		

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<u>Investment type</u>	<u>August 31, 2007</u>			
	<u>Fair value</u>	<u>Weighted average maturity (years)</u>	<u>Credit rating</u>	<u>Rating agency</u>
U.S. government agencies and instrumentalities:				
Federal Home Loan Banks discount note	\$ 2,369	0.1917	Aaa/AAA	Moody's/S&P
Federal National Mortgage Association note	<u>3,293</u>	0.4194	Aaa/AAA	Moody's/S&P
Total U.S. government agencies and instrumentalities	<u>5,662</u>			
Corporate obligations:				
American Express commercial paper	492	0.2861	P1/A1	Moody's/S&P
General Electric commercial paper	1,004	0.2889	P1/A1	Moody's/S&P
HSBC Finance commercial paper	1,003	0.2972	P1/A1	Moody's/S&P
JP Morgan Chase & Co Global Sr Holding Co note	992	0.4194	Aa2/AA-	Moody's/S&P
Goldman Sachs Group global note	<u>994</u>	0.3750	Aa3/AA-	Moody's/S&P
Total corporate obligations	<u>4,485</u>			
Total fair value of investments	<u>10,147</u>			
Money market:				
First American Prime Obligations Fund Class Z	<u>161,965</u>	N/A	N/A	
Total money market	<u>161,965</u>			
Accrued interest				
	<u>22</u>			
Total fair value of investments, including cash deposits	<u>\$ 172,134</u>			
Portfolio weighted modified duration		0.3304		

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The following is a schedule that details the Company's investments in the Sinking Fund (thousands of dollars):

Investment type	August 31, 2008			
	Fair value	Weighted average maturity (years)	Credit rating	Rating agency
Guaranteed investment contracts	\$ 48,129	12.5000	*	*
U.S. government obligations:				
U.S. Treasury notes	16,806	2.5158	Aaa/AAA	Moody's/S&P
Total U.S. government obligations	<u>16,806</u>			
U.S. government agencies and instrumentalities:				
Federal Home Loan Mortgage Corporation medium term notes	10,176	2.0177	Aaa/AAA	Moody's/S&P
Federal National Mortgage Association medium term notes	5,152	2.1446	Aaa/AAA	Moody's/S&P
Federal Home Loan Banks	16,514	1.9511	Aaa/AAA	Moody's/S&P
Total U.S. government agencies and instrumentalities	<u>31,842</u>			
Corporate obligations:				
Wells Fargo note	2,688	0.5861	Aa1/AA+	Moody's/S&P
Associates Corp National Association	2,610	0.1694	Aa3/AA-	Moody's/S&P
Procter & Gamble Company	1,293	0.2917	Aa3/AA-	Moody's/S&P
Total corporate obligations	<u>6,591</u>			
Total fair value of investments	<u>103,368</u>			
Cash and cash equivalents:				
U.S. Treasury bills	1,860	0.0111	Aaa/AAA	Moody's/S&P
Total cash and cash equivalents	<u>1,860</u>			
Money market:			N/A	N/A
Fidelity Institutional Government Portfolio Class II	970			
Total money market	<u>970</u>			
Total fair value of investments, including cash deposits	<u>\$ 106,198</u>			
Portfolio weighted modified duration		1.9002		

* The credit rating of this investment is unrated.

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<u>Investment type</u>	<u>August 31, 2007</u>			
	<u>Fair value</u>	<u>Weighted average maturity (years)</u>	<u>Credit rating</u>	<u>Rating agency</u>
Guaranteed investment contracts	\$ 49,504	13.5000	*	*
U.S. government obligations:				
U.S. Treasury notes	7,294	1.6153	Aaa/AAA	Moody's/S&P
Total U.S. government obligations	<u>7,294</u>			
U.S. government agencies and instrumentalities:				
Federal National Mortgage Corporation debentures	6,973	2.0417	Aaa/AAA	Moody's/S&P
Federal Farm Credit Bank bonds	4,680	1.3717	Aaa/AAA	Moody's/S&P
Federal Home Loan Mortgage Corporation bonds	10,396	1.9650	Aaa/AAA	Moody's/S&P
Federal Home Loan Mortgage Corporation debentures	8,810	1.8329	Aaa/AAA	Moody's/S&P
Federal National Mortgage Association notes	5,861	2.3328	Aaa/AAA	Moody's/S&P
Federal Home Loan Mortgage Corporation notes	<u>6,358</u>	1.3568	Aaa/AAA	Moody's/S&P
Total U.S. government agencies and instrumentalities	<u>43,078</u>			
Corporate obligations:				
Procter & Gamble note	1,265	1.2917	Aa3/AA-	Moody's/S&P
U.S. Bank National Association	<u>1,105</u>	0.8750	Aa2/AA	Moody's/S&P
Total corporate obligations	<u>2,370</u>			
Total fair value of investments	<u>102,246</u>			
Money market:				
Fidelity Institutional Government Portfolio Class II	<u>192</u>	N/A	N/A	
Total money market	<u>192</u>			
Total fair value of investments, including cash deposits	<u>\$ 102,438</u>			
Portfolio weighted modified duration		1.7806		

* The credit rating of this investment is unrated.

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

August 31, 2008				
Investment type	Fair value	Weighted average maturity (years)	Credit rating	Rating agency
Money market:				
First American Treasury Obligations Fund	\$ <u>2,383</u>	N/A	N/A	N/A
Total money market	2,383			
Total fair value of investments, including cash deposits	\$ 2,383			
August 31, 2007				
Investment type	Fair value	Weighted average maturity (years)	Credit rating	Rating agency
Money market:				
First American Treasury Obligations Fund	\$ <u>1,924</u>	N/A	N/A	N/A
Total money market	1,924			
Total fair value of investments, including cash deposits	\$ 1,924			

(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 interest rate risk. Investments shall be diversified as to maturities, and as to kind of investment to eliminate 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.

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(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: (1) bonds or notes of the U.S. government; (2) U.S. Treasury obligations, including STRIPs; 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) U.S. agency obligations rated Aaa/AAA by Moody's Investor Services or Standard & Poor's; (4) collateralized certificates of deposit; (5) bankers acceptances, Eurodollars deposits, and Euro certificates of deposit that are collateralized; (6) commercial paper rated MIG1 or A1+ by Moody's Investor Services and Standard & Poor's, respectively; (7) general obligation bonds of corporations rated AA or better by Moody's Investor Services or Standard & Poor's, with a maturity of two years or less (except the Sinking Fund); (8) collateralized mortgage obligations and pass-through securities rated AA or better by Moody's Investor Services or Standard & Poor's or collateralized with securities that meet the Company's own investment criteria, with a maturity of two years or less (except the Sinking Fund); (9) money market mutual funds, as defined by the Securities and Exchange Commission; (10) repurchase agreements collateralized either through actual delivery of eligible collateral or through segregation of collateral by a depository that is holding the counterparty's securities, provided such collateral meets the Company's own investment criteria; and (11) obligations of the Commonwealth of Pennsylvania (the Commonwealth) or any municipality or other political subdivision of the Commonwealth, registered or otherwise as to principal and interest, with a maturity of two years or less (except the Sinking Fund).

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

(e) Custodial Credit Risk

The Company has selected custodian banks that are members of the Federal Reserve System to hold its investments. Delivery of the applicable investment documents (e.g., contracts, securities, and safekeeping receipts) 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.

(f) Concentration of Credit Risk

More than 5.0% of the Company's investments are in the First American Government Obligations Fund Class Z, U.S. Treasury notes, Morgan Stanley Prime Portfolio Institutional Class Fund, Federal Home Loan Banks, Federal Home Loan Mortgage Corporation medium term notes and the GIC with Financial Security Assurance Inc. (FSA) Capital Markets Services, LLC. These investments represent 6.32% and 7.65%, 9.91%, 11.79%, 19.30% and 21.90%, respectively, of the Company's total investments.

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(4) Deferred Costs

In compliance with orders issued by the PGC, the cost of projects that produce benefits over an extended period is deferred. Such costs are being amortized to expense over a period matching their useful lives, which range from two to ten years. There is no return on the asset being charged to the customers. During FY 2008, there were costs of \$157,000 incurred for rate case expenses and \$437,000 incurred for the PUC's management audit that will be amortized over a four-year period and a seven-year period, respectively. The unamortized costs included in other assets and deferred debits were \$607,000 and \$324,000 as of August 31, 2008 and 2007, respectively. The unamortized costs included in other current assets and deferred debits were \$210,000 and \$397,000 as of August 31, 2008 and 2007, 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. As a result of settlements during FY 2008 by the Company's insurance carriers associated with environmental remediation costs, the Company received \$1,100,000. Environmental remediation costs of approximately \$652,000 in FY 2008 were offset by these insurance settlements, and the remainder was deferred. The Company estimates additional expenditures to be approximately \$21,600,000 as discussed in note 12.

(5) Deferred Compensation Plan

The Company offers its employees a deferred compensation plan (the Plan) created in accordance with Internal Revenue Code Section 457. The Plan, available to all Company employees with six months of service, permits them to defer a portion of their salary until future years. The Company provides an annual 10.0% matching contribution up to \$500 that immediately vests to the employee. The Company contributed \$361,000 and \$365,000 for the years ended August 31, 2008 and 2007, respectively.

(6) Notes Payable

Pursuant to the provisions of certain ordinances and resolutions of the City, the Company may sell short-term notes in a principal amount that, together with interest, may not exceed \$200,000,000 outstanding at any one time. These notes are intended to provide additional working capital. They are supported by an irrevocable letter of credit and a subordinated security interest in the Company's revenues.

A new Series E of the tax-exempt commercial paper program was instituted on January 18, 2006, concurrently with the expiration of Series D. Under the new credit agreement, the commitment amount was increased from \$100,000,000 to \$150,000,000. The credit agreement was further amended and restated as of May 22, 2007 to reflect a new term and rate structure. The expiration of the credit agreement was extended to May 29, 2010.

The notes outstanding at August 31, 2008 had a weighted average interest rate of 1.63% and remaining weighted average time to maturity of 61 days. The principal amount outstanding at August 31, 2008 and 2007 was \$90,000,000 and \$51,600,000, respectively.

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Commercial paper activity for the years ended August 31, 2008 and 2007 was as follows (thousands of dollars):

	Year ended August 31, 2008			
	Beginning balance	Additions	Deletions	Ending balance
Commercial paper	\$ 51,600	87,900	49,500	90,000
	Year ended August 31, 2007			
	Beginning balance	Additions	Deletions	Ending balance
Commercial paper	\$ 55,000	94,900	98,300	51,600

See note 8(e) for detail of the Note Payable – City Loan.

(7) GCR Tariff Reconciliation

During the fiscal years ended August 31, 2008, 2007, and 2006, the Company's actual gas costs were below its billed gas costs by approximately \$30,503,000, \$24,904,000, and \$8,466,000, respectively.

Natural Gas Pipeline Supplier Refund

The Company received refunds including interest in FY 2008 in the amount of \$10,660,000 related to Federal Energy Regulatory Commission (FERC)/Pipeline Rate Cases. This amount was utilized as a reduction in the cost of gas for reconciliation purposes in the calculation of the GCR for FY 2008.

The Company received refunds including interest in FY 2007 in the amount of \$648,000 related to FERC/Pipeline Rate Cases. This amount was utilized as a reduction in the cost of gas for reconciliation purposes in the calculation of the GCR for FY 2007.

(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, 2008 and 2007 (thousands of dollars):

	August 31, 2008			August 31, 2007		
	Current portion	Long-term	Total	Current portion	Long-term	Total
Revenue bonds	\$ 73,941	1,103,828	1,177,769	41,830	1,176,368	1,218,198
Unamortized discount	(482)	(4,469)	(4,951)	(511)	(4,951)	(5,462)
Unamortized premium	2,571	27,804	30,375	2,676	30,375	33,051
Total revenue bonds	76,030	1,127,163	1,203,193	43,995	1,201,792	1,245,787
Note Payable – City Loan	—	—	—	43,000	—	43,000
Total	\$ 76,030	1,127,163	1,203,193	86,995	1,201,792	1,288,787

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Principal maturities and scheduled interest payments for revenue bonds are as follows (thousands of dollars):

	Revenue bonds			
	Principal	Interest	Net swap amount	Total
Fiscal year ending August 31:				
2009*	\$ 44,625	53,233	(5,717)	92,141
2010	46,365	50,965	(5,682)	91,648
2011	46,977	48,677	(5,648)	90,006
2012**	41,787	46,915	(5,611)	83,091
2013	45,055	45,269	(5,573)	84,751
2014 – 2018	229,865	192,562	(25,374)	397,053
2019 – 2023	242,520	137,093	(19,042)	360,571
2024 – 2028	244,915	81,657	(9,787)	316,785
2029 – 2033	140,565	35,093	(976)	174,682
2034 – 2038	95,095	8,175	—	103,270
Total	<u>\$ 1,177,769</u>	<u>699,639</u>	<u>(83,410)</u>	<u>1,793,998</u>

* This does not include \$29,317,000 of Sixth Series Bonds that is included in current liabilities due to the scheduled expiration of the Standby Bond Purchase Agreement as described in note 15. This amount is included in the years in which principal matures according to the original maturity schedule.

Future debt service is calculated using rates in effect at August 31, 2008 for variable rate bonds. The net swap payment amounts were calculated by subtracting the future variable rate interest payments subject to swap agreements from the synthetic fixed-rate amount intended to be achieved by the swap amount.

** Tax Exempt Capital Accumulator (TECA) accretions for the 11 "C" Series in the amount of \$4,643,000 are not included in the principal amount in FY 2012.

(a) Bond Issuances

2007 Ordinances

On March 21, 2007, the Mayor signed two bills into law authorizing the City to issue revenue bonds. The first bill signed by the Mayor constituted the Nineteenth Supplemental Ordinance to the General Gas Works Revenue Bond Ordinance of 1975 (the 1975 General Ordinance). This ordinance authorizes the City to issue revenue bonds for the following purposes: (a) the current refunding of a portion of the outstanding City of Philadelphia, Pennsylvania Gas Works Revenue Bonds, Fifteenth Series (1975 Refunded Bonds); (b) paying the costs of issuing the Nineteenth Series Bonds; and (c) paying any other Project Costs (as defined in the Act).

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The second bill signed by the Mayor constituted the Eight Supplemental Ordinance to the General Gas Works Revenue Bond Ordinance of 1998 (the 1998 General Ordinance). This ordinance authorizes the City to issue revenue bonds for the following purposes: (a) providing funding for the capital projects included in the capital program of the Company as from time to time included in the capital budgets of the Company, as approved by City Council; (b) advance refunding of the 1998 Refunded Bonds, which were issued under the 1998 General Ordinance; (c) paying the costs of issuing the Seventh Series Bonds and the required deposits to the 1998 Ordinance Sinking Fund Reserve; and (d) paying any other Project Costs (as defined in the Act).

1998 Ordinance Seventh Series Bonds

On May 15, 2007, the Company issued \$230,900,000 of Seventh Series Bonds for the purpose of providing funds for the financing of the capital projects included in the capital program of the Company, and for the purpose of redeeming and refunding, on a current basis, a portion of the outstanding Second Series B, Third Series and Fourth Series Bonds. The refunded par amounts of the Second Series B, Third Series and Fourth Series Bonds were: \$7,500,000, \$3,145,000, and \$20,005,000, respectively. The Seventh Series Bonds contained new money debt issued in the amount of \$200,000,000. This new debt was issued under the 1998 Ordinance. The interest rate on the \$137,720,000 of Serial Bonds ranged from 4.0% to 5.0%. The interest rate on the \$93,180,000 of Term Bonds was 5.0%. The bonds, consisting of Serial Bonds and Term Bonds, have maturity dates through 2037.

1975 Ordinance Nineteenth Series Bonds

On May 15, 2007, the Company issued \$14,450,000 of Nineteenth Series Bonds for the purpose of redeeming and refunding, on a current basis, the outstanding Fifteenth Series Bonds previously issued under the 1975 Ordinance. This new debt was issued under the 1975 Ordinance. The interest rate on the Serial Bonds was 5.0%. The bonds, consisting of Serial Bonds, have maturity dates through 2023.

2006 Ordinances

On December 22, 2005, the Mayor signed an ordinance into law authorizing the City to issue revenue bonds for the purpose of (a) refunding all or a portion of the following Series of Gas Works Revenue Bonds (the 1998 General Ordinance): First Series B, Second Series A, Third Series, Fourth Series, and Fifth Series; (b) paying the costs of issuing the bonds and making any required deposits to the Sinking Fund Reserve; and (c) paying any other Project Costs, which may include, without limitation, the repayment to any fund of the City or to accounts of the Company of amounts advanced for Project Costs.

1998 Ordinance Sixth Series Bonds

On January 26, 2006, the Company issued \$313,390,000 of Sixth Series Bonds, maturing at various dates through 2031, for the purpose of redeeming and refunding, on a current basis, all of the First Series B and a portion of the outstanding Second Series A, Third Series, and Fourth Series City of Philadelphia, Pennsylvania, Gas Works Revenue Bonds previously issued under the 1998 Ordinance. The refunded par amounts of the First Series B, Second Series A, Third Series, and Fourth

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Series Bonds were: \$103,550,000, \$79,355,000, \$99,915,000, and \$2,295,000, respectively. As of August 31, 2007, there were no Fifth Series Bonds refunded. The \$313,390,000 of Serial Bonds have a variable rate set through a weekly reset mode and are paid monthly and are secured with a Standby Bond Purchase Agreement, which expires January 26, 2009. As discussed in note 15, substantially all of the Sixth Series Bonds are held by banks under the Standby Bond Purchase Agreement at December 18, 2008.

The Bonds were issued on a parity with other Senior 1998 Ordinance Bonds issued under the 1998 General Ordinance, but are subordinated in right of payment and security to all bonds issued and outstanding under the General Gas Works Revenue Bond Ordinance of 1975, approved on May 30, 1975, Bill No. 1871, as amended and supplemented from time to time (the 1975 General Ordinance and together with the 1998 General Ordinance). The Bonds were also issued on parity with the Obligations of the City to make periodic payments due under a Qualified Swap being entered into between the City and the counterparty in connection with the issuance of the bonds.

(b) 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. The Company has satisfied the debt coverage requirements in FY 2008 and FY 2007.

Also provided by both general ordinances is the establishment of a sinking fund into which deposits are made sufficient to meet all principal and interest requirements of the bonds as they become due. Both general ordinances also provide that sinking fund reserves be maintained as part of the Sinking Fund, which have previously been funded from the proceeds of each series of bonds in an amount equal to the maximum annual debt service requirement on the bonds of each respective General Ordinance in any fiscal year.

Monies in the Sinking Fund reserves are to be applied to the payment of debt service if, for any reason, other monies in the Sinking Fund 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 monies in the Sinking Fund.

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 is reported as long-term debt.

(c) Interest Rate Swap Agreement

Objective - In January 2006, the City entered into a swap to synthetically refund all or a portion of several series of outstanding bonds. The swap structure was used as a means to increase the City's savings, when compared with fixed-rate bonds at the time of issuance. The intention of the swap was to create a synthetic fixed rate structure.

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Terms – The swap, executed with the counterparty, commenced on January 26, 2006 and will mature on August 1, 2031. Under the swap, the City pays a fixed rate of 3.6745% and receives a variable rate computed as the lesser of (i) the actual bond rate and (ii) the SIFMA Municipal Swap Index until September 1, 2011 on which date the variable interest rate received will switch to 70% of one month LIBOR until maturity. The rates are based on an amortizing notional schedule (with an initial notional amount of \$313,390,000). As of August 31, 2008, rates were as follows:

	<u>Terms</u>	<u>Rates</u>
Interest Rate Swap		
Fixed payment to counterparty under Swap	Fixed	3.6745%
Variable payment from counterparty under Swap	SIFMA	(1.8400)
Net interest rate swap payments		1.8345
Variable rate bond coupon payments	Weekly resets	2.0400
Synthetic interest rate on bonds		3.8745

As of August 31, 2008, the swap had a notional amount of \$311,615,000 and the associated variable rate bond had a \$311,615,000 principal amount. The bonds and the related swap agreement mature on August 1, 2031.

Fair value – As of August 31, 2008, the swap had a negative fair value of \$14,285,000. This means that the Company would have to pay this amount to terminate the swap. Subsequently, the negative fair value has increased as discussed in note 15.

Risks - As of August 31, 2008, the City is not exposed to credit risk because the swap had a negative fair value. Should interest rates change and the fair value of the swap become positive, the City would be exposed to credit risk in the amount of the swap's fair value. The swap includes an additional termination event based on credit ratings. The swap may be terminated if the ratings 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 swap.

A termination event may also occur if the rating on the Company's Bonds falls below Baa2 or BBB (Moody's/S&P). However, because the City's swap payments are insured by FSA, as long as FSA is rated at or above A2 or A (Moody's/S&P), the termination event based on the City's ratings is stayed. As of December 18, 2008, neither the Company's nor FSA's credit ratings have fallen below these levels.

The City is subject to traditional basis risk should the relationship between SIFMA and the bonds change; if SIFMA resets at a rate below the variable rate bond coupon payments, the synthetic interest rate on the bonds will increase. In addition, after September 1, 2011, the City would be exposed to (i) basis risk, as reflected by the relationship between the rate payable on the bonds and 70% of one month LIBOR received on the swap, and (ii) tax risk, a form of basis risk, where the City

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is exposed to a potential additional interest cost in the event that changes in the federal tax system or in marginal tax rates cause the rate paid on the outstanding bonds to be greater than the 70% of one month LIBOR received on the swap.

(d) Forward Rate Agreement and Guaranteed Investment Contracts

On August 23, 2002, the City entered into GICs in connection with a portion of its 1975 and 1998 Ordinance Sinking Fund Reserves for the Company. At settlement, approximately 65.0% of the Sinking Fund Reserves, from the two ordinances, totaling \$61,396,000 were invested in the GICs. In exchange for this investment, the Company received an up-front payment of \$21,800,000 in lieu of receiving interest payments over the life of the GICs. The life of the Forward Rate Agreement is 18½ years, with 12½ years remaining at August 31, 2008.

The GICs are recorded at fair value in the Sinking Fund and had fair values of \$48,129,000 and \$49,504,000 at August 31, 2008 and 2007, respectively.

The Company also paid \$1,650,000 to terminate an existing Forward Rate Agreement as part of this transaction. Of the remaining net proceeds of \$20,150,000, \$8,596,000 was allocated to the 1975 Sinking Fund Reserve and \$11,554,000 was allocated to the 1998 Sinking Fund Reserve. For debt service coverage purposes, the \$20,150,000 was considered "project revenues" in FY 2002. For financial statement purposes, the \$8,596,000 was recorded as revenue in FY 2002 in the category of interest and other income. This amount is nonrefundable and was granted to the Company by the City.

Under the 1998 Ordinance, the Company is entitled to the earnings on the portion of the Sinking Fund allocated to bonds issued under the 1998 Ordinance. Therefore, the \$11,554,000 received under the 1998 ordinance was deferred and is being amortized on a straight-line basis over the life of the agreement. The unamortized balance of the proceeds was \$7,807,000 and \$8,431,000 at August 31, 2008 and 2007, respectively.

(e) Note Payable – City Loan

On November 15, 2000, the Mayor signed an ordinance authorizing the City to advance in whole or in part, up to \$45,000,000 to the Company, to provide liquidity in the winter of 2000-2001. The loan from the City carried no interest. The loan repayment period was extended to August 2008.

The loan from the City was subordinate to the Company's other repayment obligations on its revenue bonds and commercial paper program. The outstanding balance of the City loan was \$43,000,000 at August 31, 2007. The remaining balance of the City loan was remitted to the City in payments of \$20,500,000 and \$22,500,000 in December 2007 and August 2008, respectively.

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(9) Defeased Debt

Defeased debt of the Company (bonds issued by the Company payable from the proceeds of irrevocably pledged assets) at August 31, 2008 was as follows:

	<u>Latest date maturing to</u>	<u>Interest rate</u>	<u>Bonds outstanding</u>
7th Series	3/15/13	6.00% \$	10,675,000
12th Series B	5/15/20	7.00	47,910,000
2nd Series	7/1/29	5.00	84,640,000
3rd Series	8/1/31	5.50	99,445,000
4th Series	8/1/32	5.25	20,005,000

The Company issued \$230,900,000 of Seventh Series Bonds during FY 2007. The proceeds of \$30,900,000 from the sale were utilized to refund a portion of the Second Series B, Third Series, and Fourth Series Bonds, in the amounts of \$7,500,000, \$3,145,000, and \$20,005,000, respectively. The refunding of this existing debt resulted in an accounting loss of \$2,218,000. This loss is being deferred and amortized as interest expense over the life of the new bonds. The refunding generated a present value savings of \$2,146,000.

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.

The assets pledged, primarily noncallable U.S. government securities, had a market value of \$278,271,000 at August 31, 2008, bearing interest on face value from 4.30% to 5.89%.

(10) Pension Costs

(a) Plan Description

The Company sponsors a public employee retirement system (PERS), a single-employer defined-benefit plan, to provide pension benefits for all of its employees, whose annual covered payroll (which was substantially equal to total payroll) was \$105,596,000 and \$106,018,000 at August 31, 2008 and 2007, respectively.

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At September 1, 2007, the beginning of the plan year of the last actuarial valuation, the Pension Plan membership consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving them	\$ 2,151
Current employees:	
Vested	1,395
Nonvested	270
Total current employees	1,665
Total membership	\$ 3,816

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% of the highest annual earnings during the last 10 years of credited service, or
- 2% 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.

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

Covered employees are not required to contribute to the Pension Plan. The Company is required by statute to contribute the amounts necessary to fund the Pension Plan. Benefit and contribution provisions are established by City ordinance and may be amended only as allowed by City ordinance.

The City issues a publicly available financial report that includes financial statements and required supplementary information for the Pension Plan. The report may be obtained by writing to the Director of Finance of the City.

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(b) Annual Pension Cost, Contributions Required, and Contributions Made

	<u>Normal cost</u>	<u>Amortization of the underfunded balance</u>	<u>Contributions</u>
Fiscal year:			
2008	\$ 8,085,000	6,173,000	14,258,000
2007	7,693,000	7,524,000	15,217,000
2006	7,617,000	9,946,000	17,563,000

Withdrawals from pension assets of \$18,564,000 and \$16,776,000 in FY 2008 and FY 2007, respectively, were utilized to meet beneficiary payment obligations.

The Company's annual pension cost is equal to its annual required contribution (ARC). The ARCs were determined based on an actuarial study, or updates thereto, using the projected unit credit method. Significant actuarial assumptions used for the above valuation include a rate of return on the investment of present and future assets of 8.25% per year compounded annually; projected salary increases of 3.0% of the salary at the beginning of the next three years, then 4.25% of the salary at the beginning of the fourth and subsequent year; and retirements that are assumed to occur prior to age 62, at a rate of 10.0% at ages 55 to 61 and 100% at age 62. The assumptions did not include postretirement benefit increases. These actuarial assumptions are consistent with the prior fiscal year.

The actuarial asset value is equal to the value of the fund assets as reported by the City with no adjustments. The unfunded actuarial accrued liability is being amortized over 10 years.

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. Level percentages of payroll employer contribution rates are determined using the Projected Unit Credit actuarial funding method. The Pension Plan had an actuarial value of assets of \$416,183,000 and an actuarial accrued liability of \$482,380,000 resulting in a funded ratio of 86.28% based on a biennial actuarial valuation of the pension fund as of September 1, 2007. The resulting unfunded actuarial accrued liability of \$66,197,000 was 62.69% of covered payroll of \$105,596,000.

(c) Historical Trend Information (Unaudited)

Historical trend information reflecting funding progress and contributions made by the Company is presented in the supplemental schedule of pension funding progress (unaudited).

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(11) Other Postemployment Benefits

(a) Plan Description

The Company sponsors a single employer defined benefit healthcare plan and provides postemployment healthcare and life insurance benefits to approximately 1,920 and 1,935 participating retirees and their beneficiaries and dependents for FY 2008 and FY 2007, respectively, in accordance with their retiree medical program. The Company also provides such benefits to approximately 1,699 and 1,720 active employees and their dependents for FY 2008 and FY 2007, respectively, by charging the annual insurance premiums to expense. The annual covered payroll (which was substantially equal to total payroll) was \$105,596,000 and \$106,018,000 at August 31, 2008 and 2007, respectively.

The Company pays 100.0% of premiums for basic medical, hospitalization, and prescription drugs incurred by retirees and their dependents. The Company also pays a portion of the premium for life insurance for each eligible retiree. 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 amounted to \$34,226,000 and \$36,111,000 in FY 2008 and FY 2007, respectively, of which approximately 48.1% and 52.0%, respectively, represents payments on behalf of retired employees and their dependents. Employees and retirees contributed \$1,477,000 and \$1,470,000 in FY 2008 and FY 2007, respectively, towards their healthcare. These contributions represent the additional cost of healthcare plans chosen by employees and retirees above the basic plan offered by the Company. Total premiums for group life insurance were \$2,103,000 and \$2,080,000 in FY 2008 and FY 2007, respectively. The amount attributed to retirees was approximately 71.0% and 76.3% in FY 2008 and FY 2007, respectively. The contribution requirements of nonunion plan members are established by management and may be amended. The contribution requirements for union plan members are subject to collective bargaining.

The Plan does not issue a stand-alone report and therefore the Company has included the schedule of employer contributions as a supplemental schedule (unaudited).

(b) Actuarial Valuation and Assumptions

The Company engaged an actuarial consulting firm to provide an actuarial valuation of the Company's OPEB obligations as of August 31, 2007. The actuarial valuations involve estimates of the value of reported amounts and the assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision, as actual results are compared to past expectations, and new estimates are made about the future. The calculations were based on the types of benefits provided under the terms of the substantive plan at the time of the valuation.

The projected unit cost method was utilized in the valuation to develop the actuarial accrued liability and normal cost. Under the projected unit cost method, the present value of benefits is allocated uniformly over the employee's expected working lifetime. The actuarial accrued liability is that portion of the present value of projected benefits, which has been accrued during the employee's working lifetime from hire to valuation date. The normal cost represents the amount charged for

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Notes to Financial Statements

August 31, 2008 and 2007

services earned during the current reporting period. The normal cost is calculated by dividing the present value of projected benefits for an employee by the total service.

The valuation was prepared utilizing certain assumptions, including the following:

- Economic assumptions – the discount rate and healthcare cost trend rates

The report utilized a 5.0% discount rate for purposes of developing the liabilities and ARC on the basis that the Plan would not be funded. This rate is based on the investment return expected on the Company's general investments, because the Company has not funded the Plan for FY 2008.

Year:	Healthcare Cost Trend Rates		
	Medical	Prescription	Dental
1	10.0%	10.0%	4.5%
2	9.0	9.0	4.5
3	8.0	8.0	4.5
4	7.0	7.0	4.5
5	6.0	6.0	4.5
6	5.0	5.0	4.5
7	4.5	4.5	4.5
8 and beyond	4.5	4.5	4.5

- Benefit assumptions – the initial per capita cost rates for medical coverage, and the face amount of Company-paid life insurance
- Demographic assumptions – including the probabilities of retiring, dying, terminating (without a benefit), becoming disabled, recovery from disability, election (participation rates), and coverage levels

(c) Annual Postemployment Benefit Cost, Contributions Required, and Contributions Made

The ARC for FY 2008 is estimated to be \$44,114,000 which is also the annual OPEB cost. The amount paid by the Company for retiree benefits in FY 2008 was \$18,280,000, consisting of \$16,788,000 of healthcare expenses and \$1,492,000 of life insurance expenses. The difference between the ARC and the expenses paid resulted in an increase in the OPEB liability of \$25,834,000. This amount has been recorded in other liabilities and deferred credits and has been expensed in FY 2008.

As of August 31, 2008, the actuarial accrued liability for benefits was \$591,599,000, all of which was unfunded and the ratio of the unfunded actuarial accrued liability to the covered payroll was 560.3%. Historical trend information reflecting funding progress and contributions made by the Company is presented in the Schedule of Other Postemployment Benefits Funding Progress (unaudited).

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

Notes to Financial Statements

August 31, 2008 and 2007

(d) Other Coverage Information

Also, the Company has entered into several one-year contracts to provide healthcare for both active and retired employees that are experience rated, and premiums are adjusted annually; in addition, the Company has in place approximately \$161,320,000 of group life insurance coverage for both active and retired employees, which is retrospectively rated on a monthly basis. The Company also has in place approximately \$120,807,000 of accidental death and dismemberment insurance coverage for active employees.

(12) Pollution Remediation

Total pollution remediation obligations at August 31, 2008 are \$21,600,000, which reflect the implementation of GASB 49 as described in note 1(t). The Company's prior year liability was \$13,349,000 as measured prior to the implementation of the effective cash flow method under GASB 49.

(13) 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 \$250,000,000, subject to a \$500,000 per accident deductible at the Richmond and Passyunk Plants and a \$100,000 deductible per accident 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 boiler and machinery, blanket crime, and other forms of property insurance.

The Company maintained \$210,000,000 in liability (including terrorism) coverage, insuring against the risk of damage or injury to the public with a per occurrence self insured retention of \$500,000; however, effective September 1, 2007, the self insured retention was increased to \$1,000,000.

The Company maintains statutory limits for Workers' Compensation (including terrorism) with a \$500,000 per occurrence self insured retention.

The Company maintains a \$10,000,000 Public Officials Liability (Directors and Officers Liability) policy with a \$500,000 retention.

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

	<u>Beginning of year reserve</u>	<u>Current year claims and adjustments</u>	<u>Claims settled</u>	<u>End of year reserve</u>	<u>Current liability amount</u>
Fiscal year ended August 31:					
2008	\$ 8,468	7,757	(2,691)	13,534	7,456
2007	8,059	3,367	(2,958)	8,468	5,357
2006	8,510	2,808	(3,259)	8,059	4,159

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

Notes to Financial Statements
August 31, 2008 and 2007

(14) Commitments and Contingencies

Commitments for major construction and maintenance contracts were approximately \$8,727,000 as of August 31, 2008.

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

Fiscal year ending August 31:		
2009	\$	440
2010		79
2011		42
2012		6

Rent expense for the fiscal years ended August 31, 2008 and 2007 amounted to \$910,000 and \$932,000, respectively.

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 \$5,100,000 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, 2008 through March 31, 2009.

The Company's FY 2009 Capital Budget was approved by City Council in the amount of \$71,956,000. Within this approval, funding is provided to continue the implementation of an 18-mile Cast Iron Main Replacement Program. Main replacement cost for this program in FY 2009 is expected to be \$15,606,000. The total six-year cost of the Cast Iron Main Replacement Program is forecasted to be approximately \$99,256,000.

The FY 2009 Capital Budget also includes \$2,486,000 for the purchase of replacement Automatic Meter Reading (AMR) units. The total six-year cost of this program to replace AMR units is approximately \$7,889,000.

(15) Subsequent Events

(a) Commercial Paper

As discussed in note 6, \$90,000,000 of commercial paper was outstanding at August 31, 2008. Subsequent to year-end, all outstanding commercial paper matured, and additional commercial paper was issued. As of December 18, 2008, \$148,000,000 of commercial paper was outstanding which matures on February 12, February 13 and March 12, 2009.

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

Notes to Financial Statements

August 31, 2008 and 2007

(b) Emergency Rate Relief

As discussed in note 1(d), in November 2008 the Company filed for an extraordinary or emergency base rate increase of approximately \$60,000,000 or 5.2% and simultaneously requested an \$85,000,000 or 7.4% decrease in the GCR for a net 2.2% overall rate decrease of \$25,000,000. On December 18, 2008, the PUC issued its decision approving a base rate increase of \$60,000,000 or 5.2% and a decrease in the GCR of \$107,000,000 for a net decrease in rates of \$47,000,000 or 4.2%. These rates are effective as of January 1, 2009.

(c) Sixth Series Bonds

As discussed in note 8(b), as of December 18, 2008, \$271,370,000 of the Sixth Series Bonds are held by the providers of the Standby Bond Purchase Agreement as bank bonds. The providers of the Standby Bond Purchase Agreement continue, on a weekly basis, to remarket the bonds in accordance with the bond authorization. The Standby Bond Purchase Agreement expires on January 26, 2009. If the Standby Bond Purchase Agreement is not renewed, and no substitute liquidity facility is provided, any bank bonds held at that time will be amortized in ten payments payable the first business day of July and the first business day of December for the next five years. The Company has therefore recorded as current debt at August 31, 2008 one tenth of the outstanding Sixth Series Bonds as of August 31, including \$1,900,000 due to mature in 2009 under the original amortization schedule and an additional \$29,300,000 for a total of \$31,200,000.

(d) Swap – Sixth Series Bonds

As discussed in note 8(c), the City entered into a swap related to the Sixth Series Bonds. The fair value of the interest rate swap as of December 18, 2008 was negative \$72,600,000. This means that the Company would have to pay this amount to terminate the swap. Per the swap agreement, the refunding or defeasance of the Sixth Series Bonds, in whole or in part, without the prior written consent of both the counterparty and the insurer, may constitute an event of termination unless certain conditions are met.

Additionally, note 8 identifies a termination risk related to the interest rate swap agreement if the Company's bond rating falls below Baa2 or BBB (Moody's/S&P). Because the City's swap payments are insured by FSA as long as FSA is rated at or above A2 or A (Moody's/S&P) the termination event based on the City's rating is stayed. Neither the Company's credit rating nor FSA's credit rating has declined below the levels required in the agreement as of December 18, 2008.

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Required Supplementary Information (Unaudited)
Schedule of Pension Funding Progress
(Thousands of dollars)

Actuarial valuation date	(a) Actuarial value of assets	(b) Actuarial accrued liability (AAL)	(b)-(a) Unfunded (overfunded) AAL (UAAL [OAAL])	(a/b) Funded ratio	Covered payroll	UAAL (OAAL) as a percent of covered payroll
September 1, 2003*	\$356,000	\$427,006	\$71,006	83.37%	\$101,200	70.16%
September 1, 2004**	366,783	436,255	69,472	84.08	102,500	67.78
September 1, 2005+	383,517	450,866	67,349	85.06	102,544	65.68
September 1, 2006++	411,886	474,250	62,364	86.85	106,018	58.82
September 1, 2007+++	416,183	482,380	66,197	86.28	105,596	62.69

* The required supplementary information is based on a biennial actuarial valuation of the pension fund for the plan year September 1, 2003 through August 31, 2004.

** The required supplementary information is based on a biennial actuarial valuation of the pension fund as updated for the plan year September 1, 2004 through August 31, 2005.

+ The required supplementary information is based on a biennial actuarial valuation of the pension fund for the plan year September 1, 2005 through August 31, 2006.

++ The required supplementary information is based on a biennial actuarial valuation of the pension fund as updated for the plan year September 1, 2006 through August 31, 2007.

+++ The required supplementary information is based on a biennial actuarial valuation of the pension fund for the plan year September 1, 2007 through August 31, 2008.

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 dollars)

Actuarial valuation date	(a) Actuarial value of assets	(b) Actuarial accrued liability (AAL)	(b)-(a) Unfunded (overfunded) AAL (UAAL [OAAL])	(a/b) Funded ratio	Covered payroll	UAAL (OAAL) as a percent of covered payroll
August 31, 2007	—	\$573,734	\$573,734	—	\$106,018	541.17%
August 31, 2008	—	591,599	591,599	—	105,596	560.25

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 Employer Contributions
(Thousands of dollars)

Year-end	Annual required contribution	Percentage contributed
August 31, 2007	\$ 45,237	41.60%
August 31, 2008	44,114	41.44

See accompanying independent auditors' report.

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Supplemental Statements of Net Assets (City Format)
August 31, 2008 and 2007
(Thousands of dollars)

	<u>2008</u>	<u>2007</u>
Assets:		
Cash on deposit and on hold	\$ 49,332	51,692
Equity in pooled cash and investments	—	—
Equity in treasurer's account	—	—
Investments	—	—
Internal balances	—	—
Amounts held by fiscal agent	6	6
Notes receivable	—	48
Taxes receivable	—	—
Accounts receivable – net	99,304	88,570
Interest and dividends receivable	—	—
Due from other governments	—	—
Restricted assets	219,788	277,139
Inventories	187,539	147,770
Unamortized loss and discount	52,852	58,818
Other assets	63,699	55,982
Property, plant, and equipment	1,732,562	1,681,313
Accumulated depreciation	(670,467)	(640,940)
Total assets	<u>\$ 1,734,615</u>	<u>1,720,398</u>
Liabilities:		
Notes payable	\$ 90,000	94,600
Vouchers and accounts payable	67,508	60,615
Salaries and wages payable	3,430	2,797
Accrued expenses	107,484	67,425
Funds held in escrow	—	—
Due to other governments	—	—
Deferred revenue	31,641	20,411
Current portion of long-term obligations	73,942	41,830
Noncurrent portion of long-term obligations	1,103,827	1,176,368
Unamortized gain and premium	30,375	33,051
Total liabilities	<u>\$ 1,508,207</u>	<u>1,497,097</u>
Net assets:		
Invested in capital assets, net of related debt	\$ (4,466)	(5,690)
Restricted for:		
Capital projects	—	—
Debt service	108,581	105,005
Community development projects	—	—
Behavioral health programs	—	—
Intergovernmental financing	—	—
Emergency phone system	—	—
Rate stabilization	—	—
Unrestricted	122,293	123,986
Total net assets	<u>\$ 226,408</u>	<u>223,301</u>

See accompanying independent auditors' report.

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Supplemental Statements of Activities (City Format)
Years ended August 31, 2008 and 2007
(Thousands of dollars)

		August 31, 2008				
		Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Total
Gas services	\$	(740,819)	840,035	25,324*	—	124,540
Interest on debt		(56,075)	—	—	—	(56,075)
Unallocated depreciation		(39,524)	—	—	—	(39,524)
Other postemployment benefits		(25,834)	—	—	—	(25,834)
Total	\$	<u>(862,252)</u>	<u>840,035</u>	<u>25,324*</u>	<u>—</u>	<u>3,107</u>

* Includes \$15,732 of interest and other income and \$9,592 of other operating revenues.

		August 31, 2007				
		Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Total
Gas services	\$	(773,581)	849,503	22,921*	—	98,843
Interest on debt		(52,146)	—	—	—	(52,146)
Unallocated depreciation		(36,380)	—	—	—	(36,380)
Other postemployment benefits		(26,421)	—	—	—	(26,421)
Total	\$	<u>(888,528)</u>	<u>849,503</u>	<u>22,921*</u>	<u>—</u>	<u>(16,104)</u>

* Includes \$13,073 of interest and other income and \$9,848 of other operating revenues.

See accompanying independent auditors' report.

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

Supplemental Statements of Revenues, Expenses, and Changes in Fund Net Assets (City Format)

Years ended August 31, 2008 and 2007

(Thousands of dollars)

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Charges for goods and services	\$ 831,428	840,105
Sales of land and improvements	—	—
Rentals and concessions	—	—
Miscellaneous operating revenues	18,199	19,246
Total operating revenues	<u>849,627</u>	<u>859,351</u>
Operating expenses:		
Personal services	73,351	74,054
Purchase of services	75,640	76,299
Material and supplies	6,216	4,290
Employee benefits	41,488	41,863
Indemnities and taxes	—	—
Depreciation and amortization	42,868	39,708
Cost of goods sold	511,976	539,300
Other	—	—
Total operating expenses	<u>751,539</u>	<u>775,514</u>
Operating income	<u>98,088</u>	<u>83,837</u>
Nonoperating revenues (expenses):		
Operating grants	—	—
Passenger facility charges	—	—
Other income	1,834	1,262
Interest income	13,897	11,811
Debt service – interest	(56,075)	(52,146)
Other expenses	(54,637)	(60,868)
Total nonoperating expenses	<u>(94,981)</u>	<u>(99,941)</u>
Income (loss) before transfers	3,107	(16,104)
Transfer in	18,000	18,000
Transfer out	(18,000)	(18,000)
Capital contributions	—	—
Change in net assets	3,107	(16,104)
Net assets – beginning of year	<u>223,301</u>	<u>239,405</u>
Net assets – end of year	<u>\$ 226,408</u>	<u>223,301</u>

See accompanying independent auditors' report.

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Supplemental Schedule of Interfund Transfers
Year ended August 31, 2008
(Thousands of dollars)

Due to the City, September 1, 2007	\$ 3,000
Accrued distributions	18,000
Payments to the City	<u>(18,000)</u>
Due to the City, August 31, 2008	<u>\$ 3,000</u>

See accompanying independent auditors' report.

APPENDIX B

INDEPENDENT CONSULTANT'S ENGINEERING REPORT DATED MAY 4, 2009

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APPENDIX B

**INDEPENDENT CONSULTANT'S
ENGINEERING REPORT**

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**Independent Consultant's
Engineering Report**

**City of Philadelphia, Pennsylvania
Gas Works Revenue Bonds
Consisting of:**

**Gas Works Revenue Bonds
\$435,150,000¹ Eighth Series
\$150,000,000¹ Ninth Series
(1998 General Ordinance)
Philadelphia Gas Works
Philadelphia, Pennsylvania**



BLACK & VEATCH
Building a world of difference.®

¹ Preliminary, subject to change

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May 4, 2009

Mr. Rob Dubow
Director of Finance
City of Philadelphia
13th Floor, Municipal Services Building
1401 John F. Kennedy Boulevard
Philadelphia, PA 19102

Dear Sir:

In accordance with our agreement with the Philadelphia Gas Works (PGW) through the Philadelphia Facilities Management Corporation, the management entity for PGW, we submit herewith our independent consulting engineer's report (the "Report") to be included as an appendix to the official statement or official statements ("Official Statement") prepared by PGW in connection with the City's issuance of \$435,150,000 Gas Works Revenue Bonds, Eighth Series (the "Eighth Series Bonds") and \$150,000,000 Gas Works Revenue Bonds, Ninth Series (the "Ninth Series Bonds"). The Eighth Series Bonds will be issued in one or more series with the proceeds used to achieve the current refunding of PGW's outstanding Sixth Series Bonds; upon the issuance of the Eighth Series Bonds, the Sixth Series Bonds will be fully redeemed and will no longer be outstanding. The Ninth Series Bonds will be issued to finance various elements of PGW's on-going capital improvement program.

You may use this submittal in furnishing your report as required by Section 8 of the First Class City Revenue Bond Act, Section 4.03(a) of the General Gas Works Revenue Bond Ordinance of 1998, and Section 4.03(a) of the General Gas Works Revenue Bond Ordinance of 1975. The purpose of this Report is to present the findings of our evaluation of PGW's gas works system (the "System") and to set forth information concerning financial factors relating to the Eighth and Ninth Series Bonds. This Report is based on our analysis of the records and capital improvement programs of PGW, discussions with key PGW personnel, physical inspections of predominately above-ground facilities conducted in March 2009 and such other investigations as we have deemed necessary.

The evaluation of the System, which includes a discussion of organization, management, and staffing; system service area; supply facilities; distribution facilities; and the Capital Improvement Program (the "CIP") for fiscal years 2009 through 2014, is presented in the first part of the Report. The second part of the Report contains financial feasibility information including analyses of gas rates and rate methodology; projection of future operation and maintenance expenses; CIP financing plans; projection of revenue requirements as a determinant of future revenues; and assessing the ability of PGW to satisfy the covenants in the City Ordinances (the 1975 General Ordinance and 1998 General Ordinance) authorizing the issuance of the Prior Bonds and the Future Bonds. "Prior Bonds" are defined as the outstanding bonds issued under the General Gas Works Revenue Bond Ordinance of 1975 (the "1975 General Ordinance") and the General Gas Works Revenue Bond Ordinance of 1998 (the "1998 General Ordinance"). "Future Bonds" are defined as the Eighth and Ninth Series Bonds that will be issued under the City Ordinances. Together, the Prior and Future Bonds are collectively referred to as the "Bonds". A listing of our principal assumptions and opinions developed as a result of our studies is presented at the end of the Report.

Subject to the limitations set forth herein, this Report was prepared for PGW by Black & Veatch and is based on information not within the control of Black & Veatch. In conducting our studies, we reviewed the books, records, agreements, capital improvement programs, and customers, sales and financial projections of PGW and investigated such physical properties of PGW as we deemed necessary to express our opinion of PGW's operating results and projections. While we consider such books, records, documents, and projections to be reliable, Black & Veatch has not verified the accuracy of these documents.

Black & Veatch is one of the oldest, largest and most diversified engineering, procurement, and construction companies in the United States. Black & Veatch operates and maintains a global network of regional, marketing, and project offices. Founded in 1915, Black & Veatch employs over 9,500 people performing financial, economic, and engineering studies and design and construction of facilities for clients in government and industry in the fields of energy, water, wastewater, and telecommunications. Black & Veatch has extensive experience in the design and analysis of the operation and financing of electric, natural gas, water, and wastewater systems serving communities ranging in size from small cities to large metropolitan systems of the magnitude of the System.

In this Report, where standards or requirements are indicated as being applicable, being fulfilled, or to be attained, such standards or requirements are those promulgated by the Pennsylvania Public Utilities Commission (the "PUC") and other Federal, State, and local agencies, in accordance with the provisions of Federal laws and the laws of the Commonwealth of Pennsylvania governing the storage, delivery, and sale of natural gas. Capitalized terms not otherwise defined herein have the same meanings as ascribed to them in the Official Statement or the 1998 General Ordinance. References made herein to specific years are for the fiscal years of PGW ending August 31, unless otherwise noted.

The Report includes our assessment of the condition of PGW's physical plant including PGW's existing storage and distribution facilities, based upon site inspections during March 2009 of certain PGW facilities as deemed appropriate. We also reviewed and evaluated existing and planned natural gas transportation and supply contracts with respect to volumes of natural gas to be delivered. The general physical condition of the System's facilities has been evaluated using three rating categories - good, adequate, and poor - as described below.

- *Good*: The facility is in condition to provide reliable operation in accordance with design parameters and requires only routine maintenance.
- *Adequate*: The facility is operating at or near design levels, however, non-routine renovation, upgrading, and repairs are needed for continued reliable operation. Significant expenditures for these improvements may be required.
- *Poor*: The facility cannot be operated within design parameters. Major renovations are required to restore the facility to reliable operating condition. Major expenditures for these improvements may be required.

The ratings assigned in this Report are the result of physical inspections of individual above-ground facilities at existing sites conducted in March 2009.

An evaluation of a gas storage and distribution system of the magnitude and complexity of PGW's requires an assessment of each of the System's various components. The evaluation described in this Report is based on estimates of the degree of improvement that has been or will be provided by the projects in the current CIP and their impact in meeting service requirements.

The projections set forth in this Report are “forward-looking statements.” In formulating these projections, Black & Veatch has made certain assumptions with respect to conditions, events, and circumstances that may occur in the future. The methodologies utilized by Black & Veatch in performing these analyses follow generally accepted practices for such projections. Such assumptions and methodologies are summarized in this Report and are reasonable and appropriate for the purpose for which they are used. While Black & Veatch believes the assumptions are reasonable and appropriate and the projection methodology valid, actual results may differ materially from those projected, as influenced by conditions, events, and circumstances that may actually occur that are unknown at this time and/or which are beyond the control of Black & Veatch. Such factors may include PGW’s ability to execute the capital improvement plan as scheduled and within budget, regional climate and weather conditions affecting the demand for gas, and adverse legislative, regulatory or legal decisions (including environmental laws and regulations) affecting PGW’s ability to operate the System.

Based on these analyses and the assumptions set forth or referred to in this Report, we offer the following opinions to indicate PGW’s conformance with specific requirements which must be met for the issuance of the Future Bonds as provided in the 1975 General Ordinance and the 1998 General Ordinance:

1. PGW is a competently managed and operated gas distribution utility. PGW and the System are organized, operated, and maintained at a level equal to, or in excess of, regulatory requirements and generally accepted industry practices. The System is in good operating condition.
2. Based upon Black & Veatch's evaluation of financial projections and certain assumptions with respect to the System which Black & Veatch believes to be reasonable, and on the basis of actual and estimated future annual financial operations of the System (including the projects to be established with the proceeds of the Future Bonds), the System will yield Project Revenues (which are pledged under the 1975 General Ordinance and the 1998 General Ordinance) over the amortization periods of the Bonds issued under the 1975 General Ordinance and the 1998 General Ordinance which will be sufficient to (a) meet all expenses of operation, maintenance, repair and replacement of the System, (b) meet all reserve or special funds required to be established under the 1975 General Ordinance and the 1998 General Ordinance, (c) meet the principal of and interest on all Bonds (including the Future Bonds) issued under such Ordinances, as the same shall become due and payable, and (d) provide such surplus requirements as are contained in the respective rate covenants of the 1975 General Ordinance and the 1998 General Ordinance. The Project Revenues forming the basis of this opinion comply with the requirements of the definition of Project Revenues contained in Section 2 of the Act.
3. The Project Revenues and Gas Works Revenues which are pledged as security for the Bonds issued under the 1975 General Ordinance and the 1998 General Ordinance, respectively, are currently, and are projected to be, sufficient to comply with the Rate Covenants set forth in Section 4.03(b) of the 1975 General Ordinance and Section 4.03(b) of the 1998 General Ordinance.
4. The capital improvements proposed during the projection period, September 1, 2009, through August 31, 2014, should, along with continued good operation and maintenance practices, enable PGW to maintain the System in good operating condition. Review of present management practices indicates that good operation and maintenance is likely to continue.

5. Contracted PGW gas supplies plus (a) spot market purchases, (b) anticipated additional contracted supplies plus supplemental gas capacities, as well as, (c) the pipeline transport capacity to move these supplies to PGW, appear adequate to meet PGW's projected demand on a day of maximum demand (a "design peak day"), in an hour of maximum demand (a "design peak hour"), and during a year of maximum demand (a "design peak year").

The following are significant changes or events that have occurred since the issuance of our prior Report dated January 26, 2007 ("2007 Report"), and are addressed more fully in the text of this Report:

1. PGW paid off the City Loan of \$45 million in 2008 as assumed in the 2007 Report.
2. PGW received a \$25 million permanent rate increase out of the \$100 million requested effective September 20, 2007, and a \$60 million extraordinary rate increase effective January 1, 2009, that is assumed to be permanent in this Report.
3. The 2007 Report assumed that internally generated funds would be sufficient (based on a \$100 million rate increase) to defer the need for new bond proceeds for capital improvements beyond 2012. This Report assumes that PGW will issue Ninth Series Bonds in 2010 in the amount of \$150 million.
4. PGW's five-year average collection factor has improved to 95.7 percent (2004-2008) from 93.6 percent (2002-2006).
5. Long-term debt service will increase by approximately \$20 million over the 2010-2014 period.
6. PGW's fiscal year 2009 estimated capital expenditures of \$50.5 million represent an 18.3 percent decrease from 2008 levels reflecting a management decision to implement a contingency plan to reduce spending. This action was necessary given the dislocation in the financial markets. Spending for the forecast period beyond 2009 assumes that capital spending will resume at previously budgeted levels.
7. PGW did not install the Phase 2 LNG facilities as originally budgeted for 2008 and 2009. PGW has determined that it is capable of meeting its near term LNG liquefaction needs with the Phase 1 LNG facilities already in service.

Very truly yours,

BLACK & VEATCH CORPORATION



Thomas J. Sullivan
Director
Enterprise Management Solutions Division

Enclosure

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Listing of Acronyms

AFUDC	Allowance for Funds Used During Construction
AIMS	Advanced Intelligence Mobile Solution
AMR	Automatic Meter Reading Program
BCCS	Billing Collections and Customer Service
Bcf	Billion cubic feet
BMA	Bond Market Association
CDS	Comprehensive Delivery Service
CIP	Capital Improvement Program
CNG	Compressed Natural Gas
CRI	Collections Renewal Initiative
CRP	Customer Responsibility Program
CWP	Conservation Works Program
dt or Dth	Dekatherms
FERC	Federal Energy Regulatory Commission
FOI	Field Operations Initiative
FPL	Federal Poverty Level
FT	Firm Transportation
FY	Fiscal year beginning September 1 through August 31
GCR	Gas Cost Rate
GSS	General Storage Service
GTS	Gas Transportation Service
HDD	Heating Degree-Day
IRC	Interruptible Revenue Credit
LIHEAP	Low Income Home Energy Assistance Program

Mcf	Thousand Cubic Feet
MEI	Management Efficiency Investigation
NGS	Natural Gas Supplier
PFMC	Philadelphia Facilities Management Corporation
PGC	Philadelphia Gas Commission
PGW	Philadelphia Gas Works
PHA	Philadelphia Housing Authority
PSFT	Peaking Service Firm Transportation
Psig	Pounds per Square Inch Gauge
PUC	Pennsylvania Public Utilities Commission
SS	Storage Service
UESF	Utility Emergency Services Fund
UWUA	Utility Workers Union of America
WNA	Weather Normalization Adjustment
WSS	Washington Storage Service

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Introduction

The Philadelphia Gas Works (“PGW”) is a gas distribution utility owned by the City of Philadelphia, Pennsylvania (the “City”). The utility acquires, stores, distributes, and sells gas to residents and other customers within the City.

Under the terms of certain of the current revenue bond covenants, PGW is obligated to charge and collect rents, rates and charges to maintain net revenues at or above certain specified levels in excess of annual debt service requirements. In addition, prior to the issuance of bonds under the General Gas Works Revenue Bond Ordinance of 1975 (“1975 Ordinance”) or the General Gas Works Revenue Bond Ordinance of 1998 (“1998 Ordinance”), a financial report from the City’s Chief Fiscal Officer, which may be given in reliance on an engineering report, is required.

Purpose

The purpose of this Independent Consultant’s Engineering Report (“Report”) is to summarize findings of engineering studies performed by Black & Veatch Corporation (“Black & Veatch”) related to the gas system of the Philadelphia Gas Works and to set forth information concerning the financial factors relating to the issuance of the \$435,150,000 Gas Works Revenue Bonds, Eighth Series (the “Eighth Series Bonds”) and \$150,000,000 Gas Works Revenue Bonds, Ninth Series (the “Ninth Series Bonds”).

The Eighth Series Bonds will be issued in one or more series with the proceeds used to achieve the current refunding of PGW’s Sixth Series Bonds; upon the issuance of the Eighth Series Bonds, the Sixth Series Bonds will be fully redeemed and will no longer be outstanding. The Ninth Series Bonds will be issued to finance various elements of PGW’s on-going capital improvement program.

“Prior Bonds” are defined as the outstanding bonds issued under the 1975 Ordinance and the 1998 Ordinance. “Future Bonds” are defined as the Eighth and Ninth Series Bonds that will be issued under the City Ordinances. Together, the Prior and Future Bonds are collectively referred to as the “Bonds”.

Scope

This Report addresses the organization and management, regulation, physical condition, adequacy of system capacity, operation and maintenance practices, and staffing levels of PGW’s systems. It provides a review of the proposed capital improvement program (“CIP”) for fiscal years 2009 through 2014 and includes the results of engineering studies regarding the financial requirements of the System. Evaluation of the projected financing of future operating and capital improvement needs is based upon a review of historical operating and financial data and projected capital program and operating budget information provided by PGW. Projections of revenues and revenue requirements are presented for the fiscal years 2009 through 2014. The financial feasibility of the issuance of the Future Bonds should be evaluated recognizing the results of these analyses and PGW’s projected compliance with applicable revenue bond covenants.

PGW representatives and others have provided certain historical data and other information presented in this Report. Black & Veatch has not conducted verification tests of this information. As is normal in conducting the analysis and preparing projections, Black & Veatch has made certain assumptions with respect to conditions, events, and circumstances that may occur in the future. The methodologies utilized by Black & Veatch in performing these analyses follow generally accepted practices for such projections. Such assumptions and methodologies are summarized in this Report and are reasonable and appropriate for the purpose for which they are used. While Black & Veatch believes the assumptions are reasonable and the projection methodology valid, actual results may differ materially from those projected, as influenced by conditions, events, and circumstances that may actually occur.

Such factors may include PGW's ability to execute the CIP as scheduled and within budget, regional climate and weather conditions affecting the demand for gas, and adverse legislative, regulatory or legal decisions (including environmental laws and regulations) affecting PGW's ability to operate the System.

Black & Veatch Qualifications

Black & Veatch is one of the largest and most experienced engineering companies in the United States specializing in utility engineering. Our experience includes the planning, design, operation analysis, and construction of gas, electric, water, and wastewater systems. In addition, the firm has extensive experience in assisting utilities with management and financial aspects of their operations. The company has been engaged in several thousand projects with a range of clients that include utilities owned by municipalities ranging in size from small communities to large metropolitan regions, investor-owned utilities, industrial and commercial businesses, local and state agencies, and the United States Government. Over the past five years, Black & Veatch has been involved in assisting clients with the issuance of over \$10 billion in utility revenue bonds. Black & Veatch performed the Independent Consultant's Engineering Report ("2001 Report") for PGW's (1998 General Ordinance) Third Series Bonds issued in 2001, the Independent Consultant's Engineering Report ("2002 Report") for PGW's (1998 General Ordinance) Fourth Series issued in 2002, the Gas Works Revenue Refunding Bonds, Seventeenth Series issued in 2003, the Independent Consultant's Engineering Report ("2004 Report") for PGW's (1998 General Ordinance) Fifth Series A-1 and A-2 issued in 2004, and the Independent Consultant's Engineering Report ("2006 Report") for PGW's (1998 General Ordinance) Sixth Series issued in 2006, and the Independent Consultant's Engineering Report ("2007 Report") for PGW's (1998 General Ordinance) Seventh Series Bonds issued in 2007. Since 1972, the City of Philadelphia's Water Department also has engaged Black & Veatch for various consulting services. These consulting services have included engineering evaluation reports for all Water and Wastewater System Revenue Bonds sold by the City since 1974 and various projects involving the development of water and wastewater rates.

Experienced personnel from Black & Veatch have performed the physical evaluation of PGW's gas supply and distribution systems. In performing our engineering assessment of PGW, Black & Veatch reviewed the current condition and operation and maintenance of the gas supply and distribution systems. We conducted inspections of PGW's major facilities in March 2009, including PGW's city gate stations and liquefied natural gas facilities. We also interviewed key members of PGW's management team in March 2009 regarding operations and maintenance issues and practices.

The financial feasibility review has been performed by personnel assigned to the Enterprise Management Solutions Division of Black & Veatch, which provides services in such areas as utility rates, utility property valuation, depreciation rate studies, financial analysis and planning, non-audit accounting, management and operations analysis, and the preparation of independent engineering reports for official statements.

Organization and Management

The Philadelphia Gas Works (“PGW”) is owned by the City of Philadelphia and is responsible for the acquisition, storage, and distribution of gas within the limits of the City. PGW is accounted for as a component unit of the City. As described in greater detail herein (*See The PGW Gas System*), PGW is the largest municipally-owned gas utility in the nation.

PGW’s operations are managed by the Philadelphia Facilities Management Corporation (“PFMC”), a not-for-profit corporation whose Board is appointed by the Mayor. PFMC’s responsibilities are set forth in a Management Agreement between the City and PFMC, which delegates responsibility for PGW’s operation to an executive management team provided by PFMC. Under the Management Agreement, those responsibilities that are not specifically granted to PFMC fall under the domain of the Philadelphia Gas Commission (“PGC”), except to the extent preempted by the Pennsylvania Public Utility Commission (“PUC”).

Prior to the passage of the Pennsylvania Natural Gas Choice and Competition Act (“Gas Choice Act”)², rates charged by PGW were regulated exclusively by the PGC because PGW was not a “public utility” within the meaning of the Pennsylvania Public Utility Code, as it was defined prior to the passage of the Gas Choice Act. On June 22, 1999, the Pennsylvania General Assembly passed the Gas Choice Act which amends the Public Utility Code by providing for the implementation of choice of suppliers of natural gas for retail customers of gas distribution companies. In addition, the Gas Choice Act provides that PGW is subject to regulation by the PUC, effective July 1, 2000, and that choice among natural gas suppliers will be provided to PGW’s customers.

On March 31, 2003, the PUC approved PGW’s restructuring plan, which among other things, provides for an unbundled tariff permitting customer choice of the commodity supplier. On September 1, 2003, PGW began operating under its Restructuring Compliance Tariff. PGW’s 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.

City of Philadelphia

The City of Philadelphia was founded in 1682 and merged with the County of Philadelphia in 1854. There are two principal governmental entities in Philadelphia: (1) the City, which performs ordinary municipal functions as well as traditional county functions; and (2) the School District, which has boundaries coterminous with the City and has responsibility for all public primary and secondary education. The court system in Philadelphia, consisting of Common Pleas, Municipal, and Traffic Courts, is part of the Commonwealth of Pennsylvania (the “Commonwealth”) Judicial System. Although the Commonwealth pays judges and top level administrators, the City pays all other court costs, with partial reimbursement from the Commonwealth.

The City is governed primarily under the Home Rule Charter³, which provides for the election, organization, powers, and duties of the legislative branch (the “City Council”); the powers and duties of the executive and administrative branches; and the City’s fiscal and budgetary matters, contracts, procurement, property, and records.

² Act of June 22, 1999, P.L. 122, No. 21, §3 (66 Pa. C.S.A. §2201 et seq.).

³ Philadelphia Home Rule Charter, 351 Pa. Code §1.1-100 et seq., adopted pursuant to authorization of the First Class City Home Rule Act approved April 21, 1949, P.L. 665, §1 et seq. (53 P.S. §13101 et seq.).

Philadelphia Gas Works

In March 1835, a City ordinance was passed authorizing private ownership and operation of a public gas utility under trustee management. This ordinance also contained an option clause permitting the City to take ownership of the gas utility properties by issuing City bonds to the private stockholders. This option initiating City ownership of gas utility properties to ultimately form PGW was exercised March 1, 1841. The City has owned the gas system continuously since that date. Manufactured gas production commenced February 8, 1836, and service was inaugurated February 10, 1836, to 46 gas lamps along Second Street.

During its more than 170 years of existence, the operation and management of PGW has evolved to its present configuration through a variety of arrangements. Initially the private owners managed it. In 1841, a Board of Trustees assumed management of PGW in accordance with an enabling City ordinance. This arrangement continued through April 1887, when the City, under the Director of Public Works, assumed direct management and operation of PGW. Serious financial and operating problems led to a change in this arrangement on November 12, 1897. At that time, the City, unable to sell PGW, contracted with the United Gas Improvement Company (“UGI”), now UGI Corporation, for the operation and management of PGW under authority granted by the Home Rule Charter. Operation and management by UGI continued through December 31, 1972.

On December 5, 1972, the City caused the incorporation of the Philadelphia Facilities Management Corporation as a not-for-profit Pennsylvania corporation for the specific purpose of operating PGW. PFMC currently manages PGW in accordance with the original agreement with the City dated December 29, 1972, effective January 1, 1973, as subsequently amended (the “Management Agreement”). The relationship between the City, PGC, PFMC, and PGW as originally detailed in the Management Agreement is summarized below. As described later in this Report, as of July 1, 2000, the Gas Choice Act confers the responsibility of regulating PGW’s rates and services to the PUC. (*See Pennsylvania Public Utility Commission and Regulation*).

<u>Organization</u>	<u>Function</u>
City of Philadelphia	Owns PGW property and establishes legislation for the functioning of PGW. City Council approves the capital budget.
Philadelphia Gas Commission	Responsibilities include: approval of personnel provided by PFMC, review of gas supply contracts for approval by City Council, approval of PGW’s operating budget, review of PGW’s capital budgets, and regulation of rates ⁴ .
PFMC	Provides executive management and directs operation of PGW facilities.
PGW	Manages construction, operation and maintenance of the gas system on a day-to-day basis.

⁴ As of July 1, 2000, the PUC became responsible for regulating rates pursuant to the Gas Choice Act.

The Management Agreement states that for the operation of PGW, PFMC shall provide:

- A Chief Executive Officer,
- A Chief Operating Officer,
- A Chief Financial Officer, and
- Other personnel as deemed appropriate by PFMC.

All PFMC personnel are subject to the approval of the PGC. The PGC consists of five members: the City Controller, two Mayoral appointees, and two City Council appointees. The PGC has the general responsibility to oversee operation of PGW by PFMC and retains all powers not specifically granted to PFMC. In addition, the Management Agreement specifies certain functions of the PGC, mainly:

- Approval of PFMC personnel
- Review and make recommendations regarding gas supply contracts for City Council approval
- Approval of PGW's annual operating budget
- Review and make recommendations regarding PGW capital budgets for City Council approval,
- Approval of short-term loans
- Review and approval of all PGW real estate acquisitions, sales, or leases for submittal to City Council for approval by ordinance, and power to establish procurement standards and to fix and regulate rates and charges⁵ for supplying gas to customers other than the City and the Board of Education, which will annually produce revenues sufficient to:
 - Pay all operating and maintenance expenses of PGW and the interest and amortization expense of its debt
 - Maintain debt coverage ratios
 - Pay \$18,000,000 to the City each year
 - Provide such other funds as may be approved by the PGC and City Council for debt reduction or capital additions

In the 1990s, PGW experienced a number of changes in its management organization. PFMC set up an interim management structure for PGW in December 1994 through January 1996 and again in October 1998 through March 2000. In February 2001, the PUC issued an order adopting a settlement with PGW in Docket No. R-00005654 whereby the PUC and the City agreed on a timetable and process to replace its interim management with permanent management. Permanent management was set in place with the appointment of Thomas Knudsen as President and CEO in June 2002. Mr. Knudsen's appointment was formally approved by the PGC in December 2002. PGW's permanent management organization is shown in Figure 1. (*See also Rates and Tariffs, Regulation*).

In preparing this Report, Black & Veatch interviewed key PGW officers⁶ and a number of its managers. The interviews were supplemented with reviews of PGW's policies, practices, procedures, and field observations of employees at various facilities performing their daily activities. Based on these interviews, reviews, and observations, it is our opinion that PGW is suitably organized, managed, and operated by qualified personnel.

⁵ Ibid.

⁶ For the purpose of this report, PGW officers and management include individuals provided by PFMC.

As of March 2009, PGW employed 1,721 people. Presently, approximately 71 percent of PGW's employees are represented by the Gas Works Employees' Union Local 686 ("Local 686"). Local 686 transferred affiliation from the Service Employees International Union ("SEIU") to the Utility Workers Union of America ("UWUA") in 2003. On October 17, 2006, a new two-year Collective Bargaining Agreement was ratified by the Gas Works Employees' Union, Local 686, Utility Workers' Union of America. The two-year extension went into effect on May 15, 2008 and will be valid through May 15, 2010. The Agreement includes incremental wage increases of 2.5 percent in 2008 and 3.5 percent in 2009.

The following are brief biographical descriptions of the current PFMC/PGW Senior Officers:

Thomas E. Knudsen, President and Chief Executive Officer. Mr. Knudsen joined PGW as Interim Chief Financial Officer in March 2000. He served in that capacity until July 2001 when he was appointed Interim President and Chief Executive Officer. Mr. Knudsen was appointed to his present position by PFMC in June 2002. Prior to joining PGW, Mr. Knudsen was the founding partner of The Woodside Group, a management consulting firm located in Stamford, Connecticut specializing in utility economics and regulation. For over 25 years, Mr. Knudsen advised industrial, commercial and residential customers and groups, as well as regulatory commissions, regarding appropriate utility operations, budgeting, pricing and rate design issues. Mr. Knudsen's involvement with PGW dates from 1986, having served as a consultant to the Public Advocate in all rate and budget proceedings of PGW before the Gas Commission from 1986 until 2000. His prior experience includes management consulting with Touche Ross & Co. (now Deloitte & Touche), as Assistant to the Finance Administrator of the City of New York and the United States Navy Supply Corp. Mr. Knudsen received his Masters of Business Administration degree in Finance from Columbia University in 1968 and a Bachelor of Arts degree in Economics from Northwestern University in 1964. He also serves on the Energy Association of Pennsylvania's Board of Directors and has recently been reappointed to the American Gas Association's Board of Directors.

Craig E. White, Executive Vice President and Acting Chief Operating Officer. Mr. White was appointed Acting Chief Operating Officer in July 2001. He is responsible for Field Operations, Customer Service, Sales and Marketing, Corporate Preparedness, Information Services, and Gas Management issues. His previous positions at PGW include: Senior Vice President, Marketing and Supply Services; Vice President, Marketing and New Business Development; Manager, Gas Planning & Federal Regulatory Affairs; Administrator, Federal Regulatory Affairs; Federal Regulatory Specialist; Planning Analyst; Demand Analyst; and Accounting Specialist. Mr. White received his Bachelor of Science degree in Business Administration from Kutztown University in Kutztown, Pennsylvania, and Master of Business Administration degree in Financial Management from Drexel University. Mr. White has been a member of PGW's management team since January 1980. He also serves on the following: American Public Gas Association's Board, the American Gas Association's Leadership Council and the Energy Association of Pennsylvania's Executive Gas Board.

Joseph R. Bogdonavage, Senior Vice President – Finance. Mr. Bogdonavage was appointed Senior Vice President, Finance in November 2000. His responsibilities include the oversight of PGW's Operating & Capital Budget, Accounting & Reporting, and Treasury functions. Mr. Bogdonavage has over 36 years of diverse experience in the finance area of PGW. He previously held the positions of Director, Budget & Financial Forecasting; Manager, Budget & Financial Forecasting; Supervisor, Budget & Financial Forecasting; Accounting Assistant Supervisor; and Budget Analyst. Mr. Bogdonavage is a member of the American Gas Association's Financial and Administrative Committee and the Energy Association of Pennsylvania's Finance Committee. Mr. Bogdonavage received his Bachelor of Business Administration in Accounting in 1972 from Temple University.

Randall J. Gyory, Senior Vice President – Operations & Customer Affairs. Mr. Gyory was appointed Senior Vice President of Operations and Customer Affairs in August 2007. His responsibilities include overseeing the Distribution and Field Services Operations, Call Center Operations, Credit and Collections, Regulatory Compliance, Account Management, Bill Processing, Universal Service Programs, Customer Service Center Operations, and Billing System Operations and Support. Prior to his current position, Mr. Gyory served as Vice President of Customer Affairs. He also managed PGW's Program Management Office and led a team of functional and business analysts in correcting and improving the billing system software issues associated with the transition from their legacy billing system to a client server system. In his twenty-nine years of experience at PGW, Mr. Gyory has spent the majority of his career in the Distribution Department where he held several positions in Maintenance, Construction and Engineering. Mr. Gyory received a Bachelor of Science degree in civil engineering from the University of Pittsburgh.

Thomas L. Kuczynski, Senior Vice President – Office of Business Transformation & Information Services. Mr. Kuczynski was appointed Senior Vice President of Business Transformation and Information Services in August 2007. Mr. Kuczynski rejoined PGW in February 2004 as Vice President - Information Services & CIO. He has over 30 years of experience in Information Technology including 18 years of prior experience at PGW. In his present position, Mr. Kuczynski is responsible for all aspects of the Office of Business Transformation and Information Services. He previously held the position of Director of Technology Strategic Planning for PG&E's National Energy Group ("NEG"). In this role, he was responsible for new technology research and development, strategy and architecture, business continuity planning, disaster recovery and security. Prior to joining NEG, Mr. Kuczynski spent one year at Delmarva Power where he provided IT Strategic Planning Services to the Energy Supply Group. Before Delmarva, Mr. Kuczynski spent 18 years at PGW where he led development efforts for PGW's customer information system, credit and collection, automated meter reading and distribution leak tracking. In 1993 Mr. Kuczynski was recognized by the American Gas Association with the Distribution Achievement Award for his efforts in designing and building PGW's first mobile field service system. Mr. Kuczynski is a graduate of La Salle College in Philadelphia, and the Executive MBA program at University of Maryland University College.

Abby L. Pozefsky, Esq., Senior Vice President – Administration and General Counsel. Ms. Pozefsky was appointed Senior Vice President and General Counsel in July 1998, and Senior Vice President, Administration and General Counsel in 2005. She manages the departments of Human Resources and Organizational Development, Risk Management and Technical Compliance as well as Legal. Ms. Pozefsky previously held the position of Chief Deputy City Solicitor of Regulatory Affairs for the City of Philadelphia Law Department, where she was also General Counsel for the Philadelphia Water Department and Airport. Having been licensed in four states, Ms. Pozefsky practiced law with a private law firm, a community legal services organization, and a state attorney general's office, and has taught on a university level. Ms. Pozefsky received her Bachelor of Arts degree from the University of Pennsylvania cum laude and a Juris Doctor degree from New York University Law School.

Cristina Coltro, Vice President – Customer Affairs. Ms. Coltro was appointed Vice President of Customer Affairs in 2007. Her responsibilities include overseeing the Call Center Operations, Credit and Collections, Regulatory Compliance, Commercial Resource Center, Account Management, Bill Processing, and Customer Service Center Operations. Prior to her current position, Ms. Coltro served as the Director of Regulatory Compliance, responsible for the Universal Services Programs, Customer Review Unit, Dispute Resolution Unit, Program Management Office and Training Department. Ms. Coltro received her Bachelor of Science degree in Economics from Hunter College, New York, and a Master of Science degree in Energy and Environmental Management and Policy from the University of Pennsylvania. She also serves on the Utility Emergency Service Funds (UESF) Board of Directors, and is a member of the Energy Association of Pennsylvania and the American Gas Association Customer Services committees.

Raquel N. Guzman, Esq., Vice President – Legal and Associate General Counsel. Ms. Guzman was appointed Vice President - Legal in August 2005 and Associate General Counsel in 2003. She, together with the General Counsel and Assistant General Counsel, is responsible for PGW's Legal Department. Prior to joining PGW's legal staff, Ms. Guzman was a Deputy City Solicitor for Regulatory Affairs for the City of Philadelphia and also practiced at a major Philadelphia law firm in its real estate department. She holds a Juris Doctor degree from the University of Pennsylvania Law School and an undergraduate degree from Harvard College.

Michael W. Handwerk, Vice President – Technical Compliance. Mr. Handwerk was appointed Vice President of Technical Services in September 2005. In this capacity, he is responsible for services to Operations involving regulatory compliance, chemical laboratory analyses and environmental related activities, as well as development and implementation of operational changes and best practices. Mr. Handwerk's previous position was Director, Operations Compliance & Technical Services. He has been with PGW since 1979. Mr. Handwerk is a member of the American Gas Association's Operations Safety Regulatory Action Committee (OSRAC) and the American Public Gas Association's Operations Committee. He is also a member of the Energy Association of Pennsylvania's Gas Transmission and Distribution Committee, and the American Chemical Society. Mr. Handwerk has a B.S. degree in Chemistry from Elizabethtown College, a B.A. degree in Corporate Management from Ursinus College, and a M.B.A. in Financial Management from St. Joseph University.

Steven P. Hershey, Vice President – Regulatory & External Affairs. Mr. Hershey joined PGW as Vice President, Community Initiatives in January 2004 and was appointed Vice President – Regulatory & External Affairs in January 2006. In his current position, Mr. Hershey's primary responsibility is working with the President and CEO and senior management regarding certain regulatory and stakeholder matters and developing initiatives to enhance PGW's regulatory and legislative goals as well as improving PGW's relationship with various stakeholders, including customers. Prior to joining PGW, Mr. Hershey was a partner in the law firm of Eckert, Seamans, Cherin & Mellott, LLC of Philadelphia, Pennsylvania. He represented clients in matters involving energy, telecommunications, and utility policy, implementation of competition, rate setting, conservation, customer service and economics. Prior to becoming a partner at Eckert, Seamans, Cherin & Mellott, LLC, Mr. Hershey was a Supervising Attorney for Community Legal Services of Philadelphia, Pennsylvania. While at CLS, Mr. Hershey served as Lead Attorney for the Public Advocate, representing the interests of residential customers of Philadelphia utilities from 1985 to 1998. Mr. Hershey's involvement with PGW dates back to approximately 1977 when he began representing PGW's residential customers. Mr. Hershey has more than 30 years of experience in the utility and energy field, including the practice of law. Mr. Hershey holds a B.A. degree from Hamilton College and a Juris Doctor degree from Georgetown University Law Center.

Paul A. Mondimore, Vice President – Field Operations. Mr. Mondimore was appointed Vice President, Field Operations in October 2002. He is responsible for PGW's Distribution and Field Services Departments. He previously held many positions at PGW in the Distribution Department since commencing employment in June 1981 including: Director, Distribution Department; Project Manager, Mobile Dispatch Project; General Supervisor; and Supervisor. Mr. Mondimore received his Bachelor of Science degree in Civil Engineering from Drexel University. He has been a member of the American Gas Association, AGA Best Practices Group and the Energy Association of Pennsylvania.

Douglas A. Moser, Vice President – Gas Management. Mr. Moser was appointed Vice President, Gas Management in October 2002. He is responsible for PGW's Gas Processing; Gas Supply, Transportation & Control; Gas Planning, Rates & Federal Regulatory; and Engineering & Facilities Departments. Since commencing employment in September, 1979 at PGW he has held the following positions: Senior Project Manager in the Strategic Planning Department; Manager – Gas Control and Manager – Gas Acquisition in the Gas Supply Department and Engineering Assistant; Production Engineer, Supervisor – Gas Conditioning, and Operations Engineer in the Gas Processing Department. Mr. Moser received his Bachelor of Science degree in Chemical Engineering from

Pennsylvania State University and his Master in Business Administration degree from Widener University.

Jo Ann Muniz, Vice President – Supply Chain. Ms. Muniz was appointed Vice President of Supply Chain in August 2007. She is responsible for PGW's Fleet Operations, Procurement and Materials Management Departments. Since commencing employment in July 1980 as an Engineering Assistant in Gas Supply, she has held many positions at PGW including: Fleet Engineer in Fleet Operations; Staff Engineer in the Engineering Department; Internships in Field Services and Customer Affairs; Co-Project Manager of the Work Management and Mobile Project Team; Project Manager of Customer Service Training and Process Development; Director, Procurement and Contract Services and Director, Fleet Operations and Materials Management. She most recently held the position of Director, Support Services. She serves as Chair of the Energy Association of Pennsylvania's Materials and Procurement Management Committee. She holds a B.S. in Mechanical Engineering from Temple University and a M.S. in Electrical Engineering from Pennsylvania State University.

William C. Muntzer, Vice President – Human Resources. Mr. Muntzer was appointed Vice President, Human Resources in August 2008. Mr. Muntzer oversees the administration function of Human Resources and Labor Relations. He has approximately 27 years experience of utility management in Philadelphia, Pennsylvania. Areas of responsibility include project management, local, state and federal regulatory work, advocacy, information technology, planning, rate design, marketing and utility operations. Mr. Muntzer also has experience in the manufacturing sector: responsibilities included inventory control, planning, production scheduling and shipping. Recent accomplishments include several major utility initiatives including the implementation of the Pennsylvania Gas Choice Initiative, replacement of a city wide dispatching system for over 400 field employees and the refurbishment of a large meter testing facility, oversight of a Management Audit conducted on behalf of the Pennsylvania Public Utility Commission. Mr. Muntzer earned his undergraduate and graduate degrees at LaSalle University's Business School.

Joseph A. Smith, Vice President – Marketing & Sales. Mr. Smith was appointed Vice President, Marketing & Sales in May 2005. Mr. Smith oversees the operations of Major Accounts, Sales and Customer Support and Business Development/Technical Support. He previously held the position of Director, Major Accounts; Manager, Major Accounts as well as other positions within the Marketing Department. In addition, he has held several positions in PGW's Field Operations Department. Mr. Smith received his Bachelors Degree in Business Administration in 2004. Mr. Smith has served as the President of the Association of Energy Engineers (AEE), in which he now serves as a Board member. He is currently a member of the American Public Gas Association's Marketing Committee and the American Society of Heating, Refrigeration and Air Conditioning Engineers (ASHRAE).

John P. Straub, Vice President – Corporate Preparedness. Mr. Straub was appointed Vice President of Corporate Preparedness (formerly known as Labor, Safety and Preparedness) in April 2003. He is responsible for matters including Safety, Security, Policies & Procedures, Business Continuity & Disaster Planning, and Occupational Health & Safety. Mr. Straub previously held the position of Vice President – Human Resources Department. Before coming to PGW in January 1999, Mr. Straub headed the Special Litigation Group for the City of Philadelphia's Law Department where he was responsible for the management and supervision of all employment law related matters and litigation involving the City of Philadelphia. Mr. Straub also previously worked as an Assistant District Attorney for the Philadelphia District Attorney's office. He holds a Juris Doctor degree from Temple University School of Law and is a graduate of Villanova University.

Lorraine S. Webb, Vice President – Organizational Development. Ms. Webb was appointed Vice President of Organizational Development in May 2005. She is responsible for Staffing, Performance Management, Succession Planning, EEO, Affirmative Action, Training and Development and the Leadership Development program. Ms. Webb previously held the position of Director of Strategic

Planning and prior to that Director of Human Resources for PGW. Before joining PGW, Ms. Webb held various positions in the field of human resources. Previous positions included Manager of Human Resources, Affirmative Action Officer for Ciba Geigy (now Novartis), as well as Senior Career Transition Counselor for the Ayers Group of New York. Ms. Webb holds a B.A. degree from State University of New York-Binghamton. She is a member of SHRM.

Eloise N. Young, Vice President – Information Services & Chief Information Officer. Ms.

Young was appointed Chief Information Officer of the Philadelphia Gas Works in August 2007. As CIO, Ms. Young is responsible for delivering information technology capabilities to PGW. Prior to this appointment, Ms. Young served in a number of positions in PGW's Information Services Department including Director of Technical Strategy and Support, Manager of Systems Services, System Administrator in both the Unix and CICS environments, DBA, and applications developer. Ms. Young received a Bachelors of Science degree in Information Technology from the University of Phoenix in 2003.

Joseph F. Golden, Jr., Controller. Mr. Golden was appointed Controller in March 2001. He is responsible for the treasury and accounting functions at PGW. Prior titles held by Mr. Golden at PGW include: Treasurer; Manager - Treasury Department; Senior Staff Accountant; and Staff Accountant. Mr. Golden started his career with PGW in August of 1986. Mr. Golden has prior work experience in public accounting, treasury accounting and cash management, and manufacturing. Mr. Golden holds a Bachelor of Science degree in Accounting from Villanova University, a Master of Business Administration degree from Drexel University, and a Juris Doctor degree, cum laude, from Temple University School of Law.

Philadelphia Gas Commission

The Philadelphia Home Rule Charter contains provisions for the establishment of the PGC with powers and duties as set forth in ordinances and contracts. The Management Agreement grants PGC certain specified powers and duties and all other powers not specifically granted to PFMC. The powers and duties granted to PGC include approval of personnel provided by PFMC, review of gas supply contracts for approval by City Council, approval of changes in tests and standards of gas quality and pressure, approval of PGW's operating budget, review of PGW's capital budgets and recommendations thereon to City Council, approval of certain loans (but not the issuance of Bonds), access to and review of all books, records and accounts of PGW, prescription of insurance requirements, promulgation of standards for procurement and disposal of material, supplies and services and approval of all real property acquisitions for further approval of City Council.

Pennsylvania Public Utility Commission

The PUC regulates the rates and supervises the service of Pennsylvania's public utilities, including electricity, water, natural gas, and telephone. Under current law, all rate regulation authority for PGW is held by the PUC, pursuant to the Gas Choice Act. The Gas Choice Act contains provisions which are designed to (i) preserve the tax-exempt status of Approved Bonds, defined in the Gas Choice Act as bonds or other obligations issued by the City for PGW, including the Future Bonds, (ii) preserve the ability of the City to comply with its covenants, including the City's covenants with respect to the imposition and collection of rates and charges to the holders of Approved Bonds, including the Future Bonds, and (iii) require rates to be set for PGW utilizing the ratemaking methodology and requirements that were applicable to PGW's natural gas distribution operation prior to the assumption of jurisdiction by the PUC. The Gas Choice Act provides, among other things:

- Commencing July 1, 2000, PGW is subject to regulation by the PUC and, except as otherwise provided in the Gas Choice Act, the provisions of the Public Utility Code apply to PGW as if it were a public utility. The PUC, instead of the PGC, sets rates for PGW's customers.

- Notwithstanding customer choice in gas suppliers, PGW's gas distribution business will remain a regulated monopoly.
- In setting rates and notwithstanding any other provision of the Public Utility Code, the PUC must permit the City to impose, charge and collect rates or charges as necessary to permit the City to comply with its covenants to the holders of any Approved Bonds, as defined in the Gas Choice Act. All Bonds issued by the City on behalf of PGW under the Act, including the Future Bonds, are Approved Bonds.
- The PUC is obligated to use PGW's ratemaking methodology and requirements until all Approved Bonds are refunded or defeased.
- The PUC is barred from requiring the City or PGW to take any action (or omit taking any actions) under the Public Utility Code if such action or omission would have the effect of causing the interest on any bonds issued by the City on behalf of PGW, including the Future Bonds, to be includable in the gross income of the holders of such bonds for Federal income tax purposes.
- On March 31, 2003, the PUC approved PGW's restructuring plan (Docket No. M-00021612), which implements customer choice and permits licensed natural gas suppliers to deliver gas to customers in Philadelphia using PGW's distribution system.
- On September 1, 2003, PGW began operating under its Restructuring Compliance Tariff.
- The Gas Choice Act permits, but does not require, the PUC to approve a senior citizen discount. On September 30, 2004, the PUC denied PGW's request to continue the senior discount program for post-September 1, 2003, applicants. Since September 1, 2003, the program is not available to new participants. (*See Senior Citizen Discount Program*).
- The PUC is required to provide for a management audit of all employees, records, equipment, contracts, assets, liabilities, appropriations, and obligations of PGW prior to the commencement of the restructuring proceeding. (*See Rates and Tariffs, Regulation*).
- Effective June 30, 2000, the provisions of the Home Rule Charter with respect to the powers and duties of the PGC are abrogated to the extent inconsistent with the Gas Choice Act.
- The City cannot be required to take any action under the Public Utility Code if the effect of the action is to cause a variation in the City's financial plan approved by the Pennsylvania Intergovernmental Cooperation Authority.
- The City's executive or legislative powers to "legislate or otherwise determine the powers, functions, budgets, activities and mission of PGW" are not abrogated or limited.

This Report assumes rate regulation will be administered by the PUC to comply with the City's bond covenants, as required by the Gas Choice Act.

The PGW Gas System

Philadelphia Gas Works began gas production in February 1836 and has since continuously provided the City of Philadelphia with service. Today, PGW is the largest municipally owned gas utility in the nation, maintaining a distribution system of approximately 3,024 miles of gas mains and 466,814 service lines. In addition to this extensive distribution system, PGW operates facilities for the liquefaction, storage, and vaporization of natural gas to supplement gas supply taken directly from interstate pipeline and storage companies.

Population and Service Area

PGW Gas System presently serves the limits of the City of Philadelphia with a customer base of approximately 500,000 accounts. This service area is shown in Figure 2. The service area consists of an urban area of 129 square miles located in southeast Pennsylvania along the Delaware River. Philadelphia is the largest incorporated area within the Delaware Valley region. According to the 2000 United States Census, Philadelphia has a population of approximately 1,500,000 inhabitants, a decrease of about 4 percent since 1990.⁷

Supply Facilities

The principal PGW natural gas supply facilities include nine city gate stations owned in large part by the interstate pipeline companies serving PGW and two liquefied natural gas (“LNG”) plants, Richmond and Passyunk, owned by the City. The supply facilities also include a gas control center, a deactivated propane/air plant, and two gas holders, one of which has been removed from service.

City Gate Stations

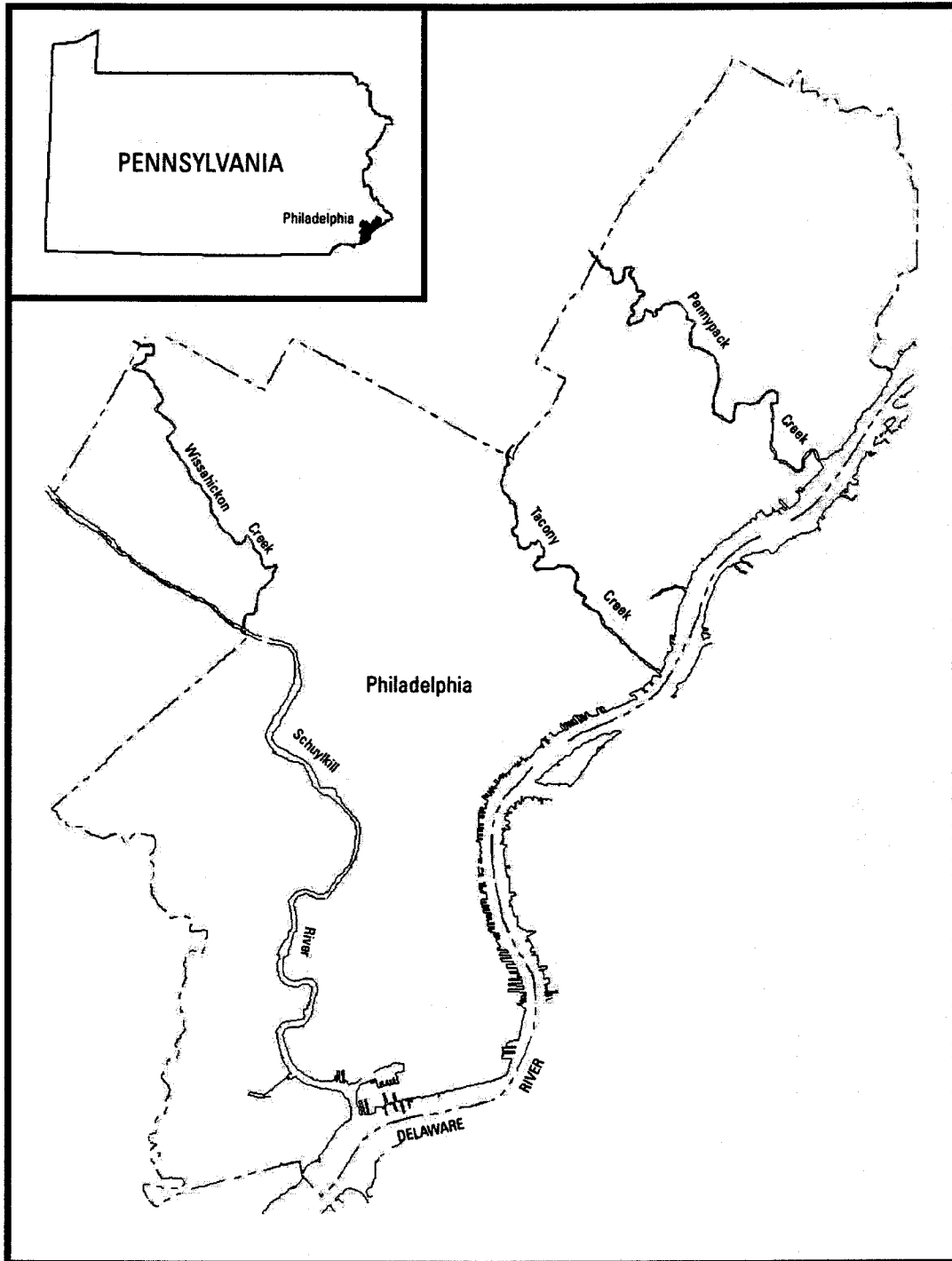
Natural gas is received through nine city gate stations from two pipeline transmission companies – Spectra Energy (“Spectra”) and Transcontinental Gas Pipe Line Corporation (“Transco-Williams”). The two pipeline companies own most of the facilities and land at eight of the nine city gate stations. The pressure delivered to PGW’s distribution system is controlled at each of the city gate stations. Eight city gate stations are equipped with gas heaters.

Gas Control Center

The gas control center is located at 800 W. Montgomery Avenue, with a backup at the Richmond Plant. The center monitors and controls gas flow and pressure from the nine city gate stations to the high-pressure distribution system. The gas control dispatchers also provide direction to the LNG production plant operators concerning startup, shutdown and gas flow output from the LNG facilities. Operations are facilitated through the use of a computer system that includes a backup unit and an auxiliary power supply.

⁷ The City of Philadelphia and Philadelphia County are coextensive. *United States Census Bureau, Census 2000 Redistricting Data (P.L. 94-171) Summary File, Table PL1 and 1990 Census.*

Figure 2
Philadelphia Gas Works Service Area



LNG Facilities

There are two LNG facilities – the Passyunk Plant and the Richmond Plant. The smaller LNG storage and vaporization facility at the Passyunk Plant receives its liquefied gas supply from the larger Richmond Plant via cryogenic trailer trucks. The Passyunk LNG facility consists of one LNG storage tank of 3,066,000 gallons gross capacity (i.e., the equivalent of 253,300 thousand cubic feet [“Mcf”] of natural gas) and two LNG vaporizers, each having a capacity of 45,000 Mcf per day resulting in 45,000 Mcf per day planned capacity and 45,000 Mcf per day reserve.

The Richmond LNG plant is one of the largest liquefaction facilities in the United States and also includes storage and vaporization facilities. A new liquefaction facility was completed and tested in March 2005, which replaced the original modified liquefaction facility which was subsequently mothballed. The new facility utilizes an open expander loop technology. It has a daily liquefaction capacity of 16,000 to 18,000 Mcf per day. This technology utilizes energy from the high transmission delivery pressure of the interstate pipeline system throughput to run the expander/compressors, significantly reducing fuel requirements. In addition, these facilities have the capability to liquefy natural gas year round providing greater operational flexibility. Further, this technology utilizes significantly fewer components than the older modified cascade facility and should result in lower operation and maintenance costs. The maximum capacity of the liquefaction facilities of 18,000 Mcf per day will not be available at all times during the summer months because the demand on the PGW system is not sufficient to create the throughput necessary to run at this capacity.

The vaporization and storage facilities at the Richmond Plant are not affected by the new liquefaction facilities. The two storage tanks at the Richmond Plant have a combined gross capacity of 48,970,000 gallons of LNG (4,045,800 Mcf). Regasification of the liquid natural gas is accomplished with six vaporizers having a total output of 411,000 Mcf per day plus 100,000 Mcf per day in reserve. The Richmond Plant also has facilities to receive LNG from and deliver LNG to cryogenic trailer trucks.

Gas Holder Storage Facilities

The Richmond Plant has a low pressure gas holder. The Richmond holder has an operating capacity of 1,000 Mcf. It was installed in the manufactured gas era and is in working order. It is used to enhance operational flexibility of the LNG Plant. The Passyunk holder has been removed from service.

Distribution Facilities

The principal gas distribution facilities consist of approximately 3,024 miles of main, 466,814 service lines, 208 regulator stations, approximately 563,287 meters (of which approximately 519,890 are active) and miscellaneous valves, instruments, and other appurtenances. PGW operates five different operating pressure systems; each system is connected to the other by control regulators. The high-pressure systems operate at approximately 110, 60, and 35 pounds per square inch gauge (psig); the intermediate pressure system operates at 5 psig; and the low-pressure system operates between 6 and 9 inches of water column (approximately 0.25 pounds per square inch). The majority of customers are served from the low-pressure system.

Approximately 53 percent (by length) of the gas mains are cast iron, 33 percent are steel, 4 percent are ductile iron, and 10 percent are plastic. Of the steel mains, approximately 49 percent are wrapped, coated, and cathodically protected. Approximately 35 percent of the service lines are steel (of which 13 percent are cathodically protected) and 64 percent are plastic.

Other Facilities

PGW has its executive and operating offices located at 800 West Montgomery Avenue, which is a 150,000 square foot office building constructed in 1988. The former general office building, located at 1800 N. 9th Street, still houses administrative operations, in addition to distribution and field service dispatch centers, gas control dispatching, operating stations, a post office, duplicating center, radio repair shop, training facilities, parking facilities, telecommunications, and warehousing, as well as information systems center and a metal fabrication shop. Additional facilities include six district offices, the Tioga station for distribution crews, two LNG plants, and three operating stations for field service crews. There are also five other warehousing facilities, a meter shop, and an automotive maintenance and repair facility. The automotive maintenance and repair facility is responsible for the upkeep of PGW's fleet of approximately 694 vehicles, 100 portable compressors, and 42 trailers. PGW also maintains three minor automobile repair facilities, bulk fuel dispensing equipment, and materials and supplies.

Condition of Facilities

In March 2009, Black & Veatch conducted site inspections of certain PGW facilities as deemed appropriate. During the inspections, Black & Veatch used three evaluation criteria based on observation to evaluate the condition of each facility. These criteria are described below:

- *Good:* The facility is in condition to provide reliable operation in accordance with design parameters and requires only routine maintenance.
- *Adequate:* The facility is operating at or near design levels, however, non-routine renovation, upgrading, and repairs are needed to ensure continued reliable operation. Significant expenditures for these improvements may be required.
- *Poor:* The facility cannot be operated within design parameters. Major renovations are required to restore the facility and assure reliable operation. Major expenditures for these improvements may be required.

Construction Sites

Inspections at construction sites included the observation of crews, vehicles, power-operated equipment, tools, safety procedures for the crew and public, construction standards, and general quality of work performed.

System maps were also examined and compared to existing facilities. This comparison showed the maps to have adequate detail to describe the system at the site. The maps contain the year the natural gas main was placed in service, size and material used, operating pressure, location of valves and bends, and where repairs have been performed.

Meter Settings

Meter setting observations include materials and equipment. Observed meter settings conformed to accepted industry standards, accessibility, and safety and security measures.

Field and District Offices

Field and district office sites, including related facilities, such as vehicle and equipment fueling stations, garage and vehicle maintenance supply, structures, driveways, parking, material and equipment storage areas and security features, were observed. Three of the six district offices are leased to PGW. Inspections of these leased sites were focused primarily on materials and equipment typically provided by PGW.

Personnel

During the inspection period, Black & Veatch conducted interviews and was assisted by PGW staff who are experienced, qualified, well trained, and knowledgeable in their assigned tasks. In addition to details of the operations, they were knowledgeable in details of routine and preventative maintenance procedures PGW has in place.

The following is a list of key areas discussed in conducting inspections and in the collection of system data:

Construction	System Losses & Meter Maintenance Programs
Corrosion Engineering	Leak Surveys
Field Offices	Operations
District Offices	SCADA System
Treasury	Meter Settings
District Regulators	City Gates and LNG Plants
Field Services	Accounts Receivable
Gas Supply	

Facility Inspections

The following facilities were inspected in March 2009:

Supply Facilities	Distribution Facilities
<p><i>Liquefied Natural Gas Facilities</i> Richmond & Passyunk Plants</p> <p><i>City Gate Stations</i> 034 Ashmead Penrose Richmond Somerton 060</p>	<p><i>Meter Setting</i> Commercial 5230 Chestnut (in West District Office) 1337 West Erie Ave. (in North District Office) Industrial/Commercial University Village (Temple), intersection of 10th and Montgomery</p> <p><i>Construction Sites</i> 150 Gay St. - Replace cast iron main with 4" PE and renew services. Baldwin St., Wilde to Silverwood - Block renewal of cast iron with 4" PE and transfer services.</p>
Other Facilities	
<p><i>Field Offices/On-Site Facilities</i> Montgomery Porter Tioga Castor Belfield <i>SCADA Control Room</i> PGW - 1800 N. 9th St.</p>	<p><i>District Offices</i> Center City - Leased Frankford - Leased Germantown - Leased North - Owned South - Owned West - Owned</p>

Conclusions

All observed facilities, vehicles, equipment and warehouse stock appeared to be reasonably maintained and in good operating condition. During the inspections, Black & Veatch identified only minor items not in good operating condition as would be expected during the normal course of operation. These items were either in the process of being repaired or were essentially retired in place. Employees appeared to be knowledgeable of their job requirements and well trained.

PGW's highest operating priority is response to emergencies and the maintenance of a safe gas distribution system. PGW maintains maps and other records of the distribution system in good order and has comprehensive written construction, operating and maintenance standards and procedures. Its personnel appeared well trained in the operation and maintenance of the gas distribution system. PGW is routinely actively involved in entering its facility records (Corrosion, Service and Leak Records) into computer databases, thus facilitating and improving the accuracy of accessing information. PGW has continued to monitor its security measures at its major facilities, including the two LNG facilities, the city gate stations, and the headquarters building complex, as a result of September 11, 2001, terrorist attacks. PGW has added concrete barriers around critical facilities at Richmond and perimeter fencing around both Passyunk and Richmond Plants.

Based on the physical inspections and interviews conducted in March 2009, it is our opinion that PGW operates and maintains its system prudently and in accordance with current regulatory standards and generally accepted industry practices.

PGW Gas Supply

PGW manages its gas supply through a mix of flowing supplies, off-system underground storage, and City-owned and PGW-operated LNG facilities. PGW utilizes this mix to meet its obligation to serve customers' demand on the coldest day (peak day) as well as customers' annual requirements. PGW's gas distribution facilities are directly connected to Spectra through four city gate stations and to Transco-Williams through five city gate stations. All gas purchased by PGW is transported to the city gates through either one of these pipelines. During predominantly off-peak periods, a portion of the purchased gas supply is stored in off-system underground storage facilities connected to these two pipelines or in PGW's LNG facilities. Through the effective use of off-system storage and LNG, PGW is able to more efficiently utilize its transportation contracts with Spectra and Transco-Williams.

Supply Services

PGW purchases gas through a combination of term contracts and spot market purchases. Natural gas supplies are purchased under a portfolio approach intended to secure the lowest price consistent with reliability of supply. Consideration is given to maintaining a diversity of sources and types of supply. During the 2009 fiscal year, purchased gas and transportation costs are estimated to account for approximately 70 percent of the total gas supply expenses of \$616 million and approximately 44 percent of total revenues of \$994 million. The cost of gas supply is a function of the prices paid and the quantity purchased, both of which are variable. While this price component can be managed by PGW to some extent through the timing of purchases, the prices paid are largely determined in a very competitive and a sometimes volatile marketplace. While the total annual volumes purchased are highly dependent on temperatures during the heating season and are beyond the utility's direct control, PGW can manage the timing of purchases and hence prices to a limited degree, by utilizing off-system and LNG storage.

Transportation and Storage Services

All of PGW's gas purchases are ultimately transported from the sources of supply to the city gates through either Spectra or Transco-Williams facilities. Injections and withdrawals of gas from off-system storage also rely on these two pipelines. Table 1 summarizes the existing transportation agreements between PGW and the two pipelines. As shown in this table, PGW's currently available pipeline capacity is almost equally divided between the two pipelines. Of PGW's total contract pipeline capacity of 446,929 Mcf per day, Spectra accounts for 227,277 Mcf per day, or 51 percent, and Transco-Williams accounts for 219,652 Mcf per day, or 49 percent. The initial terms of the major contracts for the Spectra transportation service (CDS and FT) expire prior to the 2010-11 winter period and the initial term of the major contract for the Transco-Williams transportation service (FT) expires after the 2011-12 winter period. These contracts will then renew on an automatic year-to-year basis. PGW's current long-term plan assumes that the material contracts may also be renewed as longer term contracts.

Due to the highly seasonal nature of PGW's load (demand), the efficiency of pipeline transportation service can be increased significantly through the use of storage services. During periods when PGW's load is less than contracted transportation service, PGW may utilize the available capacity to deliver gas to off-system storage facilities or liquefy gas and store it in its LNG facilities. The ability to store gas off-system and in LNG facilities provides three significant benefits. First, less capacity needs to be reserved on interstate pipelines to serve higher seasonal loads to the extent that gas can be stored in off-system storage and local LNG facilities. Second, less volumes need to be actually purchased during the generally higher cost winter period to the extent that gas can be purchased during the lower cost non-winter period, stored and then redelivered from storage during the winter. Third, market area storage provides increased security of supply.

Table 1
Gas Supply, Transportation, and Storage Contracts

Contract	Contract Expiration ^(b)	2009 - 2014			
		Transportation ^(c)		Storage ^(d)	
		dt/day	Mcf/day	dt/day	Mcf/day
Transco-Williams					
FT	03/31/12	165,212	160,400		
PSFT	07/31/11	1,967	1,910		
S-2	04/15/10	5,191	5,040	5,191	5,040
GSS	03/31/13	53,871	52,302	53,871	52,302
WSS ^{(a)(e)}	03/31/10			39,246	38,103
Subtotal		226,241	219,652	98,308	95,445
Spectra					
CDS	10/31/10	75,000	72,816		
FT1 - 800233R	10/31/10	23,822	23,128		
FT1 - 800514R	10/31/10	18,000	17,476		
FT1 - 800515R	10/31/10	18,000	17,476		
Dominion/GSS/FTS7 ^(e)	03/31/11	6,815	6,616	6,815	6,616
Dominion/GSS/FTS8 ^(e)	03/31/11	22,495	21,840	22,495	21,840
Equitable/FTS2	03/31/10	4,998	4,852	4,998	4,852
SS1A		44,118	42,833	44,118	42,833
SS1B		20,847	20,240	20,847	20,240
Subtotal		234,095	227,277	99,273	96,381
Total		460,336	446,929	197,581	191,826

(a) Transportation included in FT.

(b) Contracts are assumed renewed based on evergreen clauses beyond their expiration date.

(c) Reference: SDS 6, Page 4 of 4, In the Matter of Proposed Operating Budget, Supporting Documentation - Gas Costs and Purchasing Plans, Volume 1, June 2008.

(d) Reference: SDS 6, Pages 1-2 of 4, In the Matter of Proposed Operating Budget, Supporting Documentation - Gas Costs and Purchasing Plans, Volume 1, June 2008.

(e) Volumes reflect 87.5% contract limitation on maximum monthly storage withdrawal.

As shown in Table 1, PGW's currently available off-system storage capacity is almost equally divided between facilities connected to Spectra and Transco-Williams. Of PGW's total contract storage deliverability of 191,826 Mcf per day, services provided on Spectra account for 96,381 Mcf per day, or 50.2 percent, and Transco-Williams accounts for 95,445 Mcf per day, or 49.8 percent. All of this deliverability requires transportation to PGW via the respective transportation services obtained from Spectra and Transco-Williams. This storage deliverability is used primarily to reduce contract demand for long haul transportation services and to reduce the quantity of gas that needs to be purchased during the typically higher cost winter period to meet winter peak demand.

During the 2009 fiscal year, storage costs are estimated to account for approximately 30 percent of the total gas supply expenses of \$616 million. The prices paid for these services are determined by long-term contracts and tariff rates regulated by the Federal Energy Regulatory Commission (“FERC”). Generally, these components of gas supply cost represent the purchase of capacity, are relatively fixed, and do not vary directly with the volumes of gas purchased.

LNG Facilities

The City owns and PGW operates two LNG facilities, the Richmond Plant and the Passyunk Plant. The LNG facilities are primarily used to ensure availability of supply needed to serve peak day demand. The LNG facilities provide capacity that would otherwise be needed from flowing gas and off-system storage (i.e., pipeline and storage capacity) to meet peak day demands. The LNG facilities also allow for a nominal reduction in purchases during the higher cost winter period. Based upon current pipeline and storage charges, which have remained relatively constant over the past five years, PGW estimates that utilizing the existing LNG facilities in lieu of additional pipeline and storage capacity saves approximately \$75 million per year.

Gas is liquefied, stored, and vaporized at the Richmond Plant, and stored and vaporized at the Passyunk Plant. Total liquefaction (converting natural gas to liquid state for storage) capacity at the Richmond Plant existing facilities is approximately 29,000 Mcf per day. The Richmond Plant can store approximately 49 million gallons of LNG (4.05 million Mcf natural gas equivalent) and the Passyunk Plant can store approximately 3 million gallons of LNG (250,000 Mcf natural gas equivalent). The LNG stored at the Passyunk Plant is liquefied at the Richmond Plant and then transported by cryogenic trailer trucks to the Passyunk Plant. Total vaporization (converting the liquid LNG to gas) capacity at the Richmond Plant with two vaporizers, is 411,000 Mcf per day and 100,000 Mcf per day in reserve, and the capacity at the Passyunk Plant with two vaporizers, is 45,000 Mcf per day and 45,000 Mcf per day in reserve. The highest daily vaporization rate from the LNG facilities of approximately 360,000 Mcf occurred in January 1994 when PGW recorded its maximum system sendout.

Supply and Demand Balance

Table 2 summarizes the supply mix that was used to meet historical peak day demand from fiscal years 2003 through 2008, and the supply mix that would enable PGW to meet future demand assuming design conditions over the 2009 through 2014 fiscal years. A design day on PGW’s system is based on the highest actual historical peak day experienced by PGW. This occurred on January 19, 1994, with a peak day total demand (sendout) of 752,707 Mcf. The average temperature on that day was 2°F. For design purposes, PGW projects total demand based on a 65 heating degree-day (“HDD”) which translates to an average temperature of 0°F. During the past seven years, pipeline deliveries (flowing gas plus underground storage) have met between 70 and 92 percent of actual peak day demand. These figures are relatively high due to significantly warmer than normal winters. During the projection period, approximately 61 percent of peak day demand under design conditions would be met from pipeline supply with the remaining 39 percent met from LNG. PGW must maintain these capacity levels because it is considered the supplier of last resort if the customer’s supplier is unable to deliver natural gas. However, PGW will assign proportionate shares of pipeline and LNG capacity and cost to transportation customers. Table 2 shows that PGW has sufficient capacity to meet demand requirements.

Table 3 summarizes the supply mix that is projected to meet annual requirements during normal and design years from 2009 through 2014. PGW defines a normal year as one containing 4,464 HDD. This normal year is based on a 30-year average. PGW defines a design year as one containing 5,280 HDD. A design year is based on the temperatures experienced during the 1977-1978 winter, which was the coldest recorded winter in the last 60 years.

**Table 2
Peak Day Supply and Demand**

Description	Fiscal Year Ending August 31,											
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Actual^(b)												
Heating Degree-Days	49	52	50	44	51	42	50					
Demand - Mcf	616,928	620,413	591,133	490,923	589,588	533,349	574,126					
Supply - Mcf												
Pipeline/Storage	445,948	434,420	455,735	450,912	438,350	423,165	448,737					
LNG	170,980	185,993	135,398	40,011	151,238	110,184	125,389					
Total	616,928	620,413	591,133	490,923	589,588	533,349	574,126					
Projected - Design												
Heating Degree-Days ^(c)								65	65	65	65	65
Demand - Mcf ^(c)								730,200	732,400	734,700	736,900	739,100
Supply - Mcf												
Pipeline/Storage ^(d)								446,928	446,928	446,928	446,928	446,928
LNG (net)								283,272	285,472	287,772	289,972	292,172
Total								730,200	732,400	734,700	736,900	739,100

(a) Assumes no unbundling of services.

(b) For 2003-2008, SDS 7, In the Matter of Proposed Operating Budget, Supporting Documentation - Gas Costs and Purchasing Plans, Volume 1, June 2008.

(c) SDS 6, Page 3 of 4, In the Matter of Proposed Operating Budget, Supporting Documentation - Gas Costs and Purchasing Plans, Volume 1, June 2008.

(d) SDS 6, Page 4 of 4, In the Matter of Proposed Operating Budget, Supporting Documentation - Gas Costs and Purchasing Plans, Volume 1, June 2008.

**Table 3
Annual Supply and Demand**

Line No.	Description	2009 dt	2010 dt	2011 dt	2012 dt	2013 dt	2014 dt
Normal Year - 4,464 Heating Degree-days							
Requirements - Sales							
1	Firm Service	55,890,971	55,522,998	55,264,657	55,199,141	55,059,965	55,025,839
2	Boiler and Power Plant Service	1,166,299	1,059,351	1,039,865	1,066,953	1,120,296	1,192,292
3	Load Balancing Service	325,933	368,611	436,219	473,153	576,820	665,755
4	Cogeneration Service	12,413	10,441	8,907	7,724	6,751	5,991
5	Gas Transportation Service	2,629,445	3,061,464	3,377,420	3,614,135	3,790,729	3,928,583
6	Natural Gas Vehicle Service	0	0	0	0	0	0
7	Trigen	0	0	0	0	0	0
8	Grays Ferry	0	0	0	0	0	0
9	Subtotal Sales	60,025,061	60,022,865	60,127,068	60,361,106	60,554,561	60,818,460
10	Plant Use	176,603	261,198	295,053	297,220	296,251	299,025
11	Transport Fuel	3,238,388	3,221,370	3,194,790	3,217,070	3,215,836	3,244,084
12	Storage Fuel	473,276	484,491	494,730	495,098	492,859	494,262
13	Storage Return	16,058,448	16,752,999	17,038,215	17,151,713	17,135,261	17,151,888
14	Liquefaction	1,638,103	1,845,644	1,596,253	1,682,003	1,638,103	1,879,681
15	Total Demand	81,609,879	82,588,567	82,746,109	83,204,210	83,332,871	83,887,400
Supply							
16	Spectra	22,799,478	21,782,876	21,681,378	22,001,853	22,071,435	22,538,735
17	Transco-Williams	40,986,085	41,091,373	41,125,000	41,506,953	41,540,773	41,589,311
18	Pipeline Subtotal	63,785,563	62,874,249	62,806,378	63,508,806	63,612,208	64,128,046
19	Spectra	8,218,101	9,036,004	9,090,463	9,047,478	9,001,286	8,948,027
20	Transco-Williams	7,817,596	8,821,533	9,023,448	8,836,924	8,868,111	8,866,209
21	Storage Subtotal	16,035,697	17,857,537	18,113,911	17,884,402	17,869,397	17,814,236
22	LNG	1,788,619	1,856,781	1,825,820	1,811,002	1,851,266	1,945,118
23	Total Supply	81,609,879	82,588,567	82,746,109	83,204,210	83,332,871	83,887,400
Design Year - 5,280 Heating Degree-days							
Requirements - Sales							
24	Firm Service	63,605,914	63,202,204	62,910,272	62,832,372	62,679,864	62,640,881
25	Boiler and Power Plant Service	1,355,609	1,228,501	1,203,327	1,232,267	1,292,019	1,373,476
26	Load Balancing Service	361,828	410,832	485,298	523,020	645,146	752,424
27	Cogeneration Service	12,413	10,441	8,907	7,724	6,751	5,991
28	Gas Transportation Service	2,948,364	3,431,399	3,784,067	4,047,119	4,243,745	4,396,954
29	Natural Gas Vehicle Service	0	0	0	0	0	0
30	Trigen	0	0	0	0	0	0
31	Grays Ferry	0	0	0	0	0	0
32	Subtotal Sales	68,284,128	68,283,377	68,391,871	68,642,502	68,867,525	69,169,726
33	Plant Use	178,716	269,640	303,110	305,837	305,023	307,942
34	Transport Fuel	3,608,087	3,737,462	3,715,424	3,738,512	3,727,933	3,741,603
35	Storage Fuel	452,390	403,945	416,438	418,063	418,361	418,906
36	Storage Return	16,154,529	14,554,056	14,925,010	15,098,102	15,122,464	15,078,996
37	Liquefaction	1,806,446	1,845,644	1,521,328	1,682,003	1,638,103	1,879,681
38	Total Demand	90,484,296	89,094,124	89,273,181	89,885,019	90,079,409	90,596,854
Supply							
39	Spectra	28,233,665	27,373,244	27,253,211	27,549,335	27,581,771	27,846,229
40	Transco-Williams	44,002,289	43,523,754	43,753,257	44,111,301	44,048,526	44,057,836
41	Pipeline Subtotal	72,235,954	70,896,998	71,006,468	71,660,636	71,630,297	71,904,065
42	Spectra	6,634,753	7,312,648	7,289,567	7,323,040	7,342,655	7,370,905
43	Transco-Williams	8,681,031	7,901,999	8,063,926	7,941,287	8,085,608	8,187,912
44	Storage Subtotal	15,315,784	15,214,647	15,353,493	15,264,327	15,428,263	15,558,817
45	LNG	2,932,558	2,982,479	2,913,220	2,960,056	3,020,849	3,133,972
46	Total Supply	90,484,296	89,094,124	89,273,181	89,885,019	90,079,409	90,596,854

Reference: SDS 4A and SDS 4B. In the Matter of Proposed Operating Budget, Supporting Documentation - Gas Costs and Purchasing Plans, Volume 1, June 2008.

Even though 100 percent of PGW's supply is originally transported through one of the two interstate pipelines, the supply components shown in Table 3 are based on the source of gas when ultimately delivered to the end user. As shown, approximately 64 percent of PGW's total gas pipeline supply during a normal year flows through the Transco-Williams pipeline system. On a projected normal annual basis, approximately 98 percent of volume is delivered to end users through the interstate pipeline systems (80 percent flowing gas¹⁷ and 20 percent off-system storage), and 2 percent is delivered from the LNG facilities.

¹⁷ Flowing gas represents gas that is purchased at the same time as delivered to customers.

Capital Improvement Program

PGW uses a formal process of evaluating capital needs and funding programs to meet those needs. This annual capital planning process is used to formally review the Capital Improvement Program (“CIP”) and incorporates revisions into the 2009 budget and five-year capital program projection using certain specific economic parameters to prepare the capital requirement estimate that forms the basis for departmental budgets. In addition to satisfying the annual peak load requirement, departmental budgets and projections are based on meeting PGW’s design hour and design day projections as prepared by the Gas Management Department.¹⁸ Under the terms of the Management Agreement, PGW submits the annual CIP to the Director of Finance and the PGC for their review and recommendation to City Council for the budget’s approval.

In keeping with PGW’s philosophy of maintaining a safe and reliable gas distribution system, all capital projects are assigned a priority. The highest priority projects (Priority 1 and Priority 2) relate to expenditures required for maintaining the safety and reliability of PGW’s system. Priority 3 expenditures relate to facility relocations that are based on City, State, and Federal mandated projects. Priority 4 expenditures relate to projects that will result in additional revenues from load growth, and the lowest priority projects (Priority 5) are those expenditures associated with improving operational efficiencies and/or discretionary items.

Table 4 presents a summary of PGW’s historical and forecasted capital improvement program expenditures. Capital expenditures for the major departments are shown in the Table. Capital expenditures for all departments other than Gas Processing, Distribution, Field Services, and Transportation, are grouped together under the miscellaneous category “Other Departments”. It should be noted that the projected expenditures for 2009 reflect a management decision to implement a contingency spending plan that would reduce spending. This action was necessary given the dislocation in the financial markets. Spending for the forecast period, beyond 2009, assumes that capital spending will resume at the previously budgeted level. However, matching future capital expenditures with the ability to fund these expenditures is a dynamic process which is constantly being reviewed.

Proposed capital expenditures over the five-year projection period, 2010 through 2014, total \$381 million. For fiscal year 2009, PGW’s estimated capital expenditure of \$50.5 million (net of salvage, contributions, and reimbursement) represents an 18.3 percent decrease from the 2008 capital expenditures. The majority of the 2009 capital expenditures, \$34.5 million or 68 percent, is committed to Distribution Department projects. Field Services and Other Departments have planned expenditures of about \$4.6 million and \$5.5 million, respectively, in fiscal year 2009. Gas Processing and Transportation have planned expenditures of about \$2.7 million and \$3.2 million, respectively, in fiscal 2009. Over the five-year forecasted period, Distribution Department projects have planned expenditures of \$272 million, which represents 71 percent of the total capital spending. The majority of the Distribution Department capital projects involve the replacement of gas services and ongoing and required main replacements for intermediate and low-pressure mains of small diameter (8 inches or less). Funding is also provided for main rehabilitation activities and to support the addition of new load.

Based on our inspections of existing facilities in March 2009 and under normal operating conditions, the proposed capital expenditures should be sufficient to maintain the system in good condition.

¹⁸ Operating department budgets are based on assessing capital requirements for maintaining a safe and reliable system calculated for a design day of 0°F average temperature, a -5°F design hour, and a normal annual weather pattern resulting in 4,464 annual heating degree-days for 2009 and 4,412 annual heating degree-days for 2010 through 2014.

A listing of projects approved for the fiscal year 2009, by major department, is shown in Table 5. This table also shows the priority assigned to each project. In addition to the budgeted \$45.2 million as shown in Table 5 for 2009, PGW anticipated completing \$5.2 million of capital improvements carried over from prior fiscal years.

Gas Processing

As shown in Table 4, the estimated capital spending for the Gas Processing Department is \$2.7 million in fiscal year 2009. These capital expenditures are for normal additions and replacements necessary to maintain the safety and reliability of the LNG facilities.

Distribution

The ongoing cast iron main replacement capital program involves the removal of 18 miles of cast iron mains annually. The scope of this program is consistent with the recommendations made by Navigant Consulting Inc. (“Navigant”) in a February 2000 report entitled “Philadelphia Gas Works Mains Replacement Study” and the more recent recommendations of Advantica in its 2008 report. Cast iron pipe was generally used by natural gas utilities many decades ago and was quite common for low-pressure gas mains such as PGW’s. While this pipe has performed well, as it ages the pipe is prone to cracking and the joints to separating, thereby resulting in leaks. Over the last 20 years or so, natural gas utilities have been systematically replacing cast iron mains generally with plastic for low-pressure systems and sometimes wrapped and cathodically protected steel for higher pressure systems. A one percent annual replacement program is typical for gas distribution utilities, like PGW, with greater than 500 miles of cast iron mains. The Distribution Department has also coordinated its main replacement with the Customer Accounting Department to ensure that as the mains are replaced, shutoff valves are added in areas with significant risk of non-payment.

The estimated capital spending for fiscal year 2009 for the Distribution Department is \$34.5 million, which is about \$13.3 million lower than 2008 capital expenditures. Given the projected 2009 spending reduction described above, PGW’s ongoing annual cast iron mains replacement program is expected to decrease to approximately 6 miles in 2009. However, over the 2001-2008 period, PGW averaged approximately 19.5 miles of cast iron main replacement. Therefore, the average over the 2001-2009 period will equal approximately 18 miles. In the forecast period, PGW plans to resume undertaking its annual cast iron main replacement program at the 18 mile level. This change, combined with similar reductions in small service replacements for 2009, total a decrease of \$11 million in spending between 2008 and 2009 budgets. However, estimated expenditures for the Distribution Department increase to \$51.7 million for 2010 with increases of roughly \$1 million every year through 2014. These projected expenditures include the 18 miles per year cast iron pipe replacement schedule. The planned capital project spending for the Distribution Department follows a recurring pattern that generally requires equal capital outlays each year.

The largest department expenditure relates to the prudent replacement of small diameter (1.25 inches or less) services, which are necessary as a result of the distribution mains replacements. This ongoing multi-year project is budgeted at \$11.9 million for fiscal year 2009.

Table 4
Historical and Proposed Capital Improvement Program Expenditures
(Thousands of Dollars)

Category	Fiscal Year Ending August 31, ^(a)														Total
	Actual					Estimate ^(c)				Projected				2010 - 2014	
	2003	2004	2005	2006	2007	2008	2009 ^(d)	2010	2011	2012	2013	2014	2010 - 2014		
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Gas Processing	5,618	9,843	5,008	3,615	3,332	2,515	2,685	4,992	3,642	4,651	5,333	3,147	21,765		
Distribution	43,631	40,096	43,572	44,583	48,549	47,748	34,478	51,684	53,473	54,319	55,653	56,965	272,094		
Field Services	5,694	3,266	5,288	5,221	6,621	5,813	4,617	4,654	9,044	5,210	5,023	5,097	29,028		
Transportation	1,003	2,649	2,918	2,269	3,080	2,128	3,211	2,383	3,824	2,079	3,340	3,953	15,579		
Other Departments ^(b)	6,280	4,062	10,124	5,625	8,436	3,538	5,468	8,407	10,415	19,349	2,394	2,308	42,873		
Subtotal	62,227	59,916	66,910	61,313	70,018	61,742	50,459	72,120	80,398	85,608	71,743	71,470	381,339		

(a) All figures are net of Salvage, Reimbursements, and Contributions.

(b) Includes Approved and Budgeted Program for Field Operations, Building Services, Customer Affairs, and Information Services.

(c) Includes carryover of \$5.2 million in capital improvements from prior years.

(d) PGW's FY2009 estimated capital expenditure of \$50.5 million represents an 18.3% decrease from its 2008 level and reflects a management decision to implement a contingency plan that reduces spendi

Table 5
New Capital Projects for FY2009
(Thousands of Dollars)

Category	Priority 1 Safety	Priority 2 Reliability	Priority 3 Enforced	Priority 4 New Rev	Priority 5 Efficiency	Total
	\$	\$	\$	\$	\$	\$
Gas Processing						
Upgrade O-34 M&R Outlet Piping	0	402	0	0	0	402
Replace Plantscape Distributed Control System	0	203	0	0	0	203
LNG Tank Piping Modification	0	629	0	0	0	629
Security Upgrades - Passyunk	303	0	0	0	0	303
Emergency Command Center - Richmond	0	251	0	0	0	251
Miscellaneous Additions	165	0	0	0	0	165
Miscellaneous Replacements	269	0	0	0	0	269
Total Gas Processing	737	1,485	0	0	0	2,222
Distribution						
Prudent Main Replacements	3,088	0	0	0	0	3,088
High Pressure Main Valves Replacements	0	0	0	0	0	0
Joint Clamping and Encapsulation	5,024	0	0	0	0	5,024
Small Service Replacements	11,890	0	0	0	0	11,890
Large Service Replacements	804	0	0	0	0	804
Small Service Installations	0	0	0	4,581	0	4,581
Large Service Installations	0	0	0	2,860	0	2,860
Customer Metering & Regulator Installation	0	0	0	0	0	0
Replace Pressure Regulating/Corrosion Control Facilities	0	0	0	0	0	0
Purchase Tools, Equipment	0	0	0	0	52	52
Replace Tools, Equipment	0	0	0	0	0	0
Enforced Relocations For System Pressure	3,289	0	0	0	0	3,289
Local Mains to Supply New Houses/Increased Capacity	0	0	0	2,890	0	2,890
Total Distribution	24,095	0	0	10,331	52	34,478
Field Services						
Regulator Purchases	0	0	0	0	0	0
Service Regulators Purchases and Installations	0	0	0	26	0	26
Meter Installations	0	0	0	887	0	887
Training Equipment Replacements	0	57	0	0	0	57
Meters Purchases for Automatic Meter Reading	1,536	0	0	0	0	1,536
AMR Replacements	0	0	0	0	2,111	2,111
BPS Metscan & LBS Metreteck	0	0	0	0	0	0
Instrumentation Purchases and Installations	0	0	0	0	0	0
Total Field Services	1,536	57	0	913	2,111	4,617
Transportation						
Conditional Funding for Vehicle Replacements	0	1,117	0	0	0	1,117
Shop Equipment Replacements	0	0	0	0	0	0
Mobile Equipment Replacements	0	318	0	0	0	318
Total Transportation	0	1,435	0	0	0	1,435
Other Departments	1,300	1,169	0	0	0	2,469
Total FY 2009 Projects	27,668	4,146	0	11,244	2,163	45,221
Carryover from Years Prior to FY 2009^(a)	621	4,617	0	0	0	5,238
Total FY 2009 Expenditures (Net)	28,289	8,763	0	11,244	2,163	50,459

(a) The projects listed in the Table 5 are planned fiscal year 2009 capital improvements. In addition to the budgeted \$45.2 million, PGW will also be completing \$5.2 million of capital improvements carried over from prior years.

Field Services

The estimated capital spending for fiscal year 2009 for the Field Services Department is \$4.6 million. Over the past decade, PGW has embarked on an aggressive program to retrofit customer meters with electronic devices to maximize the effectiveness of its automated meter reading system (“AMR”). That program is nominally 100 percent complete. PGW continues to realize benefits from the implementation of the automated meter reading system, including fewer estimated readings, increased reading accuracy, reduction in meter reading personnel and reduced customer complaints. While replacing meters and AMR devices, PGW is testing its meters to comply with PUC requirements.

Transportation

The Transportation Department estimated capital expenditures are \$3.2 million for fiscal year 2009. The majority of the estimated capital expenditures for this department not carried over from prior years are associated with mobile equipment replacements (22 percent), and vehicle replacements (78 percent). There is no significant proposed capital spending for shop equipment additions and replacements. The majority of the vehicle replacements are targeted to support critical field operations activities.

Other Departments

The “Other Departments” category includes estimated capital expenditures for Building Services, Information Services, and Customer Affairs. For fiscal year 2009, the combined spending of these departments is \$5.5 million.

PGW continues to invest in its Field Operations Initiative (“FOI”), which is the cornerstone of how PGW will comply with PUC requirements, as well as achieve the benefits of integrating PGW’s Distribution and Field Services Departments. Future improvements to support mobile and work management functions will be implemented under the AIMS Business Transformation Initiative.

Rates and Tariffs

The following sections present a discussion of existing rate programs and some of the ongoing issues facing PGW due to the changes in legislation and regulation and the impact on rates and rate-making methodology.

Regulation

Prior to July 1, 2000, PGW's rates were regulated by the PGC. PGW's last base rate increase under PGC regulation was in December 1991. Commencing on July 1, 2000, PGW became regulated by the PUC. Although the PGC continues to approve PGW's operating budget, the PUC has the authority to approve the rates charged by PGW.¹⁰

On November 14, 2008, PGW filed with the PUC for extraordinary base rate relief of \$60 million for calendar year 2009. On December 19, 2008, the PUC issued an order granting PGW's request, effective January 1, 2009. Prior to November 2008 rate filing, PGW has filed for four separate permanent base rate increases totaling \$225 million since it became regulated under the PUC in 2000. The PUC has granted \$94.6 million of the \$225 million, or 42 percent. PGW has also filed with the PUC on several occasions regarding revisions to its gas cost rate ("GCR"). The PUC has approved all of the GCRs filed by PGW. In our opinion, PGW has requested and received timely changes in its GCR.

In August 2000, PGW filed for interim base rate relief of \$52 million (annually) with the PUC. In its order dated November 22, 2000, the PUC granted \$11 million of this interim increase but attached certain conditions precedent to the increase that were not acceptable to PGW. PGW and the City filed an appeal of the PUC Order with the Commonwealth Court. On February 22, 2001, the PUC issued an order adopting a settlement of the appeal between the PUC Law Bureau, PGW, and the City that included the following:

1. PGW would be allowed to increase rates to provide an additional \$11 million in base rate revenues by August 31, 2001.
2. PGW would be permitted to recover an additional \$7 million through its GCR to account for higher than anticipated bad debt expense. PGW would be allowed to reserve any over collection of GCR up to \$25 million.
3. PGW agreed to implement all of the recommendations of the PUC Management Audit (the "Audit") or explain why it believes it cannot or should not.
4. The PUC acknowledged that it is obligated to establish rates that permit PGW to meet all of its Bond Ordinance covenants.
5. The PUC and the City agreed on a timetable and process to replace interim management with permanent management.

The appeal was withdrawn following the February 22, 2001 Order approving the settlement. PGW implemented rates consistent with the order on March 1, 2001.

On January 5, 2001, PGW filed for a \$65 million permanent increase in base rates. This was the first permanent base rate filing PGW submitted to the PUC for approval. On October 12, 2001, the PUC granted PGW the authority to raise base rates by \$22.6 million, which together with the prior, interim increase, totaled \$33.6 million.

¹⁰ Generally, the PUC is required to rule on an application for base rate relief within nine months of the utility's application.

On February 25, 2002, PGW filed for a \$60 million increase in base rates and the power to implement a weather normalization clause (Docket No. R-00017034). As part of the request for base rate relief, PGW submitted a petition for Extraordinary Rate Relief seeking to have \$44 million of the total requested \$60 million to be approved as extraordinary rates effective in mid-April 2002 to meet the immediate need to maintain its investment grade rating. The remaining \$16 million was necessary to provide financing to pay down loans, upgrade plant security, and expand gas leak detection capabilities.

On April 11, 2002, the PUC granted PGW a \$36 million extraordinary base rate increase in order for PGW to maintain its overall liquidity and access to capital markets. The increase took effect April 16, 2002. The increase was permanently approved on August 8, 2002. The PUC also permitted PGW to implement its proposed Weather Normalization Adjustment (“WNA”) clause. The WNA is discussed more fully in the section on “*Existing Rates – Weather Normalization Adjustment*”.

PGW filed a restructuring plan with the PUC on July 1, 2002, which was approved by the PUC on March 31, 2003. The restructuring plan, among other things, provides for an unbundled tariff permitting customer choice of the commodity supplier by September 1, 2003. PGW’s Restructuring Compliance Tariff Rates are designed to maintain revenue neutrality and the Tariff Rules and Regulations are designed to comport with the PUC requirements.

On December 22, 2006, PGW filed for a \$100 million increase in base rates. PGW sought the rate increase primarily to cover the increase in non-gas operating expenses and interest expense since its 2002 rate case, provide sufficient funds available for debt service to meet its rate covenants under the 1975 General Ordinance and the 1998 General Ordinance and ensure, that in the long term, PGW has adequate liquidity when needed through internally generated funds without having to continually resort to borrowing funds externally for capital improvements. On September 13, 2007, the PUC granted PGW a \$25 million increase in base rates, effective September 20, 2007. PGW appealed the PUC’s Order to Commonwealth Court, where it was affirmed by an opinion and order issued on February 4, 2009. PGW is planning to file a petition for allowance of appeal of the Commonwealth Court decision with the Pennsylvania Supreme Court.

On November 14, 2008, PGW filed for extraordinary base rate relief of \$60 million, effective January 1, 2009. The request was granted December 18, 2008. PGW filed the request primarily to improve its long-term cost structure, to provide lower financing costs in the future and to provide more reliable service. In granting the extraordinary relief, the PUC required PGW to file a base rate case no later than December 31, 2009. The Office of Small Business Advocate (OSBA) filed a petition for reconsideration of the PUC’s extraordinary rate order, challenging the allocation of the rate increase. The Commission dismissed the petition on March 26, 2009. The Commission imposed several conditions on PGW’s receipt of extraordinary rate relief, all of which PGW has accepted: PGW was required to: 1) File its Business Transformation Initiative -Full Plan with the Commission for review, followed up by annual reports on its implementation and savings; 2) provide monthly reports of financial and operational performance, and the results of cost containment efforts; 3) submit a performance-based incentive compensation plan for all management employees for comment by the Commission; 4) submit, ninety (90) days in advance of negotiating its next employee collective bargaining agreement, a plan for improving performance and implementing efficiencies for hourly employees; 5) convene a collaborative process to explore options for transitioning default service supply customers to alternative suppliers; 6) take appropriate steps to seek repeal of the City of Philadelphia ordinance mandating the annual \$18 million payment to the City.

The PUC conducted a management audit of PGW’s operations, via a third party consultant, from October 2007 through September 2008. A final report regarding audit findings was submitted to the PUC in December 2008. The audit included a total of 93 recommendations for improvement. PGW submitted its implementation plan regarding audit recommendations to the PUC on January 22, 2009. PGW accepted 88, partially accepted 3, and rejected 2 of the PUC’s follow-up recommendations. On

February 5, 2009, the PUC released PGW's Implementation Plan and the PUC's Management Efficiency Investigation ("MEI") of PGW to the public. The PUC directed PGW to proceed with the January 22, 2009 Implementation Plan. PGW's implementation actions may be reviewed by the PUC at a later date to determine if PGW has effectively implemented the recommendations.

Existing Rates

The current tariff sets forth the rules and regulations for gas service and the rates PGW is allowed to charge for various types of service. Changes to this tariff must be approved by the PUC. Currently, PGW primarily provides service under three broad classifications: firm, interruptible, and transportation service. Table 6 summarizes PGW's existing rates and applicable surcharges. PGW's rates are presented as unbundled and include a customer charge, distribution charge, and gas cost rate (GCR). The distribution charge includes a delivery charge, as well as any applicable surcharges. The GCR is not applicable to certain firm service customers who transport gas through a qualified natural gas supplier ("NGS").

Firm Service

PGW provides firm service under three rate schedules: General Service, Municipal Service, and Philadelphia Housing Authority ("PHA") Service. The vast majority of PGW's customers are served under the General Service Rate. During the 2009 fiscal year, over 99 percent of PGW's customers are estimated to be served under this rate and these customers account for 97 percent of sales volumes (and 70 percent of total throughput). This rate is available to any residential, commercial, or industrial customer pursuant to the applicable rate provision. Monthly customer charges differ depending on whether the customer is classified as residential, commercial, or industrial customer. A different commodity rate applies to residential customers versus commercial and industrial customers. The General Service Rate contains special provisions for separately metered summer air conditioning and compressed natural gas ("CNG") vehicle service. Residential senior citizens may have previously qualified for a discount under this rate. (*See Senior Citizen Discount Program*). The commodity rate is subject to adjustment under the GCR clause.

Table 7 presents a comparison of a typical peak winter month's residential gas bill for PGW and the other principal gas distribution utilities in Pennsylvania. Based on rates, surcharges, and costs of gas currently in effect, PGW's typical winter month residential bill is approximately \$59.18 higher than the group average of \$293.84. One of PGW's surcharges, Universal Service and Energy Conservation surcharge, includes the recovery of costs related to the Customer Responsibility Program, the Conservation Works Program, and the Senior Citizen Discount Program. We understand costs of comparable programs at other utilities in Pennsylvania are significantly lower in comparison because the cost of other utilities' social programs is not as high as these costs are in Philadelphia. PGW's Universal and Energy Conservation surcharge is currently \$2.4262 per Mcf. For the typical peak winter month's residential bill for 20 Mcf of consumption, the Universal Service Charge amounts to \$48.52 of the \$353.02.

Interruptible Service

PGW provides interruptible sales service under several rate schedules. Virtually all interruptible sales service is under the Boiler and Power Plant Service ("BPS") or Load Balancing Service ("LBS"). The BPS rates are set within a range, based on the estimated cost of gas and on published No. 2 fuel oil prices in Philadelphia. The LBS service is priced similarly, except that No. 6 fuel oil is used rather than No. 2 fuel oil. Because this service is interruptible, customers taking BPS or LBS service must be able to use an alternate energy source. The rates are competitive. If alternate fuel (No. 2 or No. 6 fuel oil) is less expensive than the equivalent price that PGW offers in any given month, the customer may use the alternate fuel rather than burn natural gas.

**Table 6
Existing Tariff Rates**

Tariff	Effective	Existing Tariff Charges ^(a)
Firm Service		
General Service - Rate GS		
Customer Charge - \$/meter per month		
Residential and Public Housing Customers	3/1/09	12.00
Commercial and Municipal Customers	3/1/09	18.00
Industrial Customers	3/1/09	50.00
Gas Cost Rate (GCR) - \$/Mcf		
Residential and Public Housing Customers	3/1/09	8.4192
Commercial and Municipal Customers	3/1/09	8.4192
Industrial Customers	3/1/09	8.4192
Distribution Charge - \$/Mcf ^(b)		
Delivery Charge		
Residential	3/1/09	6.1840
Public Housing Customers	3/1/09	5.2817
Commercial and Municipal Customers	3/1/09	5.2449
Industrial Customers	3/1/09	5.2465
Surcharges		
Universal Service and Energy Conservation	3/1/09	2.4262
Restructuring and Consumer Education	9/1/08	0.0218
Total Commodity Charge - \$/Mcf		
Residential and Public Housing Customers		17.0512
Commercial and Municipal Customers		16.1121
Industrial Customers		16.1137
Municipal Service - Rate MS		
Customer Charge - \$/meter per month	3/1/09	18.00
Gas Cost Rate (GCR) - \$/Mcf	3/1/09	8.4192
Distribution Charge - \$/Mcf ^(b)		
Delivery Charge	3/1/09	3.8178
Surcharges		
Universal Service and Energy Conservation	3/1/09	2.4262
Restructuring and Consumer Education	9/1/08	0.0218
Total Commodity Charge - \$/Mcf		14.6850
Philadelphia Housing Authority Service - Rate PHA		
Customer Charge - \$/meter per month	3/1/09	18.00
Gas Cost Rate (GCR) - \$/Mcf	3/1/09	8.4192
Distribution Charge - \$/Mcf ^(b)		
Delivery Charge	3/1/09	5.1889
Surcharges		
Universal Service and Energy Conservation	3/1/09	2.4262
Restructuring and Consumer Education	9/1/08	0.0218
Total Commodity Charge - \$/Mcf		16.0561
Interruptible Service		
Boiler and Power Plant Service-Small Volume - Rate BPS-S		
Customer Charge - \$/meter per month		
Annual consumption less than 10,000 Mcf.	1/1/09	51.00
Annual consumption between 10,000 and 100,000 Mcf, inclusive.	1/1/09	108.00
Annual consumption greater than 100,000 Mcf.	1/1/09	150.00
Commodity Charge ^(c) - \$/Mcf		20.74
Boiler and Power Plant Service - Large Volume - Rate BPS-L		
Customer Charge - \$/meter per month		
Annual consumption less than 10,000 Mcf.	1/1/09	51.00
Annual consumption between 10,000 and 100,000 Mcf, inclusive.	1/1/09	108.00
Annual consumption greater than 100,000 Mcf.	1/1/09	150.00
Commodity Charge ^(c) - \$/Mcf		17.63
Boiler and Power Plant Service - Heavy Oil - Rate BPS-H		
Customer Charge - \$/meter per month		
Annual consumption less than 10,000 Mcf.	1/1/09	51.00
Annual consumption between 10,000 and 100,000 Mcf, inclusive.	1/1/09	108.00
Annual consumption greater than 100,000 Mcf.	1/1/09	150.00
Commodity Charge ^(c) - \$/Mcf		15.76

**Table 6 (Continued)
Existing and Proposed Tariff Rates**

Tariff	Effective	Existing Tariff Charges ^(a)
Interruptible Service (Continued)		
Load Balancing Service - Extra-Large Volume - Rate LBS-XL		
Customer Charge - \$/meter per month	1/1/09	362.00
Commodity Charge ^(c) - \$/Mcf		13.82
Load Balancing Service - Large Volume - Rate LBS-L		
Customer Charge - \$/meter per month	1/1/09	254.00
Commodity Charge ^(c) - \$/Mcf		13.86
Load Balancing Service - Small Volume - Rate LBS-S		
Customer Charge - \$/meter per month	1/1/09	145.00
Commodity Charge ^(c) - \$/Mcf		13.90
Gas Transportation Service - Rate GTS		
Customer Charge - \$/meter per month	9/1/03	250.00
Commodity Charge ^(d) - \$/Mcf		0.4029
Cogeneration Service - Rate CG		
Customer Charge - \$/meter per month	1/1/09	362.00
Commodity Charge ^(e) - \$/Mcf		11.95
Developmental Natural Gas Vehicle Service, Firm Service - Rate NGVS		
Customer Charge - \$/meter per month	3/1/09	35.00
Gas Cost Rate (GCR) - \$/Mcf	3/1/09	8.4192
Distribution Charge - \$/Mcf ^(f)		
Delivery Charge	3/1/09	1.3212
Surcharges		
Universal Service and Energy Conservation	3/1/09	2.4262
Restructuring and Consumer Education	9/1/08	0.0218
Total Commodity Charge - \$/Mcf		12.1884
Developmental Natural Gas Vehicle Service, Interruptible Service - Rate NGVS		
Customer Charge - \$/meter per month	3/1/09	35.00
Commodity Charge - \$/Mcf		13.50
Transportation Service		
Daily Balancing Service - Rate DB		
Administrative Charge - \$/supply pool per month	9/1/03	150.00
Plus charges and/or credits related to balancing and Operational Flow Orders (OFOs)		
Interruptible Transportation - Rate IT		
	1/1/09	
IT-A - Contracts for not less than 2,500 Dth, maintain standby non-natural gas energy.		
IT-B - Contracts for not less than 5,000 Dth, maintain standby non-natural gas energy.		
IT-C - Contracts for not less than 5,000 Dth, maintain Standby No. 4 oil.		
IT-D - Contracts for not less than 5,000 Dth, maintain Standby No. 5 or No. 6 oil.		
IT-E - Contracts for not less than 80,000 Dth, maintain standby non-natural gas energy.		
Customer Charge - \$/meter location per month		Transportation Charge - \$/Dth delivered
IT-A	125.00	IT-A 1.81 maximum
IT-B	225.00	IT-B 0.87 maximum
IT-C	225.00	IT-C 0.68 maximum
IT-D	225.00	IT-D 0.61 maximum
IT-E	350.00	IT-E 0.58 maximum

(a) Reference: Philadelphia Gas Works, Gas Service Tariff, Pa P.U.C No 2.

(b) Sum of Delivery Charge and Surcharges.

(c) Competitively priced based on cost of alternative fuel. Based on March 2008-March 2009 average.

(d) Commodity charge includes Delivery Charge, Transportation charge, and Standby Service Charge, if applicable.

Source of commodity charge is PGW Gas Sales and Revenue Report - Month Ending February 2008.

(e) Commodity charge based on cost of gas purchased and delivered to PGW gate stations.

Table 7
Comparison of Residential Gas Bills – Pennsylvania Utilities
For Customers Using 20 Mcf per Month

Utility	Gas Cost Effective	Monthly Bill ^(a)
PECO Energy	3/1/2009	255.63
UGI Corporation	3/1/2009	266.24
National Fuel Gas	2/1/2009	270.59
Peoples Natural Gas	1/1/2009	275.27
UGI Penn Natural Gas (formerly PG Energy)	3/1/2009	279.65
Columbia Gas of Pennsylvania	1/1/2009	316.47
Equitable Gas	4/1/2009	333.89
Philadelphia Gas Works	3/1/2009	353.02

(a) Table assumes 1 cubic foot equals 1,000 Btu.

Transportation Service

PGW currently provides interruptible transportation service to 306 customers. This represents an increase from the 2007 Report (101 customers) and is attributable to the transfer of customers from Interruptible Sales service to Interruptible Transportation service. During the calendar year 2008, Grays Ferry Cogeneration Facility accounted for about 39 percent of the transportation throughput and about 9 percent of the transportation revenue. Service to this customer is provided through essentially dedicated facilities under a long-term negotiated contract. Under this contract, PGW receives approximately 8 cents per Mcf for each unit transported plus a service charge intended to cover PGW's cost of operating and maintaining the facilities required to serve this customer. The other customers are served under individually negotiated contracts. In some cases, transportation customers also take some service under the sales rate schedule for a portion of their load.

Although PGW has operated under its Restructuring Compliance Tariff with unbundled rates since September 1, 2003, many of PGW's customers continue to take fully bundled service from PGW. A fully bundled service is a service where the customer deals with one provider and pays for all services through a single charge. All of the separate services (gas supply, transportation, storage, and distribution) currently performed by PGW are packaged into one full-service rate.

Under PGW's restructured rates, customers have the option to continue taking the gas supply, transportation, and storage services from PGW or choose a third party supplier to provide these services. Whether the customer decides to have PGW provide these services or a third party, the customer continues to take and pay for distribution service from PGW. Under its current tariff, PGW assigns (with recall rights) portions of its transportation and storage (pipeline and LNG) capacity to the third party supplier such that PGW and customers who take a fully bundled service will not be adversely impacted by having to pay for capacity that would otherwise be stranded by customers who choose a third party supplier. PGW retains ownership to the transportation and storage capacity because PGW continues to be the supplier of last resort. If a third party supplier defaults or is no longer able to meet its commitments, PGW is able to recall the transportation and storage capacity and serve the customers who had opted for service from this third party supplier.

Under the unbundled rates, PGW's contribution margin from firm customers is not materially impacted by whether a customer chooses a third party supplier or elects to continue taking the fully

bundled service. In effect, the unbundled rates and services will make PGW indifferent as to which service a customer takes. Customers will continue to pay the distribution and customer charges no matter which service is taken, the GCR mechanism will keep PGW whole with regard to gas supply, transportation, and storage costs, and PGW's ability to assign capacity to the third party suppliers will not adversely impact customers who choose to take the fully bundled service.

It is projected that for fiscal year 2009, approximately 2.5 million Mcf of commercial, industrial and municipal firm load, or 4.5 percent of total firm load, is taking gas supply, transportation and storage services from a third party supplier. For purposes of this Report, it is assumed that this firm load will continue to grow annually, reaching 4.1 million Mcf, or approximately 7.3 percent of total firm load by 2014.

Gas Cost Rate

As previously discussed, all changes in gas supply related costs are passed through to customers through the gas cost rate ("GCR"). The specific components of PGW's current GCR are depicted in Figure 3. PGW's gas supply costs consist of purchased gas costs, transportation costs, and off-system storage costs. This cost is reduced by the cost directly paid by interruptible customers (specifically, load balancing service customers). Sales are made to these interruptible customers based on prices quoted monthly by PGW. The prices quoted are based on the average delivered price paid by PGW during the month with some consideration given to the customer's cost of alternative fuel oil. Natural gas service is competing against the price of alternative fuel; however, PGW only incurs gas supply cost attributable to these customers to the extent that sales are made (and gas is purchased to meet load). Total gas supply costs are also adjusted to reflect changes in the inventory cost of off-system and LNG storage and the cost of power purchased for the LNG facilities. The change in inventory cost is attributable to changes in volume as well as the price paid for the gas put into storage.

These costs are divided by the total sales volumes less the volumes attributable to direct billed interruptible customers to determine the unit cost of fuel, or sales service charge as depicted in Figure 3. Various adjustments are then made to the sales service charge. An additional adjustment is made for the net over or undercollection of natural gas during the previous fiscal year resulting from differences between values used to project the prior year's GCR and those actually experienced. The interest expense or credit on the over or under recovery is also applied to calculate the total adjustment. In addition, a credit for margin realized from interruptible sales ("IRC") is made. Each of these components comprises the GCR. The GCR is typically adjusted quarterly although PGW has the ability on thirty days notice to the PUC to change it monthly.

Prior to the restructuring, PGW recovered certain non-fuel expenses in addition to gas supply costs through the GCR. These included discounts given to low income customers through the Customer Responsibility Program and funds provided to weatherize the homes for low-income customers through the Conservation Works Program. These costs are now recovered through surcharges which are not included as part of the GCR. By recovering these costs through surcharges, customers cannot avoid these costs by not purchasing gas from PGW.

Surcharges

PGW's surcharges include a Restructuring and Consumer Education Surcharge and Universal Service and Energy Conservation Surcharge. These surcharges are depicted in Figure 4. Gas utilities in Pennsylvania can recover the costs of social programs through what are generally referred to as universal service charges. The Universal Service and Energy Conservation Surcharge provides for the recovery of discounts to customers on the Customer Responsibility Program ("CRP"), of discounts to customers receiving the Senior Citizen Discount, of the costs of the Conservation Works Program, and of past due arrearages forgiven to CRP customers entering CRP after September 1, 2003. The Universal Service

Charge is applicable to all PGW customers, excluding interruptible customers, who are delivered natural gas through PGW's distribution system. PGW automatically adjusts the surcharge quarterly in connection with its GCR filing.

The Restructuring and Consumer Education Surcharge separately tracks and recovers costs associated with the transition to customer choice and what are generally referred to as PUC Chapter 56 (customer service) and Chapter 59 (safety) costs. The restructuring costs include the recovery of Commission approved costs which PGW has or will incur to meet requirements of the Natural Gas Choice and Competition Act and applicable Commission regulations, orders, and other regulatory requirements. The additional costs associated with Chapter 56 primarily relate to more frequent reading of indoor meters. The additional costs associated with Chapter 59 primarily relate to more frequent meter testing and indoor leak surveys.

Weather Normalization Adjustment

As part of the settlement in PGW's 2002 rate case in Docket R-00017034, PGW received approval to implement a weather normalization adjustment ("WNA"). This marked the first time that the PUC authorized a WNA for a gas utility under its jurisdiction. The benefit of a WNA is that it essentially removes the single biggest risk to PGW of recovering its approved margin, warmer than normal weather during the winter season. PGW's approved commodity charges (exclusive of cost of gas) are derived using throughput (volumes) that are based on the assumption that weather will be normal. If conditions are warmer than normal, sales decline and in conjunction with that, margin revenues decline. Several warmer than normal winters, including one of the warmest winters in PGW's history, created the circumstances that led to PGW's need to file for extraordinary rate relief in 2002.

The WNA is designed to adjust the customers' bills upwards or downwards to reflect differences between actual heating degree-days and normal heating degree-days. The benefits of a WNA include the following:

- Stabilizes earnings
- Stabilizes cash flow during the winter heating season
- Reduces the need to file rate cases, thereby lowering costs
- Reduces the need for short term financing
- Stabilizes customers' bills

Fiscal year 2008 was the sixth year the WNA was in effect and heating degree-days ("HDD") during the winter period were 16.9 percent lower than normal (3,710 actual HDD versus 4,464 normal HDD). Therefore, heating customers were billed approximately \$12.2 million as a result of the warmer than normal weather. PGW's WNA applies to customers served under its General Service, Municipal Service, and PHA rate schedules and is calculated for each customer bill rendered between October 1 and May 31.

The type of WNA that PGW implemented is referred to as a Type 1 WNA. This type of WNA adjusts the customer's bill to reflect conditions during the billing cycle covering that bill. This contrasts with a Type 2 WNA that is calculated on a seasonal basis. The advantage of the Type 1 WNA is that the calculation of the customers' bills and PGW's revenue recovery are concurrent with the current billing cycle. The adjustment is calculated as the ratio of the normal HDD during the billing cycle divided by the actual HDD during the cycle. For example, assume a residential customer uses 10 Mcf during the period November 16 through December 15, the actual HDD during this period are 750, and the normal HDD during this period are 850. The customer's commodity charge (exclusive of gas cost) would be calculated as 10 Mcf times 850 HDD divided by 750 HDD times \$6.184 per Mcf which equals \$70.09. Without a

WNA, the customer's bill would have been \$61.84 (10 Mcf times \$6.184 per Mcf). The WNA only applies if the actual HDD deviate by more than 1 percent from the normal HDD during the billing cycle. Therefore, if the actual HDD during the cycle in the above example had been within the range of 842 to 859 HDD, no adjustment would be made to the bill.

The PUC determined that PGW's WNA would be put in place for an initial three-year period, which expired on August 9, 2005. PGW conducted a review of the costs and benefits of the WNA and determined that, although it refunded a net amount of \$9.3 million to its customers as of August 31, 2005, (as reported in PGW's "Report on Weather Normalization Clause" submitted to the PUC on May 4, 2006), the program eliminates the risk of under-recovering its approved margin in a warmer than normal season and therefore has proposed to continue the WNA without change. PGW presented its conclusions regarding the WNA to the PUC on May 4, 2006, with a request that the PUC acknowledge that the WNA should continue in place on a permanent basis. Because PGW's WNA tariff has no sunset provision, the WNA will continue in place unless the PUC issues an order directing that it be discontinued.

Five-Year Gas Demand-Side Management Plan

PGW filed a petition with the PUC for approval of a 5-year gas demand-side management plan ("DSM Plan" or "Plan") on March 26, 2009, and subsequently filed an amended petition on April 20, 2009. The Plan contains a proposed mechanism to recover the costs of program implementation and revenue loss directly attributable to program implementation. The goals of PGW's DSM Plan are to reduce customer bills, maximize customer value, contribute to the fulfillment of the City's Sustainability Plan and reduce PGW cash flow requirements. These goals will be accomplished by:

- Fielding a portfolio of programs that targets cost-effective gas efficiency savings among all PGW's firm heating customers
- Maximizing delivery efficiency to minimize costs and maximize coverage from the available budget
- Staging program implementation to permit orderly and sustainable expansion
- Treating customers in greatest economic need and with the most cost-effective opportunities first
- Supporting economic development in the City, both directly and indirectly
- Exploring opportunities to take advantage of efficiencies by partnering with other parties

The proposed DSM Plan includes expenditures of \$54 million for the period 2009 through 2013. Over the expected useful life of the measures to be installed under the plan, customers are expected to achieve cost savings of \$109 million in 2009 dollars by reducing usage by 1.3 trillion BTU. The Plan is expected to reach 85,000 customers and create between 600 and 1,000 jobs. As part of its filing, PGW is proposing an automatic adjustment charge mechanism to recover the costs of the program as well as revenues lost as a result of customers' conservation steps. PGW has asked the PUC to review the petition to approve the 5-year plan, as well as the cost recovery mechanism on an expedited basis.

Listed below are the major Plan programs. As used below, the term “retrofit” follows the common use of the term in this kind of program, meaning modification of an existing structure to improve energy efficiency.

1. Enhanced Low-Income Retrofit

Target Audience: Low-income Residential (CRP Participants)

Description: Measures similar to those installed under PGW’s low income weatherization program will be installed at no cost to the customer.

2. Comprehensive Residential Heating Retrofit

Target Audience: High-use Residential

Description: Non-low-income customers will be offered a range of measures with financial incentives which offer a 2 Year Simple Payback plus an extended payment plan, and a listing of Home Performance with ENERGY STAR™ Contractors.

3. Premium Gas Appliances and Heating Equipment

Target Audience: Residential and Small Commercial

Description: Special incentives will be offered to those who select Residential-sized, energy efficient gas appliances and heating equipment. This program targets the entire supply chain, providing incentives to cover 80 percent of incremental costs for high efficiency models.

4. Municipal Facilities Comprehensive Efficiency Retrofit

Target Audience: Municipal Facilities

Description: Measures to be offered include energy audits and possible extended repayment, and will integrate with other programs offered by other entities.

5. Commercial and Industrial Equipment Efficiency Upgrades

Target Audience: Commercial and industrial customers at time of installation/replacement

Description: The program proposes using the key intervention point when design decisions are being made for projects in an effort to avoid lost opportunities to provide broad support for retailers, engineers, and contractors, and incentives to cover 80 percent of incremental costs for higher efficiency.

6. High-Efficiency Construction

Target Audience: Residential and Commercial Construction

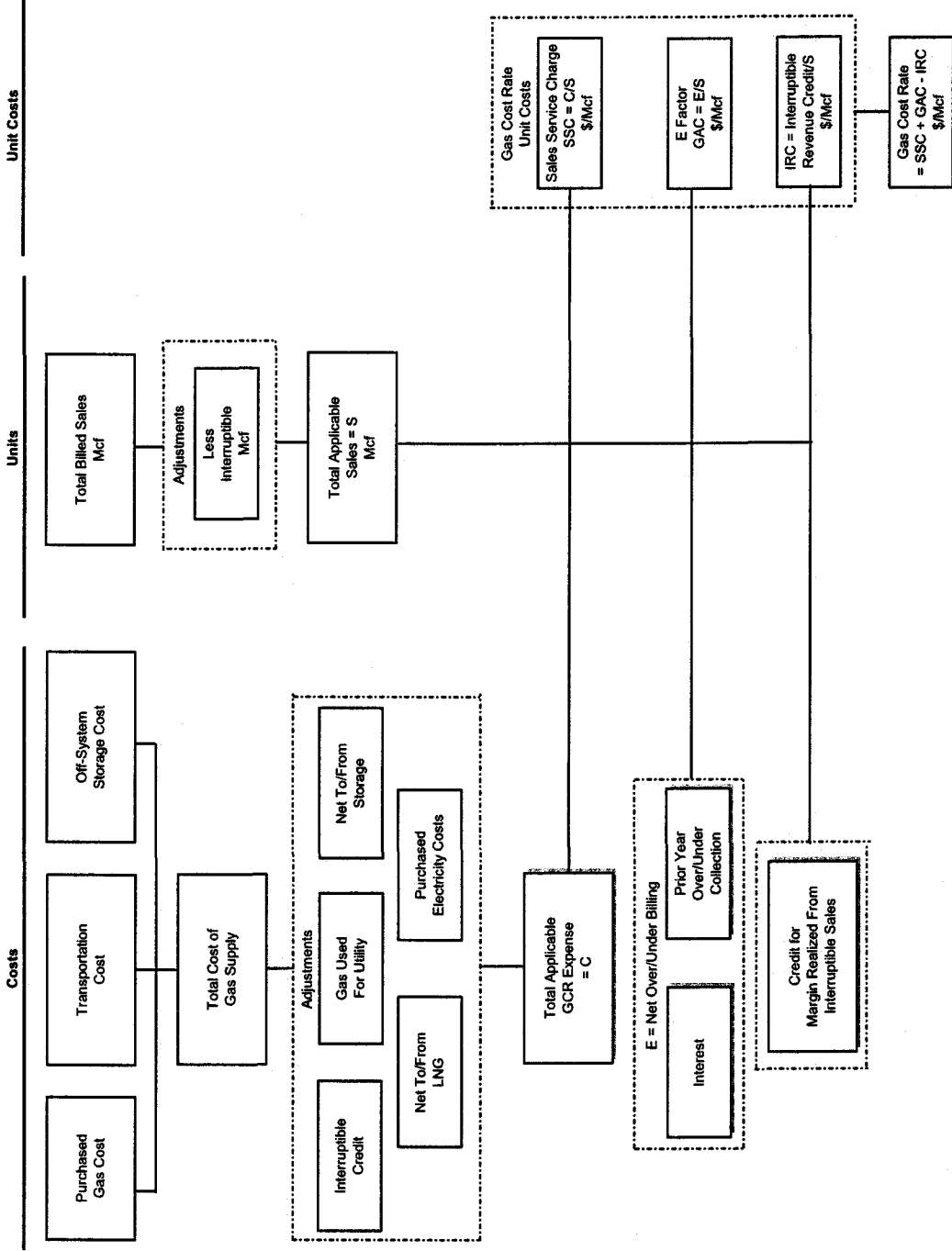
Description: Promote adoption of energy efficient design in all aspects of housing construction, including incentives to cover 80 percent of incremental costs (including design), and potential integration with other parties.

7. Commercial and Industrial Retrofit

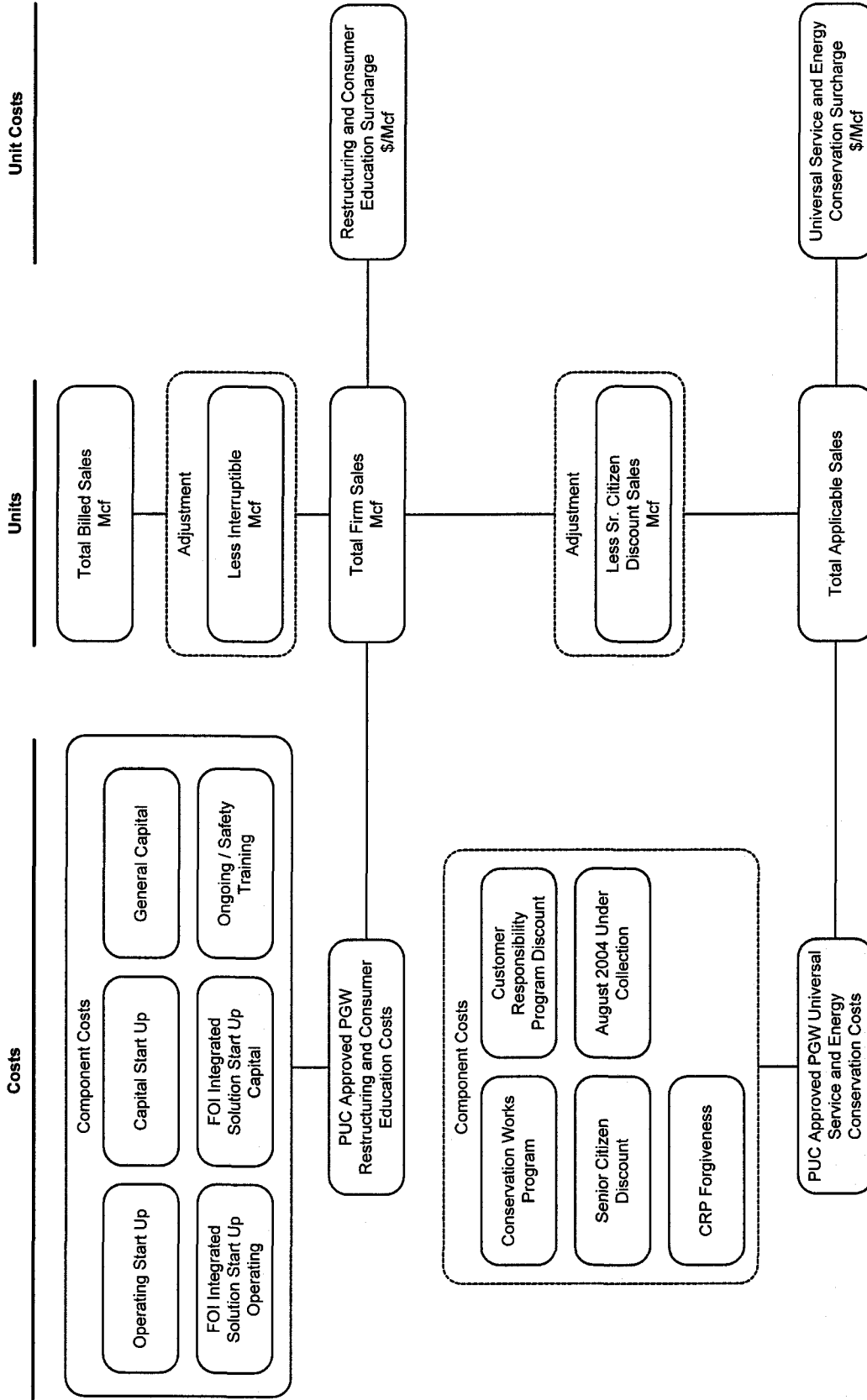
Target Audience: Commercial and Industrial Facilities

Description: Energy audits of existing facilities and customized incentives are among the measures proposed.

**Figure 3
Components of PGW Gas Cost Rate**



**Figure 4
Components of PGW Surcharges**



Customer Responsibility Program

In November 1993, the Philadelphia Gas Commission adopted a low-income program known as the Customer Responsibility Program (“CRP”). This program became effective in February 1994. The purpose of CRP is to increase the collection of revenues, provide an affordable payment plan for low-income customers, impress payment responsibility on the customer, reinforce the importance of conservation and increase grant assignment. The goal of the program is to increase cash flow to PGW and decrease accounts receivable.

CRP is open to any customer who is at or below 150 percent of the Federal poverty level (“FPL”). Monthly bills for CRP customers are based on income, so that they are affordable for low-income households. If a customer entering CRP has arrears, those arrears are forgiven at a rate of 1/36th per month. As part of their CRP agreement of fixed monthly bills and arrearage forgiveness, CRP customers are required to:

- accept conservation measures offered to them in the Conservation Works Program
- allow the installation of an Automatic Meter Reading device
- make a \$5 monthly co-payment toward their pre-program arrears, if they have any
- apply for LIHEAP, if eligible, and designate PGW as the grant recipient
- re-certify at least once per year, or when household size or income changes
- make payments on time and in full (CRP customers are considered in default when they are two full payments past due)

In September 2003, the CRP program was changed to conform to requirements of the PUC. This revised program is described below:

CRP is a customer assistance program that can help low-income residential customers who are at or below 150 percent of the poverty level to better afford their PGW bills and maintain their gas service. Participants receive a discount based on their gross household income. Applicants must apply by showing proof of income and social security cards for everyone in the household. There are three agreement types:

<u>PGW Annual Bill</u>	<u>Household Income</u>
8% of income	0-50% FPL
9% of income	51-100% FPL
10% of income	101-150% FPL

The minimum payment under a CRP agreement is \$25 per month. Customers with pre-program arrears must make a \$5 monthly co-payment toward the arrears, in addition to the CRP budget amount. They must also pay their bill on time to receive forgiveness of pre-program arrears.

Approximately 81,000 customers, or about 18 percent of PGW’s total residential customer base, are enrolled in CRP. The increase in participation level is due to intensive outreach efforts. The main costs associated with the CRP program are the discounts that customers receive (revenue shortfall) and their arrearage forgiveness.

The CRP revenue shortfall is currently recovered in the Universal Service Surcharge. In the past five fiscal years, these amounts were \$32.9 million in 2003, \$48.5 million in 2004, \$61.1 million in 2005, \$88.4 million for 2006, \$86.6 million for 2007, \$87.7 million for 2008, and an estimated \$96.0 million for 2009. The shortfall fluctuation can be primarily attributed to the higher cost of natural gas supply and increased participation levels.

PGW forgives 1/36th of CRP pre-program arrears each month, provided that all bills are paid on time and in full. Since September 2003, PGW forgave \$2.9 million in 2004, \$8.4 million in 2005, \$10.1 million in 2006, \$9.1 million in 2007, \$9 million in 2008, and will forgive an estimated \$8 million in 2009.

Conservation Works Program

The Conservation Works Program (“CWP”) is designed to provide cost-effective energy savings to PGW’s low-income customers who participate in CRP. CWP is intended to reduce the overall long-term costs of CRP.

CWP began in 1990 and was operated by the Energy Coordinating Agency of Philadelphia (“ECA”) for the first years of the program. In September 1996, the program was redesigned, a second weatherization contractor was added, and PGW became the program operator. Both contractors have pursued a lower cost program approach designed to install only the most cost-effective measures. Since redesign, the program has continued with an annual budget of approximately \$2 million. About 3,000 homes have been treated annually in recent years.

Generally, prior to implementation of the CWP, customer consumption levels are approximately 30 percent greater than that of the average residential customer. Most CRP customers live in row houses more than 100 years old and that are in poor condition. Abandoned and vacant neighboring properties are also factors inducing high-energy usage. Average gas usage among Philadelphia’s low-income population (qualifying customers) when calculated on the basis of square foot per degree-day is far above national levels.

The basic characteristics of the targeted CWP population are customers with household income at or below 150 percent of the FPL and gas usage levels that are higher than average.

The goals of the CWP program include:

- Reduce gas usage of low-income households in a cost-effective manner
- Lower gas bills and improve the payment practices of participating customers

CWP focuses on this population of low-income customers by addressing the main factors that influence their energy usage, such as mechanical and structural systems, as well as behavior issues, such as turning down the thermostat when not at home or while sleeping. Thus far, CWP has:

- Provided energy education and basic health and safety checks for all homes
- Installed set-back thermostats in about two-thirds of all homes
- Installed roof insulation in about 15 percent of homes
- Performed blower-door guided air sealing in about 25 percent of homes

PGW commissioned an independent evaluation of CWP that was completed in November 2008. Overall, CWP continued to produce solid energy savings at a very modest cost, producing about \$2 worth of energy savings for every dollar spent on the program.

Senior Citizen Discount Program

The senior citizen discount program is a closed program. Since September 1, 2003, the program is not available to new participants. However, PGW currently has approximately 40,000 participants in its senior citizen discount program. All participants currently in the program were “grandfathered” in when the PUC discontinued it in September 2003. In 2004 there were approximately 70,000 “grandfathered”

participants in the program. The senior citizen discount amounts to a 20 percent reduction on the participant's total gas bill each month.

Other Programs and Grants

In addition to the programs described above, PGW also participates in or partially funds several other assistance programs that are intended to increase cash flow and reduce accounts receivable.

LIHEAP Program

The Federally funded Low Income Home Energy Assistance Program ("LIHEAP") provides funds to households in order to ensure continued utility service. The City's low-income residential gas consumers may apply for assistance through PGW's district offices, the Department of Public Welfare, or at one of many community organizations throughout Philadelphia. The LIHEAP program consists of two grant components: Cash and CRISIS grants. The main difference between the two grant types is that CRISIS grants are only offered to eligible customers whose utility service is off or in danger of having services terminated. Funds obtained are paid directly to PGW for crediting to the customer's account.

LIHEAP is an important source of low income assistance funding for PGW and has ranged over the last six years (2003-2008) from a low of \$18.7 million in 2004 to a high of \$23.9 million in 2006. PGW's share of LIHEAP funds allocated by the Commonwealth of Pennsylvania has ranged from approximately 13 to 17 percent since 2003. These levels have been achieved through a vigorous educational and outreach program by PGW to encourage its low-income residential population to apply for the grants. Funding levels vary based on Federal allocation and program design by state. In the past few years, the Pennsylvania LIHEAP program design has limited the funds available to customers of regulated utilities.

Since 1996, the Commonwealth of Pennsylvania has had the flexibility to change the customer eligibility criteria for LIHEAP participation from 150 percent of the FPL to 110 percent of the FPL. In 2008, the program capped eligibility at 150 percent of the FPL.

Natural gas price escalation, which began in 2003 and has spiked dramatically at times since then, has led to an increase in LIHEAP authorization by the Federal government to \$5.1 billion in 2008-2009. Of this, Pennsylvania received approximately \$310 million, \$273 million of which is expected to be used for grants. In years past, the state reserved some LIHEAP funds for the following year, but that is not expected to be the case in 2009.

Vendor Payment Program

PGW continues to support a Vendor Payment Program for a group of customers known as Scattered Site Tenants of the PHA. The customers occupy dwellings, usually single family homes, owned by the PHA and for which the Federal Government provides rent subsidies. Under agreement with the PHA and the Scattered Site Tenants, the Federal Government's Department of Housing and Urban Development provides a utility allowance to PHA, on behalf of the tenant. There are two groups of PHA tenants: one for which utility payments are received by PGW directly from PHA, and a second group, which is responsible for paying their own utility bills.

Utility Emergency Services Fund

PGW also participates in the Utility Emergency Services Fund ("UESF"), which is a private fuel fund set up with the assistance of the City of Philadelphia, the Water Department, PECO Energy, individual contributions, and private foundations. Under this program, customers at or below 175 percent of the FPL may combine a LIHEAP grant with a UESF grant and matching grant from PGW, and their own payment, if necessary, to zero-out all arrearages to avoid termination or restore service. The

maximum UESF grant and PGW matching grant is usually \$250 each (for a total of \$500). At times, and depending on funds available, the maximum has been \$1,000 total (\$500 each from UESF and PGW). To be eligible for a UESF grant, the customer must have a termination notice or already have service terminated. The customer must also apply for LIHEAP and must zero out their account. If the total arrearage is not satisfied by the combination of LIHEAP, UESF, and the matching PGW grant, then the customer must pay the balance that would remain, prior to being approved for the UESF grant and matching utility grant. Also, customers are limited to one UESF grant every two years.

Dollar Plus Program

PGW also continues to support the Dollar Plus Program, wherein PGW's customers are asked to add \$1.00 or more to their gas bill payments as a donation to the Utility Emergency Services Fund.

Supplemental Grant Programs

On a periodic basis, additional grant programs become available through city and state appropriations with some stipulations agreed upon between the PGW and the city or state. They are typically coupled with LIHEAP, to provide supplemental funds to customers for whom LIHEAP grants are insufficient to restore service or avoid termination. In 2007-2008, the City of Philadelphia made available \$200,000 for this purpose, and followed in 2008-2009 with an additional \$100,000. Also, in 2008-2009, the state of Pennsylvania made available \$42,500, again, to assist customers for whom the LIHEAP grant was insufficient to restore service. Customers do not need to make a separate application for these grants. They are provided on a first-come, first-served basis to customers who meet the stipulations.

Payment Plans

PGW maintains a number of residential customer payment plans that are tailored to the customer's ability to pay in order to allow the customer the opportunity to pay down past arrearages and budget future usage and payments.

Billing and Collections

To strengthen its financial condition, PGW continues to improve its billing and collections programs. The principal components of this effort are improving the functionality of its Billing, Collections, and Customer Service ("BCCS") system that was installed in calendar year 1999; improving customer service in its Customer Service and Credit Collection Call Centers; and implementing its Collections Renewal Initiative ("CRI") in early fiscal year 2004.

In fiscal years 2008 and 2009, PGW budgeted approximately \$20 million for a new billing system. Technology, limited functionality of the current system, and the inability to effectively upgrade the system are driving factors for pursuing the replacement of the BCCS system. In addition, PGW had had concerns about the current vendor's commitment to support the existing BCCS system in the future which have now been addressed. In support of this decision, PGW conducted an assessment by an independent consultant to help guide PGW's process in determining its options and selecting the most favorable alternative to address PGW's long term concerns regarding its BCCS system. The consultant's assessment focused on interviews and surveys of system users, an assessment of the current BCCS environment, development of PGW requirements, and the identification and analysis of alternative upgrades and replacement strategies. PGW has not yet replaced the BCCS system. The replacement is now tentatively budgeted for 2011.

The ongoing CRI effort covers Customer Service operations involved in the collection of accounts receivable. The renewal effort was initiated in response to increasing account receivables caused by two consecutive cold winters and increasing natural gas prices. The impact of the billing and collection

programs has shown improving trends in Call Center performance metrics and a significant improvement in the collection rate. PGW's goal for the CRI program is to make substantial and sustainable improvements in receivable collections. The initial financial objective of the CRI was to collect at least 92 percent of fiscal year billed revenues with continued incremental percentage improvements in successive years. PGW has not only reached the original objective but has surpassed fiscal goals in each succeeding year since the implementation of the Collection Renewal Initiative.

On November 30, 2004, the Pennsylvania General Assembly passed and the Governor signed Act 201, entitled the "Responsible Utility Customer Protection Act". Under specified conditions, PGW may shut off service to delinquent customers during the winter and on Fridays. To shut off service to non-low-income customers during winter months, PGW is no longer required to get PUC permission. PGW may now require higher income customers whose service has been shut off to pay past due bills in full, arrange for a payment agreement, pay a reconnect fee, and/or pay a deposit before PGW restores service. Lower income customers who have been shut off must agree to repay their arrearages over time. Act 201 also permits PGW to make any adult living in a home where service has been shut off accountable for all or part of an overdue balance before the adult can obtain service in his or her name.

The Act provides a number of tools to help PGW collect payment including:

1. Confirmation that termination of service following shut-off notification may occur up to 60 days after receipt of the notice.
2. Shut-off with notice is permitted if the customer does not pay a required deposit, does not follow through with payment arrangements or refuses to allow PGW access to its equipment.
3. Shut-off without notice permitted for theft of service, obtaining service through fraud, tampering with a gas meter, unsafe service conditions or presenting a fraudulent check to stop termination.
4. Winter (December 1 - March 31) termination is now permitted (under specified conditions) without PUC prior approval if the customer's household income exceeds 150 percent of the federal poverty level.

Act 201 has significantly improved PGW's collection capabilities. In addition, PGW has become more aggressive in terminating service for those with the means to pay.

In 2008, PGW began working on Business Transformation initiatives with the goal of developing additional tools for improving its collection rate. Five initiatives within the Customer Affairs department were selected: Risk Based Collections; Write-off Reactivation; Lien Re-write program, Landlord Cooperation Program and automation of the Soft-off program. The following is a synopsis of each of these initiatives:

Soft-off monitoring. PGW will automate many of the services associated with soft-off monitoring. Currently, when a customer moves, PGW deploys a field service representative to shut off service. The upgraded soft-off program will allow Operations to redirect field employees to other jobs - a more efficient use of resources. With new software upgrades, PGW will be able to transfer a customer's closed account back to PGW and monitor the soft-off account more closely to avoid any excess usage or theft of service.

Landlord cooperation program (LCP). In apartment and rental living, often the tenant is responsible for their gas bill. In the case of delinquency, PGW had difficulty gaining access to the property and gas can't be shut-off outside since many tenants share a common service. The LCP program allows landlords to work more collaboratively with PGW to improve PGW's ability to collect from tenants (gain access to the property) and minimize tenant delinquencies in exchange for not liening a landlord's property for a

tenant's unpaid balance. The changes to LCP are designed to improve required communications and allow for liens on a property when landlords fail to cooperate.

Write-off reactivation. Often, written off accounts with aged balances of 4-years or less are not applied to a new account when the customer reapplies for service. Recent changes to the BCCS system allow prior written-off accounts to be immediately linked when the customer re-applies for service. This will help PGW's collection efforts.

Risk-based collections. PGW is introducing a new risk-based collections system. Under the new system, PGW will analyze a customer's past payment pattern, and assign each customer a "score" – similar to a credit card company score. Based on a customer's score, PGW will be better able to target specific collection tools to improve collections. If a customer has a lower score, more frequent customer communications may be the only thing needed to ensure payment. Risk-based collections will also allow PGW to proactively manage new customers to avoid excessive delinquencies.

Lien re-write. PGW current lien system processes approximately 1,000 liens per month. With new software upgrades, PGW will be able to almost triple the amount of liens processed. This approach protects receivables in the event a property is sold. This initiative will minimally impact Credit and Collection employees as they learn a new computer software system.

The timeline for implementation of these programs is the first, second, and third quarter of 2009 calendar year. PGW estimates the gross benefits of these programs to be in the range of \$60 - \$70 million through year 2013.

Other initiatives implemented in 2008 included an upgrade to PGW's IVR system and a Late Payer Deposit Program. The upgrade to the IVR system includes new functionalities such as voice recognition, enrollment in budget billing, intake of check and credit card payment, scheduling for AMR (Automatic Meter Reader) exchange, and ability to obtain CRP (Customer Responsibility Program) application mailed. The Late Payer Deposit program involves a deposit charge to active customers who have had two consecutive or three late payment charges in the past 12 months. An evaluation of the program in April 2009 resulted in a temporary suspension in the program due to high call volume that was a result of the program and increased collection activity. The program is being refined and will be integrated in the Risk Based Collection Initiative.

Business Transformation

In 2006, PGW's Executive Management determined that operational changes should be made to improve the long-term financial outlook of PGW. PGW's Business Transformation Program (BT) was launched to design and coordinate a range of change programs. The goal of the Business Transformation is to enable PGW to improve its operational practices, improve service quality and reduce the cost of operations.

The recent economic challenges reinforce management's belief in the value that an efficient and financially strong PGW would be in the best interest of its employees, the community and stakeholders.

The comprehensive BT program seeks phased improvement opportunities in Customer Affairs, Field Operations, Supply Chain and for the Enterprise as described as follows:

- The *Customer Affairs* initiatives are designed to improve collections and back-office operating efficiencies through process, policy and technology changes.
- The *Field Operations* initiatives are designed to improve field efficiency through the redesign of field work processes and the implementation of a new integrated work planning, forecasting and scheduling model. These changes are intended to reduce operating costs, improve service and increase customer satisfaction.

- The *Supply Chain* initiatives are designed to reduce operating costs, space requirements and working capital levels through centralization of key supply chain processes, optimization of the fleet and the redesign of the Procurement Organization.
- The *Enterprise* initiatives are designed to enhance employee performance management processes, reduce PGW's physical footprint, and create a robust Project Management capability to support ongoing innovation and continuous process improvement.

In 2008, PGW received approval from PFMC and the PGC to proceed with the first phase of the program called BT "Lite". The BT initiatives selected to comprise this initial phase addressed immediate challenges being faced in Collections and aspects of Field Operations, included changes to the Time Accounting system, and the consolidation of PGW's real estate holdings. These initiatives are currently underway and the following summarize the expected results of these efforts:

- Three (3) of the five (5) collection initiatives have been fully implemented as of April 2009, programming for a fourth Soft-Off Monthly Monitor will be completed in early May and the final initiative Landlord Cooperation Program enhancements will be implemented in July. Benefits are already starting to accrue.
- The BT "Lite" Field Management and Resource Management Initiatives are projected to be completed Q3 FY2010 and benefits are expected to begin accruing in late FY2010.
- A new integrated Time and Labor Management system is expected to be implemented in April 2009.
- The Real Estate Rationalization assessment will be completed in April 2009 with benefits anticipated to start in FY 2010-11.

PGW expects these BT "Lite" initiatives to deliver estimated gross annual recurring benefits in the range of \$11-\$18 million.

Competition

PGW's customer, volume, and revenue mix is heavily weighted towards the residential and smaller commercial markets. PGW currently holds in excess of 90 percent of the home heating market in the City with fuel oil constituting most of the remaining market. This high market share combined with a service territory that is not growing limits PGW's ability to increase its customer base. For residential and small commercial customers, the short run cost of changing energy sources is generally prohibitive without some kind of incentive to switch appliances (rebates or financing of appliances, for example). While not totally immune from competition, the residential and small to medium-sized commercial markets are quite stable. Further, opportunities for PGW to increase market share are limited without investment in marketing or incentive programs.

Generally, competition in the larger commercial and industrial markets is common. PGW's BPS and LBS customers (interruptible sale customers) have the ability to burn alternate fuels (generally fuel oil). If the equivalent price of natural gas is higher than fuel oil, many customers will opt to burn oil. Further, these interruptible customers may be curtailed during peak periods in the winter. While large commercial and industrial loads are an important part of PGW's base, PGW's risk to competition is lower than most natural gas utilities that have a relatively higher industrial load. Further, regulations of the Clean Air Act will sometimes cause dual fuel commercial and industrial consumers to use natural gas (instead of fuel oil) in order to meet stringent air emission operating permits.

Financial Feasibility for the Eighth and Ninth Series Bonds

The financial data used in the analyses presented herein were obtained from the historical financial records of PGW, PUC GCR filings, and proposed operating and capital budgets for fiscal years 2009 through 2014. PGW's financial statements are audited annually. The most recently available audited financial statement is for fiscal year 2008, and may be viewed at www.pgworks.com. According to that audit, PGW's financial statements are maintained in conformity with generally accepted accounting principles for gas utilities.

Projected Revenues

Operating revenues for PGW consist principally of revenues from the sale of natural gas to residents of the City of Philadelphia. Non-operating revenues include interest income and miscellaneous other revenues from non-operating sources.

Projected Average Number of Customers

Consistent with the trend in a declining population base, the number of customers served by PGW is projected to decline slightly during fiscal years 2009 through 2014. Table 8 summarizes projected average number of customers. Historical average number of customers (for fiscal years 2003 through 2008) has been approximately 500,000. The total average number of customers served is projected to decline from approximately 492,771 in fiscal year 2009 to about 474,552 in fiscal year 2014, a total decline of about 3.7 percent over five years. Most of this decline is in the number of non-heating residential customers served. Based on a marketing load forecast study on demographic loss, PGW has projected a sharp reduction in its non-heating residential customers from the 2007 Report from 34,960 customers in 2009 to 17,094 customers in 2014.

It is projected that for fiscal year 2009 approximately 2,332 commercial, industrial and municipal firm customers, or 4.5 percent of total firm load, will take gas supply, transportation and storage services from a third party supplier. For purposes of this Report, it is assumed that the number of firm transport customers will continue to grow annually, reaching approximately 3,215, or approximately 7.3 percent of total firm load, by 2014. The balance of transportation customers in the forecast are served under PGW's interruptible service tariff.

The principal difference between customers taking sales versus transportation service is that PGW does not buy the natural gas commodity for the transportation customers. However, PGW continues to charge for the transportation of gas through its distribution system, through which customers will continue to take service from PGW. This charge for distribution service should not differ appreciably from the charge (less gas cost) that would apply to sales service customers. Therefore, PGW is unlikely to experience a material reduction in contribution margin (gross revenues less cost of gas) due to customers migrating to transportation service. So long as PGW's existing GCR provision remains in effect, the contribution margin will be unaffected as long as the number of customers who opt for other suppliers is relatively modest. While it is difficult to predict with certainty the actual number of customers who will migrate and the timing of such a migration, PGW's projection of interruptible customers transferring to transportation service appears to be reasonable. If the rates for transportation service are properly designed, the net revenues realized by PGW will not be materially sensitive to whether customers take sales or transportation service.

Table 8
Projected Average Number of Customers

Line No.	Description	Budget		Projected ^(a)			
		2009	2010	2011	2012	2013	2014
1	Total Average Number of Customers	492,771	488,129	484,374	481,088	477,817	474,552
	Gas Customers						
	Non-Heating						
	<i>Firm</i>						
2	Residential	34,960	31,373	27,792	24,219	20,653	17,094
3	CRP Residential	1,114	1,113	1,113	1,113	1,113	1,113
4	Commercial	5,155	5,101	5,068	5,055	5,057	5,069
5	Industrial	211	201	191	182	173	163
6	Municipal	106	103	101	98	97	97
7	Housing Authority	0	0	0	0	0	0
8	NGV	1	1	1	1	1	1
9	Total Average Firm Non-Heating	41,547	37,892	34,266	30,668	27,094	23,537
	<i>Interruptible</i>						
10	BPS - Small	77	67	60	53	49	45
11	BPS - Large	74	60	55	53	53	54
12	BPS - A/C	4	3	2	2	2	1
13	LBS - L Direct						
14	LBS - L Indirect	2	3	4	4	3	3
15	LBS - S Indirect	10	8	4	2	2	3
16	LBS - XL Direct	2	2	1	2	3	4
17	LBS - XL Indirect	1	1				
18	Cogeneration - Indirect	2	2	2	2	2	2
19	LNG - Direct	0	0	0	0	0	0
20	GTS - Sales	0	0	0	0	0	0
21	NGV Indirect	0	0	0	0	0	0
22	Total Average Interruptible	172	146	128	118	114	112
23	Total Average Non-Heating	41,719	38,038	34,394	30,786	27,208	23,649
	Heating						
24	Residential	346,604	345,417	344,775	344,595	344,417	344,244
25	CRP Residential	79,803	79,803	79,803	79,803	79,803	79,803
26	Commercial	18,586	18,715	18,908	19,153	19,431	19,739
27	Industrial	500	487	475	462	447	433
28	Municipal	379	369	365	366	368	370
29	Housing Authority	2,848	2,805	2,777	2,749	2,728	2,712
30	Total Average Heating	448,720	447,596	447,103	447,128	447,194	447,301
31	Total Average Sales Customers	490,439	485,634	481,497	477,914	474,402	470,950
32	Total Average Transportation Customers^(b)	2,332	2,495	2,877	3,174	3,415	3,602

(a) Projected figures are based on budgeted department figures.

(b) Increase in transportation customers is due to the transfer of interruptible customers to GTS service and firm sales customers to firm transportation service. No firm customers are assumed to transfer to GTS service.

Historical and Projected Gas Sales and Throughput

Historical throughput (sales plus transportation volumes) for the 2003 through 2008 fiscal years and projected throughput for the 2009 through 2014 fiscal years are summarized in Table 9. The throughput volumes for the projected period are based on 4,464 HDD for 2009 and 4,412 HDD for 2010 through 2014. The decline in total residential throughput (heating and non-heating) is consistent with the projected decline in the average number of residential customers. The projection for residential and commercial throughput generally reflects a constant use per customer.

As interruptible customers continue to migrate to transportation service, sales volumes attributable to interruptible customers also decline as transportation volumes increase. Additionally, as firm transportation load increases from 2.5 million Mcf in 2009 to 4.1 million Mcf in 2014, firm sales load likewise declines. As stated previously, if transportation rates are designed properly, the migration of customers and volumes from firm or interruptible sales service to transportation service should not translate into a material change in net contribution margin."

Sales and Transportation Revenues

Historical revenues (sales plus transportation service) for the 2003 through 2008 fiscal years and projected revenues for the 2009 through 2014 fiscal years are summarized in Table 10. The revenue figures shown in Table 10 are based on application of PGW's existing rates to the projected number of customers, projected normal sales and transported volumes, and the gas cost assumptions discussed in the "Projected Revenue Requirements – Gas Costs" section of this Report. The revenue projections reflect the same adjustments made to sales and throughput (migration of interruptible customers to transportation). We assume consistent with PGW's existing GCR, that changes in the gas cost recovery portion of revenues will equal changes in gas costs.

In this Report, the revenue projections reflect currently effective rates and a 95 percent collection factor on billed revenues. (See Table 12). It is our assumption that when PGW files a base rate case, as directed by the PUC to be no later than December 31, 2009, the extraordinary rate relief of \$60 million granted PGW by the PUC effective January 1, 2009, will become permanent in 2010 (or that PGW will achieve an equivalent combination of permanent revenue enhancements or cost savings). This should produce a level of revenues that should allow PGW to fulfill its goal of not using short-term financing for other than seasonal working capital requirements. In addition, this level of revenue enhancements, cost savings, and/or rate relief should also enable PGW to:

- Cover the increase in non-gas operating expenses and interest expense since granting of the 2008 extraordinary rate relief.
- Provide sufficient funds available for debt service to meets its rate covenants under the 1975 General Ordinance and the 1998 General Ordinance.
- Provide PGW with adequate liquidity when used to supplement internally generated funds without having to continually resort to borrowing funds externally for capital improvements (other than the projected \$150 million in financing from the Ninth Series Bonds).
- Make the \$18 million annual payment to the City beginning in 2014 without receiving a grant back.
- Repay short term commercial paper obligations.
- Provide additional earnings for further debt reduction.
- Meet coverage requirements for the planned Future Bonds.

Table 9
Historical and Projected Sales and Throughput

Line No.	Description	Actual ^(a)						Budget		Projected			
		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
		MMcf	MMcf	MMcf	MMcf	MMcf	MMcf	MMcf	MMcf	MMcf	MMcf	MMcf	MMcf
Gas Sales Volumes													
Non-heating													
<i>Firm</i>													
1	Residential	2,109	1,951	1,955	1,521	969	757	699	627	555	483	412	340
2	CRP Residential	NA	NA	NA	NA	71	45	47	47	47	47	47	47
3	Commercial	1,869	1,798	1,755	1,665	1,544	1,395	1,340	1,277	1,223	1,179	1,140	1,105
4	Industrial	429	389	327	305	280	235	279	263	252	242	231	224
5	Municipal	292	269	278	255	241	152	177	169	161	153	146	143
6	Housing Authority	0	0	0	0	0	0	0	0	0	0	0	0
7	NGV Firm	0	0	0	1	0	0	0	0	0	0	0	0
8	Total Firm Non-heating	4,698	4,407	4,315	3,747	3,104	2,585	2,543	2,384	2,239	2,105	1,976	1,860
<i>Interruptible</i>													
9	BPS - Small	202	138	205	139	132	141	123	108	97	88	81	76
10	BPS - Large	2,738	2,247	2,795	1,512	1,460	923	956	872	866	900	957	1,029
11	BPS - A/C	0	0	0	14	0	0	3	2	2	2	1	1
12	LBS - L Direct	435	262	97	13	0	0	0	0	0	0	0	0
13	LBS - L Indirect	1,047	552	391	148	24	1	45	172	304	364	314	245
14	LBS - S Indirect	1,005	649	787	375	728	535	224	146	83	37	42	80
15	LBS - XL Direct	197	112	10	6	17	22	24	24	18	39	187	304
16	LBS - XL Indirect	352	35	62	189	62	25	10	2	0	0	0	0
17	Cogeneration - Indirect	110	98	47	17	12	14	12	10	8	7	6	6
18	LNG - Direct	0	0	0	0	0	0	0	0	0	0	0	0
19	Grays Ferry	0	0	0	0	0	0	0	0	0	0	0	0
20	GTS - Sales	8	10	116	13	271	130	0	0	0	0	0	0
21	NGV Indirect	0	0	0	0	0	0	0	0	0	0	0	0
22	Off-System Sales	0	0	0	0	0	0	0	0	0	0	0	0
23	Total Interruptible	6,094	4,103	4,510	2,426	2,705	1,791	1,397	1,335	1,378	1,437	1,588	1,741
24	Total Non-Heating	10,792	8,510	8,825	6,173	5,809	4,376	3,939	3,719	3,617	3,542	3,564	3,601
Heating													
25	Residential	45,345	40,826	39,033	32,980	26,218	25,259	28,409	28,363	28,246	28,228	28,100	28,026
26	CRP Residential	NA	NA	NA	NA	8,805	8,891	10,473	10,473	10,473	10,476	10,473	10,473
27	Commercial	9,227	8,618	8,363	7,525	7,579	6,983	7,704	7,695	7,760	7,875	8,024	8,195
28	Industrial	903	738	711	610	570	421	477	464	451	441	430	422
29	Municipal	1,191	996	826	857	835	566	656	638	628	626	624	624
30	Housing Authority	681	584	560	526	806	820	860	816	785	763	745	732
31	Total Heating	57,348	51,762	49,493	42,498	44,812	42,940	48,579	48,448	48,342	48,409	48,397	48,472
32	Total Sales Volumes	68,140	60,272	58,318	48,671	50,621	47,316	52,518	52,167	51,959	51,951	51,960	52,073
33	Total Transportation^(b)	10,828	8,946	11,624	10,728	13,139	19,032	20,108	20,744	21,228	21,598	21,899	22,566
34	Total Throughput	78,968	69,218	69,943	59,399	63,760	66,348	72,626	72,911	73,187	73,549	73,859	74,639

(a) PGW historical data. CRP volumes are included in appropriate residential figure.

(b) Increase in transportation sales is due to the transfer of interruptible customers to GTS service and firm sales customers to firm transportation service. No firm customers are assumed to transfer to GTS service.

Table 10
Historical and Projected Revenues
(Thousands of Dollars)

Line No.	Description	Actual ^(a)						Budget	Projected				
		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Gas Sales Revenues													
Non-heating													
Firm													
1	Residential	31,571	34,245	37,132	35,981	24,848	20,165	17,759	15,472	13,870	12,198	10,344	8,636
2	CRP Residential ^(b)	0	0	0	0	0	0	1,038	1,003	1,017	1,028	1,021	1,031
3	CRP Shortfall	NA	(1,086)	(1,595)	(1,799)	(409)	(125)	(484)	(452)	(465)	(475)	(469)	(478)
4	Commercial	22,762	25,178	26,980	32,148	28,171	25,794	25,105	23,004	22,436	21,922	21,089	20,720
5	Industrial	5,101	5,338	5,036	5,929	5,092	4,265	5,117	4,637	4,504	4,382	4,146	4,079
6	Municipal	2,975	3,323	3,862	4,603	4,021	2,424	2,980	2,727	2,644	2,552	2,408	2,391
7	Housing Authority	0	0	0	0	0	0	0	0	0	0	0	0
8	NGV	0	0	0	3	6	6	5	5	5	5	5	5
9	Total Firm Non-heating	62,409	66,998	71,415	76,865	61,729	52,529	51,520	46,396	44,011	41,612	38,544	36,384
Interruptible													
10	BPS - Small	1,787	1,749	2,705	2,281	2,079	2,642	2,693	2,157	1,894	1,717	1,574	1,471
11	BPS - Large	18,471	18,134	29,289	22,068	18,428	15,493	18,270	14,956	14,515	15,002	15,823	16,986
12	BPS - A/C	0	0	0	201	0	0	35	27	21	27	16	7
13	LBS - L Direct	2,529	1,866	765	157	33	0	0	0	0	0	0	0
14	LBS - L Indirect	6,360	4,179	3,165	1,837	205	(14)	593	2,188	3,874	4,643	4,013	3,143
15	LBS - S Indirect	6,309	4,653	6,502	4,549	7,424	6,605	3,106	1,884	1,076	475	536	1,034
16	LBS - XL Direct	1,294	777	83	70	171	264	320	301	224	478	2,263	3,684
17	LBS - XL Indirect	1,860	290	512	1,888	627	331	141	25	0	0	0	0
18	Cogeneration - Indirect	0	0	0	0	0	0	0	0	0	0	0	0
19	LNG - Direct	691	663	371	199	130	171	151	119	99	85	75	67
20	Grays Ferry	0	0	194	0	0	0	0	0	0	0	0	0
21	GTS - Sales	0	0	0	0	0	0	0	0	0	0	0	0
22	NGV Indirect	88	93	1,091	259	2,341	1,187	0	0	0	0	0	0
23	Off-System Sales	0	0	0	0	0	0	0	0	0	0	0	0
24	Total Interruptible	39,390	32,404	44,678	33,509	31,438	26,679	25,309	21,657	21,703	22,427	24,300	26,392
25	Subtotal Non-Heating	101,799	99,402	116,093	110,374	93,167	79,208	76,829	68,053	65,714	64,039	62,844	62,776
26	Cost of Gas Increase	NA	NA	NA	NA	NA	NA	NA	0	0	0	0	0
27	Prior Year's Gas Cost Recovery	546	(328)	(1,212)	2,211	(2,036)	(521)	921	0	0	0	0	0
28	Total Non-Heating	102,345	99,074	114,880	112,585	91,131	78,687	77,750	68,053	65,714	64,039	62,844	62,776
Heating													
29	Residential	521,275	580,390	626,072	670,102	668,941	666,375	545,274	542,166	550,344	557,999	553,340	559,886
30	CRP Residential ^(c)	0	0	0	0	0	0	204,814	197,465	200,712	203,158	201,597	203,950
31	CRP Shortfall	NA	(47,408)	(59,493)	(86,645)	(86,207)	(87,602)	(95,575)	(88,942)	(91,695)	(93,792)	(92,518)	(94,536)
32	Commercial	109,529	118,677	129,073	147,635	138,350	125,399	141,549	135,947	139,480	143,345	144,899	149,795
33	Industrial	10,694	10,188	11,048	12,020	10,384	7,609	8,824	8,251	8,145	8,079	7,809	7,753
34	Municipal	12,041	12,127	12,041	15,608	13,955	9,167	11,028	10,271	10,303	10,415	10,305	10,433
35	Housing Authority	8,052	7,976	8,583	10,214	10,609	10,993	15,764	14,400	14,101	13,874	13,455	13,389
36	Subtotal Heating	661,590	681,950	727,323	768,934	756,032	731,941	831,678	819,558	831,390	843,078	838,887	850,670
37	Cost of Gas Increase	NA	NA	NA	NA	NA	NA	NA	0	0	0	0	0
38	Prior Year's Gas Cost Recovery	7,054	(4,182)	(14,164)	24,792	(23,948)	(8,407)	13,941	0	0	0	0	0
39	Total Heating	668,644	677,768	713,159	793,726	732,084	723,534	845,619	819,558	831,390	843,078	838,887	850,670
40	Weather Normalization Adjustment	(10,029)	2,109	(1,365)	13,406	6,438	11,923	0	0	0	0	0	0
41	Total Adjusted Heating	658,614	679,877	711,794	807,132	738,522	735,457	845,619	819,558	831,390	843,078	838,887	850,670
42	Total Sales Revenues	760,959	778,951	826,674	919,717	829,653	814,144	923,369	887,611	897,104	907,117	901,731	913,446
43	Total Transportation^(d)	2,560	2,945	4,679	6,460	12,949	19,215	25,190	26,950	29,136	30,690	31,776	33,079
44	Total Revenues	763,519	781,896	831,353	926,177	842,602	833,359	948,559	914,561	926,240	937,807	933,507	946,525
45	Rate Increase	0	0	0	0	0	0	44,532	60,000	60,000	60,000	60,000	60,000
46	Adjusted Total Revenues	763,519	781,896	831,353	926,177	842,602	833,359	993,091	974,561	986,240	997,807	993,507	1,006,525

(a) PGW historical data.

(b) Actual revenues included in Residential, Line 1.

(c) Actual revenues included in Residential, Line 29.

(d) Increase in transportation revenues is due to the transfer of interruptible customers to GTS service. No firm customers are assumed to transfer to GTS service.

The level of revenues projected for fiscal years 2009 through 2014 is based on normal weather conditions. As discussed in “*Rates and Tariffs - Weather Normalization Adjustment*”, the WNA essentially removes the single biggest risk to PGW of recovering its approved margin during periods of warmer than normal weather during the winter season as long as it remains in effect. Because PGW’s WNA tariff has no sunset provision, the WNA will continue in place unless the PUC issues an order directing that it be discontinued. We are assuming for the purposes of this Report that the WNA will remain in effect through the projected period.

As with the projected volume and number of customers, as interruptible sales volumes and customers migrate to interruptible transportation service, so do revenues. Total transportation revenues also increase due to the previously discussed forecasted increase in customers migrating from firm sales to firm transportation service. As stated previously, if transportation rates are designed properly, this migration should not translate into a material reduction in net contribution margin and hence, net cash flow and income will not be materially affected.

Other Operating Revenues

Other operating revenues are projected to remain at an annual level of approximately \$21 million throughout fiscal years 2009 through 2014 (Table 16, Line 8). These revenues consist of sales of energy-related appliance services, finance charges realized on overdue accounts, field collection charges, and other miscellaneous sources.

Assistance Programs

Over the past several years, PGW has seen high accounts receivable balances and higher than usual delinquent accounts. As part of PGW’s proactive approach to managing this problem, PGW has continued to develop programs targeted at assisting customers with meeting their energy costs. Table 11 details PGW’s LIHEAP participation in recent years and provides an estimate for fiscal year 2009. Assistance programs are forecast to contribute \$32.7 million in revenues in fiscal year 2009.

Accounts Receivable

Since PGW has increased its focus on improving its billing and collection practices (*See Billing and Collections*) in the past few years, it has generally experienced a marked decrease in its accounts receivable beginning in fiscal year 2005. Net accounts receivable decreased 24 percent from \$93.1 million in 2004 to \$71.5 million in 2007. Although temporarily increasing in 2008, in fiscal year 2009 net accounts receivable are projected to be \$55.1 million and are forecasted to remain at the level of \$55 million to \$61 million through the projection period. If gas costs substantially exceed these levels, accounts receivable and bad debts may increase. Conversely, if gas costs are less than these levels, accounts receivable and bad debts may decrease.

Table 12 summarizes historical and projected accounts receivable and account write-offs. As seen from the table, we assume receivables as a percentage of billed gas revenues will remain relatively constant over the projection period at about 18 percent.

The projections in Table 12 are based on assuming the base rate increase of \$60 million effective January 1, 2009, remains in effect through the forecast period. Realized bad debt expense as a percent of billed gas revenues is projected to range from 4.4 percent to 4.1 percent over the projected period. Table 12 also shows PGW’s historical and projected average collection rate. PGW’s collection rate is projected to be 95.0 percent. The five-year historical average collection factor (fiscal years 2004 through 2008) is 95.7 percent. PGW’s collection rate for 2007 and 2008 has been 95.8 and 95.5 percent, respectively.

**Table 11
Historical and Budgeted Assistance Programs**

Description	Historical						Forecast	
	2003	2004	2005	2006	2007	2008	2009	
	Number	Number	%	Number	Number	%	Number	%
Grant Money Available								
Cash	\$121,518,984	\$108,384,165		\$154,859,009	\$131,148,030		\$152,021,400	\$285,600,000
Crisis	\$72,786,033	\$78,433,307	59.9%	\$82,414,865	\$88,708,770	58.9%	\$87,355,715	\$194,675,432
Total State of PA	\$48,732,951	\$29,950,858	40.1%	\$33,643,981	\$42,439,260	41.1%	\$64,665,685	\$90,924,568
Number of Grants								
State of PA								
Cash	307,344	327,279	75.2%	339,898	369,618	71.5%	370,873	563,000
Crisis	110,925	107,705	24.8%	118,163	132,953	26.5%	169,980	189,700
Total State of PA	418,269	434,984	100.0%	458,061	502,571	100.0%	540,853	752,700
PGW								
Cash	59,718	63,064	19.3%	63,377	62,454	16.9%	57,501	74,000
Crisis	17,675	9,297	8.6%	10,515	16,674	12.5%	12,162	17,000
Total PGW	77,393	72,361	16.6%	73,892	79,128	15.7%	69,663	91,000
Total Funding - Final								
State of PA								
Cash	\$72,786,033	\$78,433,307		\$91,232,494	\$88,708,770		\$87,355,715	\$194,675,432
Crisis	\$48,732,951	\$29,950,858		\$63,626,515	\$42,439,260		\$64,665,685	\$90,924,568
Total State of PA	\$121,518,984	\$108,384,165		\$154,859,009	\$131,148,030		\$152,021,400	\$285,600,000
PGW								
PGW - Cash	\$13,803,219	\$16,030,238	20.4%	\$15,416,311	\$16,243,105	18.3%	\$14,374,086	\$25,246,580
PGW - Crisis	\$8,607,725	\$2,631,051	8.8%	\$3,112,630	\$5,075,658	13.3%	\$5,118,573	\$7,437,160
Total PGW	\$22,410,944	\$18,661,289	18.4%	\$19,762,125	\$21,318,763	16.3%	\$19,492,659	\$32,683,740
Value of Grants, per customer								
State of PA								
Cash	\$242	\$240		\$237	\$245		\$239	\$346
Crisis	\$285	\$278		\$414	\$319		\$380	\$479
PGW								
Cash	\$263	\$254		\$236	\$260		\$250	\$341
Crisis	\$296	\$283		\$394	\$304		\$421	\$437

(a) The City of Philadelphia provided supplemental low income customer assistance totaling \$60,000 in 2005, \$550,000 in 2006, \$200,000 in 2007, and \$100,000 in 2008.

**Table 12
Historical and Projected Accounts Receivable and Write-offs**

Description	Fiscal Year Ending August 31,														
	Historical						Budget						Projected		
	2000 ^(b)	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Billed Gas Revenues (\$000) ^(a)	495,545	741,964	557,467	755,919	786,406	846,729	899,174	868,586	842,287	978,229	974,561	986,240	997,807	993,507	1,006,525
Accounts Receivable (\$000)	185,421	280,406	254,047	321,408	323,340	295,114	243,249	221,683	239,739	181,488	176,742	174,770	174,576	175,910	179,134
Less: Reserve for Bad Debt	(129,154)	(184,324)	(187,461)	(228,548)	(230,216)	(207,480)	(168,889)	(150,231)	(140,435)	(126,302)	(121,520)	(117,878)	(115,803)	(115,602)	(117,703)
Net Accounts Receivable	56,267	96,082	66,586	92,860	93,124	87,634	74,360	71,452	99,304	55,186	55,222	56,892	58,773	60,308	61,431
Bad Debt Reserve/Accounts Receivable	69.7%	65.7%	73.8%	71.1%	71.2%	70.3%	69.4%	67.8%	58.6%	69.6%	68.8%	67.4%	66.3%	65.7%	65.7%
Net Write-Offs (\$000)	19,712	12,463	48,411	43,914	69,332	93,160	78,732	57,657	54,467	50,200	47,200	45,150	43,100	41,100	39,100
Receivable/Billed Gas Revenues	37.4%	37.8%	45.6%	42.5%	41.1%	34.9%	27.1%	25.5%	28.5%	18.6%	18.1%	17.7%	17.5%	17.7%	17.8%
Bad Debt (\$000)	54,642	67,633	51,548	85,000	71,000	70,424	40,132	40,000	37,000	44,011	42,418	41,508	41,025	40,899	41,201
Bad Debt/Billed Gas Revenues	11.0%	9.1%	9.2%	11.2%	9.0%	8.3%	4.5%	4.6%	4.4%	4.5%	4.4%	4.2%	4.1%	4.1%	4.1%
Bad Debt/Accounts Receivable	29.5%	24.1%	20.3%	26.4%	22.0%	23.9%	16.5%	18.0%	15.4%	24.3%	24.0%	23.8%	23.5%	23.2%	23.0%
Total Customer Receipts (\$000)	475,100	677,400	575,300	690,300	756,000	846,600	905,887	863,658	833,970	950,000	950,000	950,000	950,000	950,000	950,000
Total Customer Billings (\$000)	511,700	769,100	589,600	797,400	827,000	892,450	899,174	901,678	873,424	954,887	950,000	950,000	950,000	950,000	950,000
Collection Factor	92.85%	88.08%	97.57%	86.57%	91.41%	94.86%	100.75%	95.78%	95.48%	95.00%	95.00%	95.00%	95.00%	95.00%	95.00%
Five-Year Average Collection Factor (2004-2008)															

(a) Adjusted Total Revenues (Table 10, Line 43) less Prior Year's Gas Cost Recovery (Table 10, Lines 25 and 35)

(b) For fiscal year 2000, accounts receivable and reserve for bad debt is restated.

If the severity of the ongoing economic downturn continues, then billing and collections could be adversely affected, and a corresponding decrease in the collection rate and increase in receivables beyond those levels assumed in our projections could result.

Capital Improvement Program Financing

The Capital Improvement Program described earlier (*See Capital Improvement Program*) will be financed by PGW through funds currently available for capital projects, revenue bond issues, investment income, and system revenues.

The projected CIP expenditures for the six-year period ending August 31, 2014, are shown on Line 8 of Table 13 and total approximately \$432 million. The total par amount of the Ninth Series bonds to be issued of approximately \$150 million during the projection period is designed to maximize the capital requirements financed with bond proceeds.

Lines 1 through 7 outline the sources available to meet the CIP financing requirements. Line 1 in fiscal year 2009 shows the net balance available in the Capital Improvement Fund as of August 31, 2008, available to fund the CIP. Lines 2 through 5 show the net proceeds from bond sales, Line 6 shows the amount projected to be available from other sources each year from current operating revenues, and Line 7 presents the total funds available. Planned fund uses are summarized on Lines 8 and 9 of Table 13.

Table 13
Capital Improvement Fund
(Thousands of Dollars)

Line No.	Description	Fiscal Year Ending August 31,					
		Projected					
		2009	2010	2011	2012	2013	2014
		\$	\$	\$	\$	\$	\$
1	Balance from Previous Year	109,687	51,769	102,909	52,909	12,909	2,909
2	Bond Proceeds @ Par	0	150,000	0	0	0	0
3	Less Discount & Issuance Costs	0	(24,645)	0	0	0	0
4	Less Deposit to Sinking Fund Reserve	0	(10,215)	0	0	0	0
5	Net Bond Proceeds	0	115,140	0	0	0	0
6	Other Sources of Funds ^(a)	(7,459)	8,120	30,398	45,608	61,743	68,561
7	Total Sources of Funds	102,228	175,029	133,307	98,517	74,652	71,470
8	Capital Expenditures	50,459	72,120	80,398	85,608	71,743	71,470
9	Capitalized Interest	0	0	0	0	0	0
10	Total Uses of Funds	50,459	72,120	80,398	85,608	71,743	71,470
11	Net Balance - End of Year	51,769	102,909	52,909	12,909	2,909	0

(a) Includes PGW internally generated funds.

As presented in Table 13, the only bond issue projected during the five year period is the Ninth Series Bonds in the principal amount of \$150 million. Coupled with a beginning available balance of \$109.7 million and a total of \$207.0 million of other funding sources, sufficient funds will be available for PGW to complete its planned capital improvement program.

Projected Revenue Requirements

PGW's rates are developed to provide sufficient levels of revenue to meet cost of gas, all operation and maintenance expenses of the System, debt service requirements on obligations issued for the System, capital improvement expenditures to be funded from current revenues, and other specific bond ordinance and revenue requirements. This section provides a discussion of the components that make up PGW's revenue requirements.

Gas Costs

Table 14, Line 1 presents PGW's historical and projected natural gas costs. The unit gas costs assumed by PGW and relied upon in this Report are projected to decrease from approximately \$11.73 per Mcf in fiscal year 2009 to \$11.52 per Mcf in fiscal year 2014. PGW gas cost assumptions are based on pricing input from Global Insight and futures prices from the New York Mercantile Exchange. PGW purchases its gas supplies under a portfolio approach as discussed in the "PGW Gas Supply – Supply Services" section of this Report. As a result of the GCR, changes in the cost of gas result in equal changes in revenues. The mechanism by which PGW recovers its gas supply costs is discussed in the "Gas Cost Rate" section of this Report.

Operation and Maintenance Expenses

Table 14 presents PGW's historical and projected operation and maintenance expense. The audited expenses for 2008 serve as a base for the projected years.

Variance in the current operations and maintenance projections and the forecast provided in the 2007 Report for fiscal year 2009 are primarily due to the following factors:

- Decreased bad debt expense (\$10.1 million)
- Increased field services expense (\$2.5 million)
- Increased pension expense (\$1.6 million)
- Lower health insurance costs (\$8.6 million)
- Increased other post employment benefits (\$25.6 million)

As discussed in the *Sales and Transportation Revenues* section of this Report, PGW's collection factor is projected at 95 percent of billed revenues through 2009-2014 fiscal years with bad debt expense forecasted to range from \$46.0 million to \$39.0 million. The higher level of bad debt expense for PGW relative to other gas utilities is consistent with the higher level of costs associated with social programs for PGW. Pension fund and health insurance costs are based on PGW's fiscal year 2009 operating budget filing and have been updated with the most current information from PGW for the forecast period through fiscal year 2014. The number of employees is projected to decline from 1,721 to 1,650 through the forecast period due to attrition.

Table 14
Historical and Projected Operation and Maintenance Expenses
(Thousands of Dollars)

Line No.	Description	Fiscal Year Ending August 31,												
		Historical					Budget					Projected		
		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	
	Operating Expenses													
1	Natural Gas	427,433	450,868	509,701	625,076	539,296	511,971	615,830	564,523	575,886	587,923	584,686	600,039	
2	Other Raw Materials		0		17	4	5	5	5	5	5	5	5	
3	Subtotal Fuel	427,436	450,868	509,705	625,093	539,300	511,976	615,835	564,528	575,891	587,928	584,691	600,044	
4	Gas Processing	16,952	17,284	18,584	15,234	16,240	14,436	15,518	16,849	17,395	17,749	18,311	18,464	
5	Field Services	29,906	29,557	28,455	35,667	36,100	37,126	38,375	38,144	38,706	39,587	40,513	41,630	
6	Distribution	16,804	15,778	15,115	15,179	17,119	17,319	17,982	18,529	19,001	19,582	20,248	21,027	
7	Collection	8,504	10,730	10,971	9,952	8,157	8,278	9,450	9,727	9,971	10,270	10,626	11,038	
8	Customer Services	13,704	13,514	12,512	11,083	11,783	12,305	13,510	13,828	14,155	14,513	14,953	15,452	
9	Customer Accounting	6,976	7,496	7,695	7,337	7,064	7,169	7,548	7,730	7,935	8,168	8,480	8,850	
10	Bad Debt Expense	85,000	71,000	70,424	40,132	40,000	37,000	46,000	38,982	39,450	39,912	39,740	40,261	
11	Marketing & Point-of-Sale Expenses	2,832	2,677	2,592	2,467	2,418	2,628	4,064	4,030	4,096	3,912	3,980	4,050	
12	Administrative & General	41,118	41,872	43,391	39,897	38,846	41,510	48,011	48,366	48,675	49,644	50,624	51,623	
13	Health Insurance	30,259	32,863	33,571	35,076	36,111	38,588	37,301	39,977	43,618	47,578	52,125	57,288	
14	Capitalized Fringe Benefits	(8,488)	(9,053)	(10,348)	(9,797)	(10,449)	(11,166)	(8,967)	(10,373)	(10,820)	(11,452)	(12,136)	(12,895)	
15	Capitalized Admin. Charges	(5,694)	(6,193)	(6,706)	(6,779)	(7,689)	(8,216)	(6,598)	(7,994)	(8,051)	(7,709)	(7,489)	(7,498)	
16	Regulatory Asset Amortization	3,750	3,750	0	0	0	0	0	0	0	0	0	0	
17	Amortization of Restructuring Costs	0	1,097	1,087	1,087	0	0	0	0	0	357	480	480	
18	Year 2000 & Deregulation Amortization	0	0	0	0	0	0	0	0	0	0	0	0	
19	Pensions	13,013	14,973	14,702	17,563	15,217	14,258	15,872	21,505	21,152	20,799	20,446	20,106	
20	Taxes	7,941	6,638	6,218	6,124	6,730	5,677	6,799	7,079	7,165	7,232	7,310	7,377	
21	Other Post Employment Benefits	0	0	0	0	26,421	25,834	25,558	24,615	23,489	22,163	20,616	18,828	
22	BT Costs/(Benefits)	0	0	0	0	0	0	2,250	(16,700)	(17,910)	(14,050)	(11,110)	(11,000)	
23	Environmental Expenses	241	334	0	0	0	0	0	0	0	0	0	0	
24	Pro Forma Adjustments	0	0	0	0	0	0	0	0	0	0	0	0	
25	Cost Savings/Productivity Improvements	0	0	0	0	0	0	(2,565)	(1,606)	(2,389)	(3,482)	(4,617)	(5,796)	
26	Total Other Operating Expenses	262,818	254,317	248,263	220,222	244,068	242,746	270,108	252,688	255,638	264,773	273,100	279,285	
27	Total Operating Expenses	690,254	705,185	757,968	845,315	783,368	754,722	885,943	817,216	831,529	852,701	857,791	879,329	
28	Depreciation	33,712	35,607	35,904	35,389	37,166	40,021	39,408	41,198	42,945	44,611	45,896	47,081	
29	Cost of Removal	2,356	3,261	3,643	2,566	2,542	2,847	3,000	3,000	3,000	3,000	3,000	3,000	
30	Less: Clearing Account Depreciation	(4,887)	(4,902)	(4,502)	(3,230)	(3,328)	(3,344)	(5,159)	(5,199)	(5,257)	(5,303)	(5,461)	(5,585)	
31	Net Depreciation	31,181	33,966	35,045	34,725	36,380	39,524	37,249	38,999	40,688	42,308	43,435	44,496	
32	Total Operating Expense & Dep'n.	721,435	739,151	793,013	880,040	819,748	794,246	923,192	856,215	872,217	895,009	901,226	923,825	

Debt Service Requirements

Table 15 presents a summary of the existing and proposed long-term debt service requirements for the five-year projection period. The proposed Eighth Series Bonds are assumed to be issued on or after July 1, 2009. Debt service on this issue assumes a 20-year amortization schedule and an 8.73 percent all-in true interest cost. The Eighth Series Bonds are being issued to refund the existing Sixth Series Bonds. Additionally, our projection assumes that Ninth Series Bonds will be issued on or about February 1, 2010, for \$150 million to fund forecasted capital expenditures. Debt Service on this issue assumes a 30-year amortization schedule and a 7.04 percent all-in true interest cost.

Payments to City

In accordance with the Management Agreement and the Gas Choice Act, PGW makes an annual base payment of \$18 million to the City. The \$18 million payment for fiscal year 2004 was not paid and may be forgiven. In fiscal years 2005 through 2008, the \$18 million payment was made and was granted back. The City's current Five-Year Plan also provides for payment and grant back of the \$18 million for fiscal years 2009 through 2013. For purposes of this forecast, it is assumed that the \$18 million payment to the City will not be granted back after 2013.

Adequacy of Projected Revenues to Meet Projected Revenue Requirements Under Ordinance Requirements

Table 16 presents a pro forma statement developed from the revenue and expense projections for 2009 through 2014. This table in conjunction with Table 17, which presents a statement of cash flows, provides an indication of the adequacy of PGW's revenues and the financial feasibility of the Future Bonds.

The operating revenue projections presented earlier in Table 10, Line 44 are summarized in Lines 1 through 3 of Table 16. These projected revenues are based on PGW's currently effective rate schedules. Revenues from Other Sales, primarily unbilled gas adjustments, are shown on Line 4 of Table 16. Since the Gas Choice Act mandates that the PUC approve and the PUC has acknowledged it has to approve PGW rates sufficient to meet PGW's bond covenants, as well as to provide PGW with needed liquidity, we reasonably assume the temporary extraordinary rate relief granted by the PUC at year-end 2008 will be made permanent in order for PGW to meet these requirements. Any combination of revenue enhancements, cost savings, and/or a permanent base rate increase, in fiscal years 2009 through 2014 is included on Line 6 (Line 45 on Table 10). These amounts, coupled with the projected \$150 million Ninth Series Bonds, (Table 13, Line 2) represent, in our opinion, the minimum level of increase needed to:

- Cover the increase in non-gas operating expenses and interest expense since granting of the 2008 extraordinary rate relief.
- Provide sufficient funds available for debt service to meet its rate covenants under the 1975 General Ordinance and the 1998 General Ordinance.
- Provide PGW with adequate liquidity when used to supplement internally generated funds without having to continually resort to borrowing funds externally for capital improvements (other than the projected \$150 million in financing from the Ninth Series Bonds).
- Make the \$18 million annual payment to the City beginning in 2014 without receiving a grant back.
- Repay short term commercial paper obligations.
- Provide additional earnings for further debt reduction.
- Meet coverage requirements for the planned Future Bonds.

Table 15
Projected Long Term Debt Service Requirements
(Thousands of Dollars)

Line No.	Description	Fiscal Year Ending August 31,					
		Projected					
		2009	2010	2011	2012	2013	2014
		\$	\$	\$	\$	\$	\$
Revenue Bonds under 1975 Ordinance							
1	Series 11C	0	0	11,017	14,005	0	0
2	Series 16	10,392	930	930	930	7,695	7,683
3	Series 17	16,466	14,934	13,121	11,560	17,217	15,672
4	Series 18	4,732	13,514	4,900	4,892	4,886	4,874
5	Series 19	<u>723</u>	<u>723</u>	<u>723</u>	<u>723</u>	<u>723</u>	<u>723</u>
6	Total 1975 Ordinance Debt	32,313	30,101	30,691	32,110	30,521	28,953
Revenue Bonds under 1998 Ordinance							
<i>Senior Debt</i>							
7	First Series A	15,789	15,054	12,779	9,048	8,301	7,563
8	Second Series	3,085	3,084	3,087	3,082	0	0
9	Third Series	3,141	3,141	3,141	3,144	0	0
10	Fourth Series	7,345	7,348	7,349	7,349	7,347	7,344
11	Fifth Series	6,000	8,418	8,416	8,418	8,417	8,420
12	A-2 Fifth Series Variable ^(a)	1,127	1,127	1,127	1,127	1,127	1,127
13	Sixth Series ^(b)	9,516	0	0	0	0	0
14	Seventh Series	14,400	14,400	14,401	14,401	16,850	14,297
15	Eighth Series	0	25,973	25,981	25,984	29,073	33,069
16	Ninth Series (2010 Bonds)	<u>0</u>	<u>5,104</u>	<u>10,211</u>	<u>10,210</u>	<u>10,212</u>	<u>10,215</u>
17	Senior Debt	60,403	83,650	86,491	82,763	81,327	82,035
<i>Subordinate Debt</i>							
18	First Series C	<u>1,990</u>	<u>1,986</u>	<u>1,988</u>	<u>1,984</u>	<u>1,990</u>	<u>1,985</u>
19	Total Subordinate Debt	1,990	1,986	1,988	1,984	1,990	1,985
20	Total 1998 Ordinance Debt	62,393	85,636	88,479	84,747	83,316	84,020
21	Total Long-Term Debt Service	94,706	115,737	119,170	116,857	113,837	112,972

(a) Assumes a 3.75 percent annual interest rate as budgeted by PGW.

(b) Refunded with Eighth Series.

Table 16
Projected Statement of Income
(Thousands of Dollars)

Line No.	Description	Fiscal Year Ending August 31,					
		2009	2010	2011	2012	2013	2014
		\$	\$	\$	\$	\$	\$
Projected Revenues							
1	Non-Heating	77,750	68,053	65,714	64,039	62,844	62,776
2	Gas Transport Service	25,190	26,950	29,136	30,690	31,776	33,079
3	Heating	845,619	819,558	831,390	843,078	838,887	850,670
4	Other Sales	757	(70)	228	209	(27)	167
5	Total Gas Revenues - Existing Rates	949,316	914,491	926,468	938,016	933,480	946,692
6	Base Rate Increase	44,532	60,000	60,000	60,000	60,000	60,000
7	Total Gas Revenues	993,848	974,491	986,468	998,016	993,480	1,006,692
8	Other Operating Revenues	20,463	20,417	20,736	21,057	21,198	21,544
9	Total Operating Revenues	1,014,311	994,908	1,007,204	1,019,073	1,014,678	1,028,236
Operating Expenses							
10	Natural Gas	615,830	564,523	575,886	587,923	584,686	600,039
11	Other Raw Materials	5	5	5	5	5	5
12	Total Fuel	615,835	564,528	575,891	587,928	584,691	600,044
13	Gas Processing	15,518	16,849	17,395	17,749	18,311	18,464
14	Field Services	38,375	38,144	38,706	39,587	40,513	41,630
15	Distribution	17,982	18,529	19,001	19,582	20,248	21,027
16	Collection	9,450	9,727	9,971	10,270	10,626	11,038
17	Customer Services	13,510	13,828	14,155	14,513	14,953	15,452
18	Customer Accounting	7,548	7,730	7,935	8,168	8,480	8,850
19	Bad Debt Expense	46,000	38,982	39,450	39,912	39,740	40,261
20	A&G and Other Expenses	121,725	108,899	109,025	114,992	120,229	122,563
21	Total Non-Fuel O&M	270,108	252,688	255,638	264,773	273,100	279,285
22	Depreciation	39,408	41,198	42,945	44,611	45,896	47,081
23	Cost of Removal	3,000	3,000	3,000	3,000	3,000	3,000
24	Less: Clearing Accounts	(5,159)	(5,199)	(5,257)	(5,303)	(5,461)	(5,585)
25	Net Depreciation	37,249	38,999	40,688	42,308	43,435	44,496
26	Total Operating Expenses	923,192	856,215	872,217	895,009	901,226	923,825
27	Net Operating Income	91,119	138,693	134,987	124,064	113,452	104,411
28	Other Income	11,907	13,641	15,863	14,770	13,383	11,579
29	Net Income Before Interest Charges	103,026	152,334	150,850	138,834	126,835	115,990
Interest							
30	Long Term Debt	53,066	68,318	67,654	64,845	62,528	60,123
31	Other	7,517	7,611	7,677	7,571	7,487	7,456
32	Loss From Refunded Debt	5,102	4,768	4,424	4,179	3,963	3,629
33	AFUDC	(873)	(872)	(983)	(916)	(784)	(784)
34	Total Interest	64,812	79,825	78,772	75,679	73,194	70,424
35	Net Income	38,214	72,509	72,078	63,155	53,641	45,566

Table 17
Projected Statement of Cash Flows
(Thousands of Dollars)

Line No.	Description	Fiscal Year Ending August 31,					
		2009	2010	2011	2012	2013	2014
		\$	\$	\$	\$	\$	\$
1	Beginning Cash Balance	49,338	82,165	89,405	113,717	124,257	107,614
	Sources of Funds						
	Internal Sources						
2	Net Income	38,214	72,509	72,078	63,155	53,641	45,566
3	Depreciation	39,408	41,198	42,945	44,611	45,896	47,081
4	Amortized Costs ^(a)	6,218	6,063	5,791	5,439	5,139	4,774
5	Earnings on Restricted Funds	10,225	1,013	(245)	1,881	1,140	1,236
6	Increased/(Decreased) Other Liabilities	(3,928)	334	(9,086)	(12,818)	(2,587)	(2,015)
7	Total Internal Sources	90,137	121,117	111,483	102,268	103,229	96,642
	External Sources						
8	Revenue Bond Proceeds	0	115,140	0	0	0	0
9	Capital Improvement Fund Drawdown	50,000	64,000	50,000	40,000	10,000	2,909
10	Release of Sinking Fund Asset	4,000	0	0	0	0	0
11	Grant Back from City	18,000	18,000	18,000	18,000	18,000	0
12	Temporary Borrowings	0	0	0	0	0	0
13	Total External Sources	72,000	197,140	68,000	58,000	28,000	2,909
14	Total Sources of Funds	162,137	318,257	179,483	160,268	131,229	99,551
	Uses of Funds						
15	Debt Reduction on all Bonds	41,280	47,095	42,054	39,070	49,075	50,565
16	PMA Bond Debt Reduction	1,500	1,565	1,640	1,715	1,805	1,890
17	CIP Requirements	50,459	72,120	80,398	85,608	71,743	71,470
18	Payment to City/Distribution of Earnings	18,000	18,000	18,000	18,000	18,000	18,000
19	Deposit to CIP Fund	0	115,140	0	0	0	0
20	Repayment of Commercial Paper	0	49,000	19,000	0	0	0
21	Change in Non-Cash Working Capital ^(b)	18,071	8,097	(5,921)	5,335	7,249	4,803
22	Total Uses of Funds	129,310	311,017	155,171	149,728	147,872	146,728
23	Increase/(Decrease) in Cash	32,827	7,240	24,312	10,540	(16,643)	(47,177)
24	Ending Cash Balance	82,165	89,405	113,717	124,257	107,614	60,437

(a) Includes amortization on bond issuance costs and extraordinary losses.

(b) Includes changes in Accounts Payable, Accounts Receivable, and Materials and Supplies.

Other operating revenues presented on Table 16, Line 8 include revenues from sales of energy-related appliance services and field collection charges. Projected Other Income for the System (Table 16, Line 28) includes interest earnings from the different reserve funds.

The projected operation and maintenance expenses shown on Table 16, Lines 10 through 26 are from Table 14. PGW's projected net operating income before interest is summarized on Line 29 of Table 16. Interest expense on existing bonds, proposed bonds, and capital leases is presented on Line 30. Other interest costs including loss from refunded debt and the allowance for funds used during construction ("AFUDC") are shown on Lines 31 through 33. PGW's projected net income is shown on Line 35 of the table is \$38.2 million in fiscal year 2009, increases to \$72.5 million in fiscal year 2010, and decreases to \$45.6 million in fiscal year 2014.

On Table 17, Line 1 presents PGW's cash balance as of September 1 for each fiscal year. From this starting point, the net income line from Table 16 is combined with non-cash adjustments (such as depreciation and amortization) expensed on the Income Statement. External sources of funds are summarized on Lines 8 through 12 and include revenue bond proceeds, drawdowns on the capital improvement fund, and the payment and grant back of the \$18 million for fiscal years 2009 through 2013. The total for all sources of funds is shown on Line 14 of Table 17.

Uses of funds are summarized on Lines 15 through 21 of Table 17. Lines 15 and 16 present the principal payments made on long-term debt. CIP requirements are shown on Line 17, and payments to the City and short-term debt obligations are shown on Lines 18 and 20. Changes in non-cash working capital items, including changes in accounts payable and accounts receivable, are shown in Line 21.

The net increase or decrease in available cash for each fiscal year is shown on Line 23 of Table 17. The ending cash balance for the year, which is the sum of Lines 1 and 23, is shown on Line 24. The ending cash balance for 2010 represents approximately 18 weeks of operations and maintenance expenses (excluding the cost of fuel) and the ending cash balances for fiscal years 2011 through 2014 represent approximately 23 to 11 weeks, respectively, of operations and maintenance expense (excluding the cost of fuel). These projected year-end cash balances for fiscal years 2010 through 2014 should be sufficient for PGW to accommodate normal fluctuations in expenditures for utility operations.

A detailed calculation of debt service coverage requirements under the 1975 and 1998 General Ordinances is presented in Table 18. The results presented in the table indicate that provided the assumptions made herein are realized, PGW will meet the requirements of the 1975 and 1998 General Ordinances for all years in the projection period.

Table 18
Projected Debt Service Coverage
(Thousands of Dollars)

Line No.	Description	Fiscal Year Ending August 31,					
		2009	2010	2011	2012	2013	2014
		\$	\$	\$	\$	\$	\$
SOURCES OF FUNDS							
1	Total Gas Revenues	993,848	974,491	986,468	998,016	993,480	1,006,692
2	Other Operating Revenues	<u>20,463</u>	<u>20,417</u>	<u>20,736</u>	<u>21,057</u>	<u>21,198</u>	<u>21,544</u>
3	Total Operating Revenues	1,014,311	994,908	1,007,204	1,019,073	1,014,678	1,028,236
4	Other Income ^(a)	<u>40,255</u>	<u>33,526</u>	<u>34,601</u>	<u>35,567</u>	<u>33,307</u>	<u>13,599</u>
5	Total Sources of Funds	1,054,566	1,028,434	1,041,805	1,054,640	1,047,985	1,041,835
USES OF FUNDS							
6	Fuel Costs	615,835	564,528	575,891	587,928	584,691	600,044
7	Other Operating Costs	<u>307,357</u>	<u>291,687</u>	<u>296,326</u>	<u>307,081</u>	<u>316,535</u>	<u>323,781</u>
8	Total Operating Expenses	923,192	856,215	872,217	895,009	901,226	923,825
9	Less: Non-Cash Expenses	<u>(68,105)</u>	<u>(68,998)</u>	<u>(69,661)</u>	<u>(70,046)</u>	<u>(69,814)</u>	<u>(69,248)</u>
10	Total Uses of Funds	855,087	787,217	802,556	824,963	831,412	854,577
11	Funds Available for Debt Service	199,479	241,217	239,249	229,677	216,573	187,258
12	1975 Ordinance Bonds Debt Service	32,313	30,101	30,691	32,110	30,521	28,953
13	Debt Service Coverage - 1975 Ordinance	6.17	8.01	7.80	7.15	7.10	6.47
14	Net Available after Prior Debt Service	167,166	211,116	208,558	197,567	186,052	158,305
15	1998 Ordinance Bonds Debt Service	60,403	83,650	86,491	82,763	81,327	82,035
16	Debt Service Coverage - 1998 Ordinance	2.77	2.52	2.41	2.39	2.29	1.93
17	Net Available after Prior Debt Service	106,763	127,466	122,067	114,804	104,726	76,270
18	1998 Ordinance Subordinate Debt	1,990	1,986	1,988	1,984	1,990	1,985
19	Debt Service Coverage on Subordinate Debt	53.65	64.18	61.42	57.87	52.63	38.43
Standard & Poor's Fixed Coverage Charge Calculations							
20	Net Available to Service Aggregate Debt Service ^(b)	141,148	192,205	192,521	182,058	171,054	161,270
21	Aggregate Debt Service ^(c)	94,706	115,737	119,170	116,857	113,837	112,972
22	Fixed Coverage Charge on Long-Term Debt	1.49	1.66	1.62	1.56	1.50	1.43

(a) Includes the City's grant back of the \$18 million payment in fiscal years 2009 through 2013.

(b) S&P's Definition: Net Available for Debt Service = Line 9, Table 16 - Line 33, Table 16 - (Line 26 - Line 25, Table 16) + Line 28, Table 16

(c) Line 12 + Line 15 + Line 18

Assumptions and Opinions

In developing the information which Black & Veatch utilized for preparing the projections presented herein, Black & Veatch relied on PGW's financial planning model and PGW's assumptions contained within that model with several exceptions as noted in this Report. The analyses summarized in this Report are based on assumptions that have been provided by or reviewed by PGW and others and relied on currently available information and present circumstances. Black & Veatch has not conducted verification tests of this information. While we believe that these data and the underlying assumptions are reasonable, actual results may materially differ from those projected, as influenced by the conditions, events and circumstances that actually occur that are unknown at this time and/or which are beyond the control of Black & Veatch. Such factors may include PGW's ability to execute the capital improvement plan as scheduled and within budget, regional climate and weather conditions affecting the demand for gas, and adverse legislative, regulatory or legal decisions (including environmental laws and regulations) affecting PGW's ability to operate the System.

Considerations and Assumptions

The following, while not all inclusive, is a list of critical assumptions used in the development of the projections presented herein:

Revenues

1. As set forth by the PUC in its order dated February 22, 2001, the PUC will comply with its statutory obligations under the Public Utility Code, including the section of the Gas Choice Act (66 Pa C.S.A. §2212(b)) requiring that the PUC, in determining PGW's revenue requirement and approving overall rates and charges, "follow the same rate-making methodology and requirements that were applicable to [PGW] prior to the assumption of jurisdiction by the [PUC]" and permit PGW to "impose, charge or collect rates or charges as necessary to permit...PGW to comply with its covenants to the holders of any approved bonds." "Approved Bonds" include the Eighth and Ninth Series Bonds and the commercial paper.
2. The throughput and revenue figures are based on the assumption of normal weather (4,464 HDD per year for 2009 and 4,412 HDD for 2010). To the extent that weather is warmer than normal, the resulting contribution margin will be maintained to the extent that the WNA remains in effect.
3. Projected revenue figures are based on the assumption that PGW will recover, in a timely manner, 100 percent of all gas supply costs and 100 percent of the costs (or discounted revenues) attributed to the Customer Responsibility Program, Customer Works Program, Senior Citizen Discount Program, restructuring transition costs, and costs attributable to PUC mandated programs such as those indicated in Chapters 56 and 59 of the Public Utility Code.
4. PGW will realize \$60 million in revenue enhancements, cost savings, or base rate increases on a levelized basis beginning in fiscal year 2010. If PGW does not receive rate relief of \$60 million beginning in 2010, PGW will likely not be able to meet all of these stated goals. If PGW were unable to meet the rate covenants required under the 1975 General Ordinance and 1998 General Ordinance, PGW would then have to reduce expenditures, develop other sources of Project Revenues, and/or file for and receive timely rate relief.

Operating Expenses

1. PGW's annual accounts receivable write-offs will range from \$40.9 to \$42.4 million and PGW's collection factor on billed revenues will be 95.0 percent during the projected 2010-2014 period.

Capital Improvement Program

1. The planned capital improvements are assumed to be sufficient to maintain the System and meet regulatory requirements.
2. Projected levels of cash-financed capital improvements are assumed to comply with PGW's internal policies for financing capital improvements with other funding sources.

City Payments

1. The \$18 million annual payment to the City will only be granted back to PGW by the City in fiscal years 2009 through 2013.
2. The \$18 million payment for fiscal year 2004 was not paid and is assumed to have been forgiven.

Opinions

Based on these analyses and the assumptions set forth or referred to in this Report, we offer the following opinions to indicate PGW's conformance with specific requirements which must be met for the issuance of the Eighth and Ninth Series Bonds as provided in the 1975 and 1998 General Ordinances:

1. PGW is a competently managed and operated gas distribution utility. PGW and the System are organized, operated, and maintained at a level equal to, or in excess of, regulatory requirements and generally accepted industry practices. The System is in good operating condition.
2. Based upon Black & Veatch's evaluation of financial projections and certain assumptions with respect to the System which Black & Veatch believes to be reasonable, and on the basis of actual and estimated future annual financial operations of the System (including the projects to be established with the proceeds of the Future Bonds), the System will yield Project Revenues (which are pledged under the 1975 General Ordinance and the 1998 General Ordinance) over the amortization periods of the Bonds issued under the 1975 General Ordinance and the 1998 General Ordinance which will be sufficient to (a) meet all expenses of operation, maintenance, repair and replacement of the System, (b) meet all reserve or special funds required to be established under the 1975 General Ordinance and the 1998 General Ordinance, (c) meet the principal of and interest on all Bonds (including the Future Bonds) issued under such Ordinances, as the same shall become due and payable, and (d) provide such surplus requirements as are contained in the respective rate covenants of the 1975 General Ordinance and the 1998 General Ordinance. The Project Revenues forming the basis of this opinion comply with the requirements of the definition of Project Revenues contained in Section 2 of the Act.
3. The Project Revenues and Gas Works Revenues which are pledged as security for the Bonds issued under the 1975 General Ordinance and the 1998 General Ordinance, respectively, are currently, and are projected to be, sufficient to comply with the Rate Covenants set forth in Section 4.03(b) of the 1975 General Ordinance and Section 4.03(b) of the 1998 General Ordinance.

4. The capital improvements proposed during the projection period, September 1, 2009, through August 31, 2014, should, along with continued good operation and maintenance practices, enable PGW to maintain the System in good operating condition. Review of present management practices indicates that good operation and maintenance is likely to continue.
5. Contracted PGW gas supplies plus (a) spot market purchases, (b) anticipated additional contracted supplies plus supplemental gas capacities, as well as, (c) the pipeline transport capacity to move these supplies to PGW, appear adequate to meet PGW's projected demand on a day of maximum demand (a "design peak day"), in an hour of maximum demand (a "design peak hour"), and during a year of maximum demand (a "design peak year").

The following are significant changes or events that have occurred since the issuance of our prior Report dated January 26, 2007 ("2007 Report"), and are addressed more fully in the text of this Report:

1. PGW paid off the City Loan of \$45 million in 2008 as assumed in the 2007 Report.
2. PGW received a \$25 million permanent rate increase out of the \$100 million requested effective September 20, 2007, and a \$60 million extraordinary rate increase effective January 1, 2009, that is assumed to be permanent in this Report.
3. The 2007 Report assumed that internally generated funds would be sufficient (based on a \$100 million rate increase) to defer the need for new bond proceeds for capital improvements beyond 2012. This Report assumes that PGW will issue Ninth Series Bonds in 2010 in the amount of \$150 million.
4. PGW's five-year average collection factor has improved to 95.7 percent (2004-2008) from 93.6 percent (2002-2006).
5. Long-term debt service will increase by approximately \$20 million over the 2010-2014 period.
6. PGW's fiscal year 2009 estimated capital expenditures of \$50.5 million represent an 18.3 percent decrease from 2008 levels reflecting a management decision to implement a contingency plan to reduce spending. This action was necessary given the dislocation in the financial markets. Spending for the forecast period beyond 2009 assumes that capital spending will resume at previously budgeted levels.
7. PGW did not install the Phase 2 LNG facilities as originally budgeted for 2008 and 2009. PGW has determined that it is capable of meeting its near term LNG liquefaction needs with the Phase 1 LNG facilities already in service.

APPENDIX C

CERTAIN INFORMATION CONCERNING THE CITY OF PHILADELPHIA

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APPENDIX C

THE GOVERNMENT OF THE CITY OF PHILADELPHIA

General

The City of Philadelphia (the "City") was incorporated in 1789 by an Act of the General Assembly of the Commonwealth of Pennsylvania (the "Commonwealth") (predecessors of the City under charters granted by William Penn in his capacity as proprietor of the colony of Pennsylvania may date to as early as 1684). In 1854, the General Assembly, by an act commonly referred to as the Consolidation Act, made the City's boundaries coterminous with the boundaries of Philadelphia County (the same boundaries that exist today) (the "County"), abolished all governments within these boundaries other than the City and the County and consolidated the legislative functions of the City and the County. Article 9, Section 13 of the Pennsylvania Constitution abolished all county offices in the City and provides that the City performs all functions of county government and that laws applicable to counties apply to the City.

Since 1952, the City has been governed under a Home Rule Charter authorized by the General Assembly (First Class City Home Rule Act, Act of April 21, 1949, P.L. 665, Section 17) and adopted by the voters of the City. The Home Rule Charter, as amended and supplemented to this date, provides, among other things, for the election, organization, powers and duties of the legislative branch (the "City Council"); the election, organization, powers and duties of the executive and administrative branch; and the basic rules governing the City's fiscal and budgetary matters, contracts, procurement, property and records. The Home Rule Charter, as amended, now also provides for the governance of The School District of Philadelphia (the "School District") as a home rule school district. Certain other constitutional provisions and Commonwealth statutes continue to govern various aspects of the City's affairs, notwithstanding the broad grant of powers of local self-government in relation to municipal functions set forth in the First Class City Home Rule Act.

Under the Home Rule Charter, as currently in effect, there are two principal governmental entities in Philadelphia: (1) the City, which performs ordinary municipal functions as well as traditional county functions; and (2) the School District, which has boundaries coterminous with the City and has responsibility for all public primary and secondary education.

The court system in Philadelphia, consisting of Common Pleas, Municipal and Traffic Courts, is part of the Commonwealth of Pennsylvania judicial system. Although judges are paid by the Commonwealth, most other court costs are paid by the City, with partial reimbursement from the Commonwealth.

Elected and Appointed Officials

The Mayor is elected for a term of four years and is eligible to succeed himself for one term. Each of the seventeen members of the City Council is also elected for a four-year term which runs concurrently with that of the Mayor. There is no limitation on the number of terms that may be served by members of the City Council. Of the members of the City Council, ten are elected from districts and seven are elected at-large, with a minimum of two of the seven representing a party or parties other than the majority party. The District Attorney and the City Controller are elected at the mid-point of the terms of the Mayor and City Council.

The City Controller's responsibilities derive from the Home Rule Charter, various City ordinances and state and federal statutes, and contractual arrangements with auditees. The City Controller must follow GAGAS, Generally Accepted Government Auditing Standards established by the federal Government Accountability Office (formerly known as the General Accounting Office), and GAAS, Generally Accepted Auditing Standards promulgated by the American Institute of Certified Public

Accountants. As of March 1, 2009, the Office of the City Controller had 120 employees, including 76 auditors, 29 of whom were certified public accountants.

The City Controller post-audits and reports on the City's combined financial statements, federal assistance received by the City, the performance of City departments and the finances of the School District. The City Controller also conducts a pre-audit program of expenditure documents required to be submitted for approval, such as invoices, payment vouchers, purchase orders and contracts. Documents are selected for audit by category and statistical basis. The Pre-Audit Division verifies that expenditures are authorized and accurate in accordance with the Home Rule Charter and other pertinent legal and contractual requirements before any moneys are paid by the City Treasurer. The Pre-Audit Technical Unit, consisting of auditing and engineering staff, inspects and audits capital project design, construction and related expenditures. Other responsibilities of the City Controller include investigation of allegations of fraud, preparation of economic reports, certification of the City's debt capacity and the capital nature and useful life of the capital projects, and opining to the Pennsylvania Intergovernmental Cooperation Authority on the reasonableness of the assumptions and estimates in the City's five-year financial plans.

The principal officers of the City's government appointed by the Mayor are the Managing Director of the City (the "Managing Director"), the Director of Finance of the City (the "Director of Finance"), the City Solicitor (the "City Solicitor"), and the Deputy Mayor for Planning and Economic Development and Director of Commerce (the "Director of Commerce"). These officials, together with the Mayor and the other members of the Mayor's cabinet, constitute the major policy-making group in the City's government.

The Managing Director is responsible for supervising the operating departments and agencies of the City that render the City's various municipal services. The Director of Commerce is charged with the responsibility of promoting and developing commerce and industry.

The City Solicitor is head of the Law Department and acts as legal advisor to the Mayor, the City Council, and all of the agencies of the City government. The City Solicitor is also responsible for all of the City's contracts and bonds, for assisting City Council, the Mayor, and City agencies in the preparation of ordinances for introduction in City Council, and for the conduct of litigation involving the City.

The Director of Finance is the chief financial and budget officer of the City and is selected from three names submitted to the Mayor by a Finance Panel. The Director of Finance is responsible for the financial functions of the City including development of the annual operating budget, the capital budget, and capital program; the City's program for temporary and long-term borrowing; supervision of the operating budget's execution; the collection of revenues through the Department of Revenue; and the oversight of pension administration as Chairperson of the Board of Pensions and Retirement. The Director of Finance is also responsible for the appointment and supervision of the City Treasurer, whose office serves as the disbursing agent for the distribution of checks and electronic payments from the City Treasury and the management of cash resources.

The following are brief biographies of Mayor Nutter, his chief of staff, his cabinet and the City Controller:

Michael A. Nutter, Mayor, was sworn in as Philadelphia's 98th Mayor on January 7, 2008. He won the Democratic nomination in a five-way primary election. Elected to Philadelphia City Council in 1992, the Mayor represented the City's Fourth Councilmanic District for nearly fifteen years. During his time in Council, he engineered groundbreaking ethics reform legislation, led successful efforts to pass a citywide smoking ban, worked to lower taxes for Philadelphians and to reform the City's tax structure, and labored to increase the number of Philadelphia police officers patrolling the streets and to create a Police Advisory Board to provide a forum for discussion between citizens and the Police Department.

Mayor Nutter received his B.A. from the Wharton School of Business at the University of Pennsylvania in 1979.

Clarence D. Armbrister, Chief of Staff, was appointed on January 7, 2008. Prior to his appointment, Mr. Armbrister was Executive Vice President and Chief Operating Officer of Temple University. Mr. Armbrister began his career at Temple in April 2003 when he was named Senior Vice President. He was elevated to the position of Executive Vice President and Chief Operating Officer in January 2007. Prior to joining Temple, Mr. Armbrister was a Director in the UBS Financial Services Municipal Securities Group in Philadelphia and had served as Managing Director of the School District of Philadelphia, Treasurer of the City of Philadelphia, and was a partner in the law firm of Saul Ewing LLP. Mr. Armbrister holds a J.D. from the University of Michigan Law School and a B.A. degree in political science and economics from the University of Pennsylvania.

Camille Cates Barnett, Ph.D., Managing Director, was appointed in January 2008. Dr. Barnett is a professional manager, having worked in the cities of Sunnyvale, California, Dallas, Houston and Austin, Texas and Washington, DC. Prior to her appointment as Managing Director, Dr. Barnett served as an advisor and consultant to public sector clients to improve governance, with the Public Strategies Group, and Public Financial Management. Dr. Barnett encourages collaborative approaches to growth, disaster recovery, economic strength, environmental sustainability and other issues that cross governmental jurisdictions and has written numerous articles on emerging networks in governing and transforming the public sector. Dr. Barnett has a Ph.D. in public administration from the University of Southern California and has taught at the University of Southern California and the University of Texas at Austin.

Rob Dubow, Director of Finance, was appointed on January 7, 2008. The Director of Finance is the Chief Financial Officer of the City. Prior to his appointment, Mr. Dubow was the Executive Director of the Pennsylvania Intergovernmental Cooperation Authority (PICA), which is a financial oversight board established by the Commonwealth in 1991. He served as Chief Financial Officer of the Commonwealth of Pennsylvania from 2004 to 2005. From 2000 to 2004, he served as Budget Director for the City of Philadelphia, where he had also been a Deputy Budget Director and Assistant Budget Director. Before working for the City, Mr. Dubow was a Senior Financial Analyst for PICA. He also served as a Research Associate at the Pennsylvania Economy League and was a reporter for the Associated Press. Mr. Dubow earned a Masters in Business Administration degree from the Wharton School of Business and a Bachelor of Arts degree from the University of Pennsylvania.

Shelley R. Smith, City Solicitor, was appointed on January 7, 2008. The City Solicitor of the City of Philadelphia is the City's chief legal officer, the head of the City's Law Department, and a member of the Mayor's Cabinet. Prior to her appointment, Ms. Smith was the Associate General Counsel for Regulatory Affairs - East at Exelon Corporation. Prior to joining Exelon, Ms. Smith was with Ballard Spahr as Of Counsel in the Labor, Employment & Immigration Group. Ms. Smith also spent more than a decade with the City of Philadelphia's Law Department where she was trial attorney and supervisor in the Civil Rights Unit, Chief of the Affirmative Litigation and Labor and Employment Units, and, finally, Chair of the Corporate and Tax Group.

Rina Cutler, Deputy Mayor for Transportation and Utilities was appointed in January 2008. Ms. Cutler advises and assists the Mayor on and coordinates all policies, planning and initiatives relating to transportation, waste management, infrastructure and public utilities. She collaborates with the Managing Director in coordinating the development of policy and the allocation of resources for the departments of Streets, Water and Aviation. Ms. Cutler also serves as the Mayor's representative working with SEPTA, PGW, the Parking Authority and other organizations. Ms. Cutler previously served as Deputy Secretary of Administration for the Pennsylvania Department of Transportation in Harrisburg. Her experience includes time as Executive Director of the Philadelphia Parking Authority and Transportation Commissioner for the Transportation Department in Boston, Massachusetts, as well as the Executive Director of Parking and Traffic in San Francisco.

Everett A. Gillison, Deputy Mayor for Public Safety, was appointed on January 7, 2008. Mr. Gillison advises and assists the Mayor on all policies, planning and initiatives designed to promote the public safety and prevent crime. He will lead a collaborative effort with the Police Department and other agencies in the criminal justice system to provide a more holistic approach to the prevention and the enhancement of public safety throughout the City. Mr. Gillison previously served as a Senior Trial Lawyer for the Defender Association of Philadelphia where he worked for more than 30 years. Other experience also includes his time on the Board of Summerbridge of Greater Philadelphia, as well as a member of the American College of Trial Lawyers.

Alan Greenberger, Acting Deputy Mayor for Planning and Economic Development and Director of Commerce, was appointed on June 30, 2009. Mr. Greenberger is also the Executive Director of the City Planning Commission where he chairs the Philadelphia Zoning Code Commission. A native of New York City, he moved to Philadelphia in 1974 to join Mitchell/Giurgola Architects. He became an associate of Mitchell/Giurgola in 1980, moved to Australia to join Mitchell/Giurgola & Thorpe, architects for the Australian Parliament House, and rejoined Mitchell/Giurgola in Philadelphia as a partner in 1986. In 1990, he and several partners at M/G changed the name of the firm to MGA Partners, where he practiced through 2008. He has been the lead designer on numerous MGA projects including the Department of State National Foreign Affairs Training Center, the West Chester University School of Music and Performing Arts Center, America on Wheels Museum, Lehigh University Linderman Library Renovation, Mann Center for the Performing Arts Master Plan and Pavilions, and the Centennial District Master Plan.

Dr. Donald F. Schwarz, Deputy Mayor for Health and Opportunity and Health Commissioner, was appointed in January 2008. Prior to entering government service, Dr. Schwarz was Vice Chairman of the Department of Pediatrics of the University of Pennsylvania School of Medicine and Craig-Dalsimer Division Chief for Adolescent Medicine at The Children's Hospital of Philadelphia. He was also Mary D. Ames Associate Professor of Child Advocacy in the Department of Pediatrics of the University of Pennsylvania School of Medicine at The Children's Hospital of Philadelphia. Dr. Schwarz is board certified in pediatrics and adolescent medicine. Dr. Schwarz was, for 22 years, an active researcher in the areas of adolescent risk behaviors and early childhood development.

Pauline Abernathy, Senior Advisor to the Mayor, was appointed in January 2008. Ms. Abernathy was previously Deputy Director of Health and Human Services Policy at The Pew Charitable Trusts where she initiated, designed and managed national initiatives related to child welfare policy, underage drinking prevention, retirement savings and student debt policy. Prior to working at Pew, Ms. Abernathy worked at The White House National Economic Council and Domestic Policy Council and at the U.S. Department of Education and as a legislative assistant for a U.S. Senator. She has a bachelor's degree in Art History from Yale University and a Masters in Public Policy from Harvard University's Kennedy School of Government.

Julia Chapman, Legislative Affairs Director, was appointed in January 2008. Her role is to manage state and local legislation important to the City and to oversee government relations with state and local elected officials. Prior to her appointment, Ms. Chapman worked for Michael A. Nutter when he was a member of Philadelphia City Council, serving as his Chief of Staff for fifteen years. She also worked for State Representative Dwight Evans in the capacity as Legal Counsel to the House Appropriations Democratic Committee. In addition, Ms. Chapman worked for former Mayor Wilson Goode, Sr. in the Office of Policy & Legislative Affairs. Ms. Chapman is an attorney. She is a graduate of Rutgers University School of Law in Camden, NJ and received her Bachelor of Science degree in Economics at the University of Illinois.

Michael DiBerardinis, Commissioner of Parks and Recreation and Special Advisor to the Mayor on Libraries, was appointed in April 2009. Prior to his appointment, Mr. DiBerardinis served as Secretary

of Pennsylvania's Department of Conservation and Natural Resources, overseeing 117 state parks, 26 forest districts, and 7 regional community offices. The department, under Secretary DiBerardinis, managed 2.5 million acres of public land and administered grant programs that annually dispensed over \$80 million dollars. Prior to being named as Secretary for DCNR, Mr. DiBerardinis served as Executive Director of the Campaign for Working Families. Before working with the Campaign, Mr. DiBerardinis was the Vice President of Programs for the William Penn Foundation. Mr. DiBerardinis' long history of public administration includes serving as the Commissioner of the Philadelphia Department of Recreation from 1992 to 2000. Mr. DiBerardinis earned a Bachelor of Arts degree in Political Science from St. Joseph's University.

Patricia Enright, Director of Communications and Deputy Chief of Staff, was appointed on January 7, 2008. Prior to joining the Administration, Ms. Enright served as Executive Director of the Mayor's Transition Team as well as Campaign Manager of the Mayor's campaign during the general election. Ms. Enright was Campaign Manager for Governor Ed Rendell's re-election campaign. Prior to the campaign, she was appointed by Rendell as Director of the Office of Public Liaison. In addition to several national campaign positions, Ms. Enright served as press secretary for Sen. Harkin and spent 8 years in the Clinton Administration including appointments as Assistant Secretary for Public Affairs and Senior Advisor to the Secretary at the Department of Housing and Urban Development.

Allan R. Frank, Chief Technology Officer, was appointed on September 2, 2008. Mr. Frank's background includes co-founder of a publicly-traded Consulting and Research company, Senior Partner in a Global Professional Services Firm, and extensive experience in setting strategy, implementing and operating core business processes, product development, marketing, internal IT management, and software development. He is also recognized as an expert in the areas of information delivery, decision support and knowledge management. Mr. Frank holds a Bachelor of Science in Accounting, Master of Science in Computer Science, and Master of Business Administration in Finance from Lehigh University and he is also a non-practicing Certified Public Accountant.

Teresa A. Gillen, Senior Advisor to the Mayor for Economic Development, was appointed on January 7, 2008. Prior to joining the Administration, Terry Gillen was the Chief Executive Officer of the Collegiate Consortium for Workforce and Economic Development. She also has served as the Director of Policy for the Pennsylvania Department of Community and Economic Development in Harrisburg under the Rendell Administration and as Chief Operating Office of National Community Capital Association – a national community development financing organization. From 1995 to 1998, Ms. Gillen was Senior Vice President of the Philadelphia Industrial Development Corporation ("PIDC"), which is the City's leading economic development agency. At PIDC, Ms. Gillen managed the Office of Defense Conversion, which oversees the reuse of the City's former defense facilities – including the former Navy Yard. In 1992, Ms. Gillen was appointed by Mayor Rendell as Deputy Commerce Director for the City of Philadelphia.

Melanie Johnson, City Representative, was appointed on January 7, 2008. The City Representative will promote and give wide publicity to items of interest reflecting the accomplishments of the City and its inhabitants and the growth and development of its commerce and industry. Ms. Johnson had served as the Director of Communications for the Nutter for Mayor Campaign since August of 2006. Prior experience includes her time as Press Secretary to Former Mayor Ed Rendell, Director of Communication for Multicultural Affairs Congress at Philadelphia Convention and Visitors Bureau, and Senior Account Executive at Beach Advertising.

Amy L. Kurland, Inspector General, was appointed on January 7, 2008. The Inspector General investigates fraud, corruption, and abuse in all City departments, agencies, commissions and boards, as well as in contracts with individuals or companies receiving City funds and doing business with the City. Prior to her appointment, Ms. Kurland was an Assistant United States Attorney and Senior Litigation Counsel for the Eastern District of Pennsylvania for 24 years, specializing in public corruption and white

collar fraud prosecutions. She is also an Adjunct Professor of Trial Advocacy at Rutgers University. Ms. Kurland received her B.A. from Reed College and her J.D. from Rutgers University.

Joan L. Markman is the City's first Chief Integrity Officer, and took office with the Nutter administration on January 7, 2008. Before that, Ms. Markman spent 20 years as a federal prosecutor in the United States Attorney's Office in Philadelphia, where she focused on the investigation and prosecution of fraud and public corruption cases. Ms. Markman has also served as an adjunct lecturer in Trial Advocacy at the University of Pennsylvania Law School, as an associate attorney in the firm Dechert Price and Rhoads, and as an Assistant District Attorney in Philadelphia. She is a 1979 graduate of Wesleyan University and a 1983 graduate of the University of Virginia School of Law.

Lori A. Shorr, Ph.D., Chief Education Officer, was appointed in January 2008. Dr. Shorr previously served in Pennsylvania's Rendell administration as Special Assistant to the Secretary of Education for the Commonwealth of Pennsylvania and in that capacity led the administration's work in aligning academic expectations between high school and post-secondary education. Her work at the state included dual enrollment, transfer and articulation, the Governor's Commission on College and Career Success, and other initiatives. Dr. Shorr was previously Vice President of Policy and Planning at Philadelphia Youth Network, a nationally-recognized non-profit which manages \$24 million of investments from government, industry and the foundations community to effect systems change and serve over 10,000 disenfranchised Philadelphia youth through direct programming. Before her service at the Commonwealth, she was in the Provost's and President's offices at Temple University where her work concentrated on local academic alignment issues. At Temple Dr. Shorr also was affiliated faculty in both Women's Studies and Urban Education departments, lecturing on both feminist film theory and educational equity. She continues to publish and speak nationally in the areas of education, equity, and public policy. Dr. Shorr earned her Ph.D. from the University of Pittsburgh in Critical and Cultural Studies.

Gary P. Steuer, Chief Cultural Officer was appointed on October 1, 2008. Prior to his appointment, Mr. Steuer served as Vice President for Private Sector Affairs at Americans for the Arts, the national service organization for local arts agencies. Mr. Steuer also had the additional title of Executive Director of the Arts & Business Council of Americans for the Arts. Mr. Steuer has also served as Executive Director of National Actors Theatre on Broadway, Director of the Capital Funding Initiative of the New York State Council on the Arts, Managing Director of the Vineyard Theatre, Director of Programs for the Alliance of Resident Theatres/New York, an aide to a United States Congressman, and a commercial theatre producer.

David G. Wilson, Deputy Managing Director, was appointed in August 2008. Prior to his appointment Mr. Wilson was the Executive Vice President of the Private Industry Council of Milwaukee County, the workforce development board for the local area. Mr. Wilson served as Director of Parks and Public Infrastructure and Regional Manager during a 13 year career in Milwaukee County Government. Mr. Wilson holds a Masters in Business Administration from Marquette University and a Bachelor of Arts degree from Bethany College.

Alan L. Butkovitz is serving his second term as Philadelphia's elected City Controller, an office independent of the Mayor. Prior to his election as City Controller, Mr. Butkovitz served 15 years in the Pennsylvania House of Representatives, representing the 174th Legislative District in Northeast Philadelphia where he served on the Veterans Affairs and Urban Affairs Committees as well as committees on Aging and Older Adults, Children and Youth and Insurance. Mr. Butkovitz was widely praised for leading the bi-partisan investigation into violence in Philadelphia public schools. He authored legislation creating the Office of the Safe Schools Advocate, the first of its kind in the nation. Mr. Butkovitz was born and raised in Philadelphia. He is an attorney and received his Juris Doctor degree from Temple University Law School in 1976 and a bachelor's degree from Temple University in 1973.

Government Services

Municipal services provided by the City include: police and fire protection; health care; certain welfare programs; construction and maintenance of local streets, highways, and bridges; trash collection, disposal and recycling; provision for recreational programs and facilities; maintenance and operation of the water and wastewater systems (the "Water and Wastewater Systems"); the acquisition and maintenance of City real and personal property, including vehicles; maintenance of building codes and regulation of licenses and permits; maintenance of records; collection of taxes and revenues; purchase of supplies and equipment; construction and maintenance of airport facilities; and maintenance of a prison system. The City owns the assets that comprise the Philadelphia Gas Works ("PGW" or the "Gas Works"). PGW serves residential, commercial, and industrial customers in the City. PGW is operated by Philadelphia Facilities Management Corporation ("PFMC"), a non-profit corporation specifically organized to manage and operate the PGW for the benefit of the City.

Local Government Agencies

There are a number of significant governmental authorities and quasi-governmental non-profit corporations that also provide services within the City.

The Southeastern Pennsylvania Transportation Authority ("SEPTA"), which is supported by transit revenues and Federal, Commonwealth, and local funds, is responsible for developing and operating a comprehensive and coordinated public transportation system in the southeastern Pennsylvania region.

The Philadelphia Parking Authority is responsible for the construction and operation of parking facilities in the City and at the Philadelphia International Airport and, by contract with the City, for enforcement of on-street parking regulations.

The Philadelphia Municipal Authority (formerly The Equipment Leasing Authority of Philadelphia) ("PMA") was originally established for the purpose of buying equipment and vehicles to be leased to the City. PMA's powers have been expanded to include, without limitation, the construction and leasing of municipal solid waste disposal facilities, correctional facilities, and other municipal buildings.

The Redevelopment Authority of the City of Philadelphia (the "Redevelopment Authority") and the Philadelphia Housing Authority develop and/or administer low and moderate income rental units and housing in the City. The Redevelopment Authority, supported by Federal funds through the City's Community Development Block Grant Fund and by Commonwealth and local funds, is responsible for the redevelopment of the City's blighted areas.

The Hospitals and Higher Education Facilities Authority of Philadelphia (the "Hospitals Authority") assists non-profit hospitals by financing hospital construction projects. The City does not own or operate any hospitals. The powers of the Hospitals Authority have been expanded to permit the financing of construction of buildings and facilities for certain colleges and universities and other health care facilities and nursing homes.

The Philadelphia Industrial Development Corporation ("PIDC") and its affiliate, the Philadelphia Authority for Industrial Development ("PAID"), coordinate the City's efforts to maintain an attractive business environment and to attract new businesses to the City and retain existing ones.

The Pennsylvania Convention Center Authority (the "Convention Center Authority") constructed and maintains, manages, and operates the Pennsylvania Convention Center, which opened on June 25, 1993. The Convention Center Authority is currently undertaking an expansion of the Pennsylvania Convention Center.

School District

The School District was established by the Educational Supplement to the City's Home Rule Charter to provide free public education to the City's residents. Under the Home Rule Charter, its board is appointed by the Mayor and must submit a lump sum statement of expenditures to the City annually. Such statement is used by City Council in making its determination to authorize the levy of taxes on behalf of the School District. Certain financial information regarding the School District is included in the City's Comprehensive Annual Financial Report. It has no independent taxing powers and may levy only the taxes authorized on its behalf by the City and the Commonwealth. Under the Home Rule Charter, the School District is managed by a nine-member Board of Education appointed by the Mayor from a list supplied by an Educational Nominating Panel that is chosen by the Mayor. In some matters, including the incurrence of short-term and long-term debt, both the City and the School District are governed primarily by the laws of the Commonwealth. The School District is a separate political subdivision of the Commonwealth and the City has no property interest in or claim on any revenues or property of the School District.

The School District was declared distressed by the Secretary of Education of the Commonwealth pursuant to Section 691(c) of the Public School Code of 1949, as amended (the "School Code"), effective December 22, 2001. During a period of distress under Section 691(c) of the School Code, all of the powers and duties of the Board of Education granted under the School Code or any other law are suspended and all of such powers and duties are vested in the School Reform Commission (the "School Reform Commission") provided for under the School Code. The School Reform Commission is responsible for the operation, management and educational program of the School District during such period. It is also responsible for financial matters related to the School District. The School Code provides that the members of the Board of Education continue to serve during the time the School District is governed by the School Reform Commission, and that the establishment of the School Reform Commission shall not interfere with the regular selection of the members of the Board of Education. During the tenure of the School Reform Commission, the Board of Education will perform those duties delegated to it by the School Reform Commission. As of the date hereof, the School Reform Commission has not delegated any duties to the Board.

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

General

The Pennsylvania Intergovernmental Cooperation Authority ("PICA") was created on June 5, 1991 by the Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class (the "PICA Act"). PICA was established to provide financial assistance to cities of the first class. The City is the only city of the first class in the Commonwealth. The PICA Act provides that, upon request by the City to PICA for financial assistance and for so long as any bonds issued by PICA remain outstanding, PICA shall have certain financial and oversight functions. Under the PICA Act, PICA no longer has the authority to issue bonds for new money purposes, but may refund bonds previously issued by it. PICA has the power, in its oversight capacity, to exercise certain advisory and review procedures with respect to the City's financial affairs, including the power to review and approve five-year financial plans prepared at least annually by the City, and to certify non-compliance by the City with the then-existing five-year plan adopted by the City pursuant to the PICA Act. PICA is also required to certify non-compliance if, among other things, no approved five-year plan is in place; and PICA is required to certify non-compliance with an approved five-year plan if the City has failed to file mandatory revisions to an approved five-year plan. Under the PICA Act, any such certification of non-compliance would require the Secretary of the Budget of the Commonwealth to withhold payments due to the City from the Commonwealth or any of its agencies (including, with certain exceptions, all grants, loans, entitlements and payment of the portion of the PICA Tax, hereinafter described, otherwise payable to the City). See "Source of Payment of PICA Bonds" below.

On June 16, 1992, PICA, at the request of the City, issued \$474,555,000 Special Tax Revenue Bonds (City of Philadelphia Funding Program), Series of 1992 (the "1992 PICA Bonds"). The proceeds of the 1992 PICA Bonds were used (i) to make grants to the City to fund the Fiscal Year 1991 General Fund cumulative deficit (\$153.5 million) and the then-projected Fiscal Year 1992 General Fund deficit (\$71.4 million); (ii) to make grants to the City to pay the costs of certain capital projects to be undertaken by the City; and (iii) to make a grant to the City to provide it with financial assistance to enhance productivity in the operation of City government. It had been anticipated that the proceeds of the 1992 PICA Bonds would also be used to fund the City's projected Fiscal Year 1993 General Fund deficit; however, because no deficit occurred, a grant from PICA for this purpose was not required. These proceeds, in the amount equal to \$23.5 million, were instead used to provide funds for other City purposes.

On July 29, 1993, PICA, at the request of the City, issued \$643,430,000 Special Tax Revenue Bonds (City of Philadelphia Funding Program), Series of 1993 (the "1993 PICA Bonds"), the proceeds of which were used to make grants to the City to pay the costs of certain capital projects to be undertaken by the City and to make a grant to the City to provide for the defeasance of certain outstanding general obligation bonds of the City in the aggregate amount of \$336,225,000.

On September 14, 1993, PICA issued \$178,675,000 Special Tax Revenue Refunding Bonds (City of Philadelphia Funding Program), Series of 1993A (the "1993A PICA Bonds"), the proceeds of which were used to advance refund \$136,670,000 principal amount of the 1992 PICA Bonds.

On December 15, 1994, PICA, at the request of the City, issued \$122,020,000 Special Tax Revenue Bonds (City of Philadelphia Funding Program) Series of 1994 (the "1994 PICA Bonds"), the proceeds of which were used to make grants to the City to pay the costs of certain capital projects to be undertaken by the City.

On May 30, 1996, PICA issued \$343,030,000 Special Tax Revenue Refunding Bonds (City of Philadelphia Funding Program), Series of 1996 (the "1996 PICA Bonds"), the proceeds of which were used to advance refund \$304,160,000 principal amount of the 1992 PICA Bonds and \$120,180,000 principal amount of the 1994 PICA Bonds.

On April 15, 1999, PICA issued \$610,005,000 Special Tax Revenue Refunding Bonds (City of Philadelphia Funding Program), Series of 1999 (the "1999 PICA Bonds"), the proceeds of which were used to advance refund \$610,730,000 principal amount of the 1993 PICA Bonds.

On June 16, 2003, PICA issued \$165,550,000 Special Tax Revenue Refunding Bonds (City of Philadelphia Funding Program), Series of 2003, the proceeds of which were used to refund \$163,185,000 principal amount of the 1993A PICA Bonds.

On June 15, 2006, PICA issued \$89,950,000 Special Tax Revenue Refunding Bonds (City of Philadelphia Funding Program) Series of 2006 (Auction Rate Securities), the proceeds of which were used to refund \$89,960,000 principal amount of the 1996 PICA Bonds.

On May 15, 2008, PICA issued \$133,740,000 Series 2008A and \$80,825,000 Series 2008B Special Tax Revenue Refunding Bonds (City of Philadelphia Funding Program). The proceeds of the Series 2008A bonds were used to refund \$142,085,000 principal amount of the 2003 PICA Bonds; the proceeds of the Series 2008B Bonds together with other available funds of the Authority were used to refund \$85,500,000 principal amount of the 2006 PICA Bonds.

As of the close of business on June 30, 2008, the principal amount of PICA bonds outstanding was \$572,095,000.

On June 15, 2009, PICA issued \$354,925,000 Special Tax Revenue Refunding Bonds (City of Philadelphia Funding Program), Series of 2009, the proceeds of which were used to refund the outstanding 1999 PICA Bonds and pay the costs of terminating an associated swap.

Source of Payment of PICA Bonds

The PICA Act authorized the City to impose a tax for the sole and exclusive purposes of PICA. In connection with the adoption of the Fiscal Year 1992 budget and the adoption of the first Five-Year Plan, the City reduced the wage, earnings, and net profits tax on City residents by 1.5% and enacted a PICA Tax of 1.5% tax on wages, earnings and net profits of City residents (the "PICA Tax"). Proceeds of the PICA Tax are solely the property of PICA. The PICA Tax, collected by the City's Department of Revenue, is deposited in the "Pennsylvania Intergovernmental Cooperation Authority Tax Fund" (the "PICA Tax Fund") of which the State Treasurer is custodian. The PICA Tax Fund is not subject to appropriation by City Council or the General Assembly of the Commonwealth.

The PICA Act authorizes PICA to pledge the PICA Tax to secure its bonds and prohibits the Commonwealth and the City from repealing the PICA Tax or reducing the rate of the PICA Tax while any bonds secured by the PICA Tax are outstanding.

The PICA Act requires that proceeds of the PICA Tax in excess of amounts required for (i) debt service, (ii) replenishment of any debt service reserve fund for bonds issued by PICA, and (iii) certain PICA operating expenses, be deposited in a trust fund established pursuant to the PICA Act exclusively for the benefit of the City and designated the "City Account." Amounts in the City Account are required to be remitted to the City not less often than monthly, but are subject to withholding if PICA certifies the City's non-compliance with the then-current five-year plan.

The PICA Act establishes a "Bond Payment Account" for PICA as a trust fund for the benefit of PICA bondholders and authorizes the creation of a debt service reserve fund for bonds issued by PICA. Since PICA has issued bonds secured by the PICA Tax, the PICA Act requires that the State Treasurer pay the proceeds of the PICA Tax held in the PICA Tax Fund directly to the Bond Payment Account, the debt service reserve fund created for bonds issued by PICA and the City Account.

The total amount of PICA Tax remitted to PICA by the State Treasurer (which is net of the costs of the State Treasurer in collecting the PICA Tax) for each of the Fiscal Years 1999 through 2008, the current estimate for Fiscal Year 2009 and the budgeted amount for Fiscal Year 2010, are set forth below:

<u>Year</u>	<u>Amount</u>
1999	\$ 245.8 million
2000	256.6 million
2001	273.6 million
2002	278.0 million
2003	281.5 million
2004	285.0 million
2005	300.2 million
2006	309.9 million
2007	327.9 million
2008	341.8 million
2009 (Estimate)	352.1 million
2010 (Adopted Budget)	360.9 million

PICA bonds are payable from the PICA revenues, including the PICA Tax, pledged to secure PICA's bonds, the Bond Payment Account and any debt service reserve fund established for such bonds and have no claim on any revenues of the Commonwealth or the City.

Five-Year Plans of the City

One of the conditions precedent to the issuance of bonds by PICA was the development by the City and approval by PICA of a five-year financial plan. The original five-year plan, which covered Fiscal Years 1992 through 1996, was prepared by the Mayor, approved by City Council on April 29, 1992 and by PICA on May 18, 1992. In each subsequent year, the City updated the previous year's five-year plan, each of which was adopted by City Council, signed by the Mayor and approved by PICA.

The Mayor presented the Seventeenth Five-Year Plan (the "Seventeenth Five-Year Plan") to City Council on February 14, 2008. City Council approved the Fiscal Year 2009 Budget and the revised Fiscal Years 2009-2013 Five Year Plan on May 22, 2008. The Mayor signed the budget into law on May 22, 2008. The Seventeenth Five-Year Plan was approved by PICA on June 17, 2008.

The Mayor presented the Eighteenth Five-Year Plan (the "Eighteenth Five-Year Plan") to City Council on March 19, 2009. City Council began its review of the Fiscal Year 2010 Operating Budget and Eighteenth Five Year Plan on March 25, 2009. City Council approved the Fiscal Year 2010 Budget on May 21, 2009, and the Mayor signed it on May 27, 2009. The City submitted the revised Eighteenth Five-Year Plan to PICA in June 2009 for PICA's approval. PICA's Board approved the City's Eighteenth Five-Year Plan on July 21, 2009 with several conditions, including that the Eighteenth Five-Year Plan will be deemed disapproved if (i) the General Assembly of the Commonwealth fails to enact legislation authorizing the City to increase the City's sales tax and change the City's pension fund payments by August 15, 2009 or such earlier date that the General Assembly recesses for the summer, or (ii) the City fails to provide PICA by August 20, 2009 with a list of items that could generate at least \$25 million in additional savings or recurring revenues in each year of the Eighteenth Five-Year Plan. If either of the conditions referred to above are not met, the City would be required to submit a revised Eighteenth Five Year Plan within 15 days of the deemed disapproval. The City is preparing the information required in clause (ii) and anticipates that it will be submitted to PICA by August 20, 2009. The City is currently developing alternate budget scenarios and revisions to the Eighteenth Five-Year Plan to submit to PICA on a timely basis in the event the sales tax and pension change legislation is not enacted. See "DISCUSSION OF FINANCIAL OPERATIONS - Effect of Economic Crisis on City Budget" and "-Fiscal Year 2010 Adopted Budget", and "PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY—Five Year Plans of the City". For a discussion of the effect of the City failing to maintain or comply with an approved five-year plan, see "General" above.

CITY FINANCIAL PROCEDURES

Except as otherwise noted, the financial statements, tables, statistics, and other information shown below have been prepared by the Office of the Director of Finance and can be reconciled to the financial statements in the City's Comprehensive Annual Financial Report and Notes therein.

Independent Audit and Opinion of the City Controller

The City Controller has examined and expressed opinions on the basic financial statements of the City of Philadelphia contained in the City's Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2008 (the "Fiscal Year 2008 Comprehensive Annual Financial Report").

The City Controller has not participated in the preparation of this Official Statement nor in the preparation of the budget estimates and projections and cash flow statements and forecasts set forth in various tables contained in this Official Statement. Consequently, the City Controller expresses no opinion with respect to any of the data contained in this Official Statement other than what is contained in the Fiscal Year 2008 Comprehensive Annual Financial Report.

Principal Operations

The major operations of the City are conducted through the General Fund. In addition to the General Fund, operations of the City are conducted through two other major governmental funds and 12 minor governmental funds. The two major governmental funds and three of the minor governmental funds are financed solely through grants from the Commonwealth and Federal government. The City's Debt Service Fund and Capital Projects Fund are also included with the minor governmental funds.

Fund Accounting

Funds are groupings of activities that enable the City to maintain control over resources that have been segregated for particular purposes or objectives. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds. The governmental funds are used to account for the financial activity of the City's basic services, such as: general government; economic and neighborhood development; public health, welfare and safety; cultural and recreational; and streets, highways and sanitation. The funds' financial activities focus on a short-term view of the inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the fiscal year. The financial information presented for the governmental funds is useful in evaluating the City's short term financing requirements.

The City maintains twenty-three individual governmental funds. The City's Comprehensive Annual Financial Report (including for the City's fiscal year ended June 30, 2008), presents data separately for the General Fund, Grants Revenue Fund and Health Choices Behavioral Health Fund, which are considered to be major funds. Data for the remaining eighteen funds are combined into a single aggregated presentation.

Proprietary Funds. The proprietary funds are used to account for the financial activity of the City's operations for which customers are charged a user fee; they provide both a long and short-term view of financial information. The City maintains three enterprise funds that are a type of proprietary funds - airport, water and wastewater operations, and industrial land bank.

Fiduciary Funds. The City is the trustee, or fiduciary, for its employees' pension plans. It is also responsible for PGW's employees' retirement reserve assets. Both of these fiduciary activities are reported in the City's Comprehensive Annual Financial Report (including for the City's fiscal year ended June 30, 2008), as separate financial statements of fiduciary net assets and changes in fiduciary net assets.

Basis of Accounting and Measurement Focus

Governmental funds account for their activities using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as in the case of full accrual accounting. Debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due; however, those expenditures may be accrued if they are to be liquidated with available resources.

Imposed non-exchange revenues, such as real estate taxes, are recognized when the enforceable legal claim arises and the resources are available. Derived tax revenues, such as wage, business privilege, net profits and earnings taxes, are recognized when the underlying exchange transaction has occurred and the resources are available. Grant revenues are recognized when all the applicable eligibility requirements

have been met and the resources are available. All other revenue items are considered to be measurable and available only when cash is received by the City.

Revenue that is considered to be program revenue includes: (1) charges to customers or applicants for goods received, services rendered or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program specific revenues; therefore, all taxes are considered general revenues.

The City's financial statements reflect the following three funds as major Governmental Funds:

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in other funds.
- The Health Choices Behavioral Health Fund accounts for resources received from the Commonwealth. These resources are restricted to providing managed behavioral health care to residents of the City.
- The Grants Revenue Fund accounts for the resources received from various federal, state and private grantor agencies. The resources are restricted to accomplishing the various objectives of the grantor agencies.

The City also reports on Permanent Funds, which are used to account for resources legally held in trust for use by the park and library systems of the City. There are legal restrictions on the resources of the funds that require the principal to remain intact, while only the earnings may be used for the programs.

The City reports on the following Fiduciary Funds:

- The Municipal Pension Fund accumulates resources to provide pension benefit payments to qualified employees of the City and certain other quasi-governmental organizations.
- The Philadelphia Gas Works Retirement Reserve Fund accounts for contributions made by PGW to provide pension benefit payments to its qualified employees under its noncontributory pension plan.

The City reports on the following major Proprietary Funds:

- The Water Fund accounts for the activities related to the operation of the City's water delivery and sewage systems.
- The Aviation Fund accounts for the activities of the City's airports.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's ongoing operations. The principal operating revenues of the Water Fund are charges for water and sewer service. The principal operating revenue of the Aviation Fund is charges for the use of the airport. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Legal Compliance

The City's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). In accordance with the Home Rule Charter, the City has formally established budgetary accounting control for its operating and capital improvement funds.

The operating funds of the City, consisting of the General Fund, ten Special Revenue Funds (County Liquid Fuels Tax, Special Gasoline Tax, Health Choices Behavioral Health, Hotel Room Rental Tax, Grants Revenue, Community Development, Car Rental Tax, Wage Tax Reduction, Acute Care Hospital Assessment and Housing Trust Funds) and two Enterprise Funds (Water and Aviation Funds), are subject to annual operating budgets adopted by City Council. Included with the Water Fund is the Water Residual Fund. These budgets appropriate funds for all City departments, boards and commissions by major class of expenditure within each department. Major classes are defined as: personal services; purchase of services; materials and supplies; equipment; contributions, indemnities and taxes; debt service; payments to other funds; and advances and other miscellaneous payments. The appropriation amounts for each fund are supported by revenue estimates and take into account the elimination of accumulated deficits and the re-appropriation of accumulated surpluses to the extent necessary. All transfers between major classes (except for materials and supplies and equipment, which are appropriated together) must have councilmanic approval. Appropriations that are not expended or encumbered at year-end are lapsed.

The City's capital budget is adopted annually by City Council. The capital budget is appropriated by project for each department. Requests to transfer appropriations between projects must be approved by City Council. Any appropriations that are not obligated at year-end are either lapsed or carried forward to the next fiscal year.

Schedules prepared on the legally enacted basis differ from the GAAP basis in that both expenditures and encumbrances are applied against the current budget, adjustments affecting activity budgeted in prior years are accounted for through fund balance or as reduction of expenditures and certain interfund transfers and reimbursements are budgeted as revenues and expenditures.

Budget Procedure

At least ninety days before the end of the Fiscal Year the operating budget for the next Fiscal Year is prepared by the Mayor and must be submitted to City Council for adoption. The budget, as adopted, must be balanced and provide for discharging any estimated deficit from the current Fiscal Year and make appropriations for all items to be funded with City revenues. The Mayor's budgetary estimates of revenues for the ensuing Fiscal Year and projection of surplus or deficit for the current Fiscal Year may not be altered by City Council. Not later than the passage of the operating budget ordinance, City Council must enact such revenue measures as will, in the opinion of the Mayor, yield sufficient revenues to balance the budget.

At least thirty days before the end of each Fiscal Year, City Council must adopt by ordinance an operating budget and a capital budget for the ensuing Fiscal Year and a capital program for the six ensuing years. If the Mayor disapproves the bill, he must return it to City Council with the reasons for his disapproval at the first meeting thereof held not less than ten days after he receives it. If the Mayor does not return the ordinance within the time required, it becomes law without his approval. If City Council passes the bill by a vote of two-thirds of all of its members within seven days after the bill has been returned with the Mayor's disapproval, it becomes law without his approval. The capital program is prepared annually by the City Planning Commission to present the capital expenditures planned for each of the six ensuing Fiscal Years, including the estimated total cost of each project and the sources of funding (local, state, Federal, and private) estimated to be required to finance each project. The capital program is reviewed by the Mayor and transmitted to City Council for adoption with his recommendation thereon. See Table A-11 for a summary of the City's capital improvement program for the Fiscal Years 2010 through 2015.

The capital budget ordinance, authorizing in detail the capital expenditures to be made or incurred in the ensuing Fiscal Year from funds that City Council appropriates, is adopted by City Council

concurrently with the capital program. The capital budget must be in full conformity with that part of the capital program applicable to the Fiscal Year that it covers.

Awards

For the twenty-eighth consecutive year, the Government Finance Officers Association of the United States and Canada (GFOA) awarded its prestigious Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2007. The City received this recognition by publishing a report that was well organized and readable and satisfied both generally accepted accounting principles and applicable legal requirements.

CITY CASH MANAGEMENT AND INVESTMENT POLICIES

Consolidated Cash

The Act of the General Assembly of the Commonwealth of June 25, 1919, P.L. 581, Art. XVII, § 6, gives the City the authority to make temporary inter-fund loans between operating and capital funds.

The Consolidated Cash Account provides for the physical commingling of the cash of all City Funds, except those which, for legal or contractual reasons, cannot be commingled (e.g., the Municipal Pension Fund, sinking funds, sinking fund reserves, funds of PGW, the Water Fund, the Aviation Fund and certain other restricted purpose funds). A separate accounting is maintained for the equity of each member fund in the Consolidated Cash Account. The City manages the Consolidated Cash Account pursuant to the following procedures:

To the extent that any member fund temporarily experiences the equivalent of a cash deficiency, the required advance is made from the Consolidated Cash Account, in the amount necessary to result in a zero balance in the cash equivalent account of the borrowing fund. All subsequent net receipts of a borrowing fund are applied in repayment of the advance.

All advances are made within the budgetary constraints of the borrowing funds. Within the General Fund, this system of inter-fund advances has historically resulted in the temporary use of tax revenues or other operating revenues for capital purposes and the temporary use of capital funds for operating purposes.

Procedures governing the City's cash management operations require the General Fund-related operating fund to borrow initially from the General Fund-related capital fund, and only to the extent there is a deficiency in such fund may the General Fund-related operating fund borrow money from any other funds in the Consolidated Cash Account.

Investment Practices

Cash balances in each of the City's funds are managed to maintain daily liquidity to pay expenses, and make investments that preserve principal while striving to obtain the maximum rate of return. In accordance with the Home Rule Charter, the City Treasurer is the City Official responsible for managing cash collected into the City Treasury. The available cash balances in excess of daily expenses are placed in demand accounts, swept into money market mutual funds, or used to make investments directed by professional money managers. These investments are held in segregated trust accounts at a separate financial institution. Cash balances related to Revenue Bonds for Water and Sewer and the Airport are directly deposited and held separately in trust. A Fiscal Agent manages these cash balances per the related bond documents and the investment practice is guided by administrative direction of the City Treasurer per the Investment Committee and the Investment Policy. In addition, certain operating cash deposits (such as Community Behavioral Health, Special Gas/County Liquid and "911" surcharge)

of the City are restricted by purpose and required to be segregated into accounts in compliance with Federal or State reporting.

Investment guidelines for the City are embodied in legislation approved by City Council appearing in the Philadelphia City Code, Chapter 19. In furtherance of the City, State, and Federal legislative guidelines, the Director of Finance adopted a written Investment Policy (the "Policy") that first went into effect in August 1994 and most recently was revised in April 2001. This Policy supplements other legal requirements and establishes a comprehensive investment policy for the overall administration and effective management of all monetary funds (except the Municipal Pension Fund and PGW Retirement Reserve Fund).

The Policy delineates the authorized investments as approved by City Council Ordinance and the funds to which the Policy applies. The authorized investments include U.S. Government Securities, U.S. Treasuries, U.S. Agencies, Collateralized Certificates of Deposit, Bankers Acceptance Notes, Eurodollar Deposits, Euro Certificates of Deposit, Commercial Paper, Corporate Bonds, Money Market Mutual Funds, Repurchase Agreements and Commonwealth of Pennsylvania securities, all of investment grade rating or better. Each category of instruments, excluding U.S. Government Treasury and Agency securities which carry no limitation, is limited to investment of no more than 25% of the total portfolio, and no more than 10% of the total portfolio per institutional or corporate issuer. The Policy also restricts investments to those having a maximum maturity of two years. Daily liquidity is maintained through the use of SEC-registered money market mutual funds with the balance of funds invested by the City or money managers in accordance with the Policy.

The Policy provides for an ad hoc Investment Committee consisting of the Director of Finance, the City Treasurer and the Deputy City Treasurer with ex-officio membership of a representative of each of the principal operating and capital funds, i.e., Water Fund, Aviation Fund, Philadelphia Gas Works and Philadelphia Municipal Authority. The Investment Committee meets quarterly with each of the investment managers to review each manager's performance to date and to plan for the next quarter. Investment managers are given any changes in investment instructions at these meetings. The Investment Committee approves all modifications to the Policy.

The Policy expressly forbids the use of any derivative investment product whose yield or market value does not follow the normal swings in interest rates. Investment in derivatives such as "inverse floaters," leveraged variable rate debt and interest-only or principal-only Collateralized Mortgage Obligations are specifically forbidden. The use of any other derivative investment products is restricted to identified "core cash" in any fund but never to exceed 25% of any fund's balance at the time of purchase.

General Fund Cash Flow

Because the receipts of General Fund revenues lag behind expenditures during most of each fiscal year, the City issues notes in anticipation of General Fund revenues and makes payments from the Consolidated Cash Account to finance its on-going operations. The City has issued notes in anticipation of the receipt of income by the General Fund in each fiscal year since Fiscal Year 1972 (with a single exception). Each issue was repaid when due, prior to the end of the fiscal year.

The timing imbalance referred to above results from a number of factors, principally the following: (1) real property, business privilege tax and certain other taxes are not due until the latter part of the fiscal year; and (2) the City experiences lags in reimbursement from other governmental entities for expenditures initially made by the City in connection with programs funded by other governments.

DISCUSSION OF FINANCIAL OPERATIONS

Fiscal Year 2008 Actual

Results for Fiscal Year 2008 reflect revenues of \$3.72 billion, obligations of \$3.92 billion and a Fiscal Year 2008 fund balance of \$119.5 million on a legally enacted basis (modified accruals), an increase of \$35.1 million over the fund balance estimated in the adopted budget, but a decrease of \$178.4 million from the Fiscal Year 2007 ending fund balance. The decrease was caused in large part by one-time payments to the City's four unions as part of collective bargaining agreement settlements and reduction in business privilege and real estate transfer tax collections. This increase over the estimate in the adopted budget is largely due to the fact that the Fiscal Year 2007 fund balance was \$126 million higher than anticipated when the budget was adopted. The estimate is also \$54 million lower than the Fiscal Year 2008 fund balance estimated in the Approved Five Year Plan. This decrease is mainly the result of the lower than expected business privilege tax receipts, and lower state reimbursements.

Fiscal Year 2009 Adopted Budget

The City's Fiscal Year 2009 budget was approved by City Council on May 22, 2008 and signed into law that day. The budget projects estimated revenues of \$3.9 billion, obligations of \$4.03 billion and an ending fund balance of \$62.5 million on the legally enacted basis. This budget was adopted by the City in conjunction with the Seventeenth Five-Year Plan which was approved by PICA on June 17, 2008.

Fiscal Year 2009 Current Estimate

The City's Fiscal Year 2009 current estimate projects revenues of \$3.75 billion and obligations of \$3.95 billion on a legally enacted basis. Tax revenues are now projected to be \$179 million below budget levels. The real estate transfer tax and business privilege tax account for more than \$152 million of the reduction. Total general fund revenue is projected to be \$138.5 million below budget. Obligations are now projected to be \$78.4 million below budgeted levels as the administration took quick action to reduce obligations and reduce the projected deficit. The Fiscal Year 2009 fund balance is projected to be (\$60) million.

Effect of Economic Crisis on City Budget

Like other local governments across the country, the City is experiencing declines in tax collections and expected increases in pension costs. On November 6, 2008, Mayor Nutter announced the City's budget-balancing plan to address what would be, unless compensatory action was taken, an estimated \$1 billion deficit over the next five years and a \$108 million fund balance deficit, out of a \$4 billion budget, in Fiscal Year 2009.

The Mayor's plan included, among other things, curtailment of certain nonessential services, suspension of City-funded business and wage tax reductions until Fiscal Year 2015, closing some outdoor pools, eliminating 800 positions either through layoffs or not filling vacancies, and reducing employee overtime costs. On December 4, 2008, City Council approved revenue enhancement legislation which was part of the Mayor's budget-balancing plan. This legislation included halting reductions of City-funded wage and business privilege tax rates until Fiscal Year 2015. In addition, the legislation included increases to certain fees, including some licensing and inspection fees, false burglar alarm fees and some health related fees. The budget-balancing plan was expected to result in \$148 million in savings for Fiscal Year 2009, which, based upon then current revenue estimates, would have resulted in a Fiscal 2009 ending fund balance of \$41 million.

However during November and December the City continued to experience declining receipts and further erosion in pension fund earnings performance. On January 15, 2009, Mayor Nutter announced

that despite previous actions taken which are described above, the City again faced a five year deficit of over \$1 billion and a Fiscal Year 2009 fund balance estimate of (\$60) million.

On January 16, 2009, the administration issued a budget call that included budget reductions of 10, 20 and 30 percent from every department. The administration reviewed these responses, engaged in community outreach programs and town hall meetings and conducted citizen and employee surveys to solicit input on the array of options available to balance the budget and Plan. The administration proposed a Fiscal Year 2010 budget (discussed below) and an Eighteenth Five-Year Plan that includes staff reductions, anticipated benefit and pension savings and work rule changes, increased fees and a temporary increase in the City Sales Tax (as defined herein). Additionally, the Eighteenth Five-Year Plan assumes a partial deferral of the City's pension payment in Fiscal Year 2010 (\$150 million) and Fiscal Year 2011 (\$80 million) to be paid back by Fiscal Year 2014. In addition to the deferral, the City is changing the amortization period from 20 years to 30 years and lowering the interest rate assumption from 8.75 percent to 8.25 percent. The temporary City Sales Tax increase and several pension changes require approval of the Pennsylvania General Assembly. The City is currently working with Commonwealth officials on obtaining such approval for these changes. See "EXPENDITURES OF THE CITY-Municipal Pension Fund (Related to All Funds)" herein.

Fiscal Year 2010 Adopted Budget

The City's Fiscal Year 2010 budget was presented to City Council on March 19, 2009, was approved by City Council on May 21, 2009, and signed by the Mayor on May 27, 2009. The budget projects estimated revenues of \$3.815 billion, obligations of \$3.694 billion and an ending fund balance of \$85.3 million after discharging the Fiscal Year 2009 fund balance deficit on the legally enacted basis. The budget includes a 1 percent City Sales Tax increase which is estimated to yield \$106 million in Fiscal Year 2010 increasing to an estimated \$121 million in Fiscal Year 2014. The City Sales Tax increase and several of the assumed changes to the pension system will require approval of the Pennsylvania General Assembly. The administration is developing alternate budget balancing scenarios in the event that approval of the Pennsylvania General Assembly does not occur.

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Table A-1
City of Philadelphia General Fund
Summary of Operations
(Legal Basis) (Amounts In Millions of USD)

	Actual	Actual	Actual	Actual	Actual	Actual	Current Estimate	Adopted Budget
	2004	2005	2006	2007	2008	2009	2009	2010
REVENUES								
Real Property Taxes	377.7	392.7	395.8	397.5	402.8	412.8	412.8	420.2
Wage and Earnings Tax	1,049.6	1,073.6	1,111.2	1,167.4	1,184.8	1,127.3	1,127.3	1,146.0
Net Profits Tax	13.0	13.7	14.6	15.3	12.5	11.8	11.8	12.4
Business Privilege Tax	309.2	379.5	415.5	436.4	398.8	365.7	365.7	348.7
Sales Tax	108.0	119.9	127.8	132.6	137.3	128.0	128.0	234.7
Other Taxes ^(a)	202.2	250.9	304.1	286.7	260.3	200.9	200.9	177.3
Total Taxes	2,059.7	2,230.3	2,369.0	2,435.9	2,396.5	2,246.5	2,246.5	2,339.3
Locally Generated Non-Tax Revenue	207.4	200.9	235.9	247.9	265.8	275.6	275.6	276.0
Revenue from Other Governments	801.1	1,054.6	924.5	1,032.9	1,033.4	1,091.2	1,091.2	1,171.1
Receipts from Other City Funds	24.7	26.3	24.9	27.4	27.2	136.0	136.0	28.2
Total Revenue	3,092.9	3,512.1	3,554.3	3,744.1	3,722.8	3,749.3	3,749.3	3,814.6
OBLIGATIONS/APPROPRIATIONS								
Personnel Services	1,278.3	1,243.5	1,250.2	1,327.6	1,390.7	1,420.8	1,420.8	1,358.4
Purchase of Services	1,050.3	1,090.1	1,065.7	1,151.6	1,188.7	1,188.8	1,188.8	1,149.5
Materials, Supplies and Equipment	70.6	71.5	82.1	89.1	92.1	87.2	87.2	78.3
Employee Benefits	598.9	704.7	760.2	890.3	983.0	965.2	965.2	812.8
Indemnities, Contributions and Grants	95.1	113.5	110.9	119.0	120.9	130.3	130.3	117.9
City Debt Service	93.7	89.7	82.9	89.1	87.2	108.3	108.3	121.9
Other	32.0	36.7	38.6	31.2	32.3	22.7	22.7	25.0
Payments to Other City Funds	29.1	36.6	35.4	38.7	24.8	30.0	30.0	30.0
Total Obligations/Appropriations	3,248.0	3,386.3	3,426.0	3,736.6	3,919.8	3,953.3	3,953.3	3,693.8
Operating Surplus (Deficit) for the Year	(155.4)	125.8	128.2	7.5	(197.0)	(204.0)	(204.0)	120.8
Net Adjustments – Prior Year	17.3	17.2	30.1	35.9	18.6	24.5	24.5	24.5
Funding for Contingencies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cumulative Fund Balance Prior Year	91.3	(46.8)	96.2	254.5	297.9	119.5	119.5	(60.0)
Cumulative Adjusted Year End Fund Balance (Deficit)	(46.8)	96.2	254.5	297.9	119.5	(60.0)	(60.0)	85.3

(a) Includes Real Estate Transfer Tax, Parking Tax, Amusement Tax, and Other Taxes.
 FIGURES MAY NOT ADD DUE TO ROUNDING.

Table A-2
City of Philadelphia
Principal Operating Funds (Debt Related)
Summary of Operations (Legal Basis)
(Amounts in Millions of USD)

	Actual 2004	Actual 2005	Actual 2006	Actual 2007	Actual 2008	Current Estimate 2009	Adopted Budget 2010
REVENUES							
General Fund	3,092.8	3,512.1	3,554.3	3,744.1	3,722.8	3,749.3	3,814.6
Water Fund ^(a)	438.3	451.4	490.3	519.7	589.7	561.3	613.6
Aviation Fund ^(b)	241.4	249.0	271.5	268.6	287.9	329.6	364.8
Other Operating Funds ^(c)	39.0	38.6	41.9	44.9	113.2	45.6	49.2
Total Revenue	3,811.5	4,251.1	4,358.0	4,577.3	4,713.6	4,685.8	4,842.2
OBLIGATIONS/APPROPRIATIONS							
Personnel Services	1,444.7	1,409.0	1,412.9	1,498.2	1,568.9	1,605.8	1,542.6
Purchase of Services	1,197.0	1,250.0	1,233.5	1,328.5	1,441.4	1,415.3	1,399.8
Materials, Supplies and Equipment	119.2	121.9	136.2	145.9	151.1	151.3	163.6
Employee Benefits	662.1	784.9	845.3	990.1	1,095.8	1,076.3	934.5
Indemnities, Contributions and Taxes	99.7	117.3	116.5	122.6	127.1	141.3	130.4
Debt Service ^(d)	344.6	336.8	337.6	348.8	346.7	395.3	429.7
Other	32.0	36.7	38.6	31.2	32.3	22.6	25.0
Payments to Other City Funds	95.5	97.0	119.4	144.9	154.7	114.3	123.6
Total Obligations/Appropriations	3,994.8	4,153.6	4,240.0	4,610.2	4,917.9	4,922.2	4,749.2
Operating Surplus (Deficit) for the Year	(183.4)	97.5	118.0	(32.8)	(204.3)	(236.4)	93.0
Net Adjustments Prior Year	41.0	45.8	60.6	69.6	51.0	52.7	56.7
Funding for Contingencies	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cumulative Fund Balance (Deficit) Prior Year End	132.0	(10.4)	132.9	311.5	348.3	195.0	11.3
Cumulative Adjusted Year End Fund Balance (Deficit)	<u>(10.4)</u>	<u>132.9</u>	<u>311.5</u>	<u>348.3</u>	<u>195.0</u>	<u>11.3</u>	<u>161.0</u>

(a) Revenues of the Water Fund are not legally available for payment of other obligations of the City until, on an annual basis, all revenue bond debt service requirements and covenants relating to those bonds have been satisfied, and then only to the extent of \$4,994,000 per year, provided certain further conditions are satisfied. From Fiscal Year 1991 to Fiscal Year 2003, the maximum transfer, per administrative agreement, was \$4,138,000. For Fiscal Year 2004, the budgeted transfer was not made. For Fiscal Year 2005, the transferred amount was \$4,401,000. For Fiscal Year 2006, 2007 and 2008, the transferred amount was \$4,994,000.

(b) Airport revenues are not available for other City purposes.

(c) Includes County Liquid Fuels Tax Fund, Special Gasoline Tax Fund and Water Residual Fund.

(d) Excludes PICA bonds.

FIGURES MAY NOT ADD DUE TO ROUNDING.

Quarterly Reporting to PICA

On November 16, 1992, the City submitted the first of its quarterly reports to PICA. This reporting is required under the PICA Act so that PICA may determine whether the City is in compliance with the then-current Five-Year Plan. Under the PICA Act, a "variance" is deemed to have occurred as of the end of a reporting period if (i) a net adverse change in the fund balance of a covered fund of more than 1% of the revenues budgeted for such fund for that fiscal year is reasonably projected to occur, such projection to be calculated from the beginning of the fiscal year for the entire fiscal year, or (ii) the actual net cash flows of the City for a covered fund are reasonably projected to be less than 95% of the net cash flows of the City for such covered fund for that fiscal year originally forecast at the time of adoption of the budget, such projection to be calculated from the beginning of the fiscal year for the entire fiscal year. The Mayor is required to provide a report to PICA that describes actual or current estimates of revenues, expenditures, and cash flows by covered funds compared to budgeted revenues, expenditures, and cash flows by covered funds for such previous quarterly or monthly period and for the year-to-date period from the beginning of the then-current fiscal year of the City to the last day of the fiscal quarter or month, as the case may be, just ended. Each such report is required to explain any variance existing as of such last day.

PICA may not take any action with respect to the City for variances if the City (i) provides a written explanation of the variance that PICA deems reasonable; (ii) proposes remedial action that PICA believes will restore overall compliance with the then-current Five-Year Plan; (iii) provides information in the immediately succeeding quarterly financial report demonstrating to the reasonable satisfaction of PICA that the City is taking remedial action and otherwise complying with the then-current Five-Year Plan; and (iv) submits monthly supplemental reports as required by the PICA Act.

On February 20, 2009 based on results as reported in the December 31, 2008 Quarterly City Managers Report for December 31, 2008, PICA informed the City that a variance had been declared as defined in Section 4.10(a) of the Intergovernmental Cooperation Agreement. The City is providing monthly information to PICA as requested. PICA has agreed to accept the submission of the Eighteenth Five Year Plan (FY2010-FY2014) as the City's proposed remedial action to address the variance.

REVENUES OF THE CITY

General

In 1932, the Pennsylvania General Assembly adopted an act (commonly referred to as the Sterling Act) under which the City was permitted to levy any tax that was not specifically pre-empted by the Commonwealth. Prior to 1939, the City relied heavily upon the real property tax as the mainstay of its revenue system. Acting under the Sterling Act and other legislation, the City has taken various steps over the years to reduce its reliance on real property taxes as a source of income, including: (1) enacting the wage, earnings, and net profits tax in 1939; (2) introducing a sewer service charge to make the sewage treatment system self-sustaining after 1945; (3) requiring under the Home Rule Charter that the water, sewer, and other utility systems be fully self-sustaining; and (4) enacting in 1952 the Mercantile License Tax (a gross receipts tax on business done within the City), which was replaced as of the commencement of Fiscal Year 1985 by the Business Privilege Tax.

Major Revenue Sources

The City derives its revenues primarily from various taxes, non-tax revenues, and receipts from other governments. See Table A-3 for revenues by major source for Fiscal Years 1999-2010 and Table A-4 for General Fund tax revenues for Fiscal Years 2004-2010. The following description does not take into account revenues in the Non-Debt Related Funds. The tax rates for Fiscal Years 1999 through 2008 are contained in the Fiscal Year 2008 Comprehensive Annual Financial Report.

Wage, Earnings, and Net Profits Taxes. These taxes are levied on the wages, earnings, and net profits of all residents of the City and all non-residents employed within the City. The rate for both residents and non-residents was 4.3125% from Fiscal Year 1977 through Fiscal Year 1983. For Fiscal Years 1984 through 1991 the wage and earnings tax rate was 4.96% for residents and 4.3125% for non-residents and the net profits tax rate was 4.96% for both residents and non-residents.

In Fiscal Year 1992, the City reduced the City wage, earnings, and net profits tax on City residents by 1.5% and imposed the PICA Tax on wages, earnings and net profits at the rate of 1.5% on City residents. The table below sets forth the resident and non-resident wage and earnings tax rates for Fiscal Years 1999-2008, and the annual wage and earnings tax receipts in Fiscal Years 1999-2008 and the estimated receipts in Fiscal Year 2009 and budgeted receipts in Fiscal Year 2010.

<u>Fiscal Year</u>	<u>Resident Wage and Earnings Tax Rates*</u>	<u>Non-Resident Wage and Earnings Tax Rates</u>	<u>Annual Wage and Earnings Tax Receipts (including PICA Tax) (Amounts in Millions)</u>
1999	4.6869%	4.0750%	\$1,195.6
2000	4.6135	4.0112	1,242.3
2001	4.5635	3.9672	1,332.6
2002	4.5385	3.9462	1,297.3
2003	4.5000	3.9127	1,306.6
2004	4.4625	3.8801	1,347.6
2005	4.3310	3.8197	1,387.5
2006	4.3010	3.7716	1,435.6
2007	4.2600	3.7557	1,510.6
2008	4.2190	3.7242	1,527.5
2009 (Current Estimate)**	3.9800 (July 1) 3.9300 (January 1)	3.5392 (July 1) 3.5000 (January 1)	1,488.7
2010 (Adopted Budget)	3.9296	3.4997	1,516.2

* Includes PICA Tax.

** There were two rate decreases during Fiscal Year 2009.

In the Seventeenth Five-Year Plan, the Mayor approved further reductions in this tax rate for each of the Fiscal Years 2009-2013. The Seventeenth Five-Year Plan approved reducing the wage tax from its current level of 4.2190% for residents and 3.7242% for non-residents to 3.60% for residents and 3.25% for non-residents by Fiscal Year 2013. These reduced rates include rate reductions funded through tax reduction funding provided by the Commonwealth of Pennsylvania from gaming proceeds. In Fiscal Year 2009 there have been two rate reductions: one that took effect July 1, 2008 and the other that took effect January 1, 2009. Each approved Five-Year Plan since the one covering Fiscal Years 1996-2000 has included reductions in this tax rate for each of its fiscal years. The Eighteenth Five-Year Plan suspends future City-funded rate reductions until Fiscal Year 2015.

For a discussion of legislation approved by City Council that halts the reduction of City-funded wage tax rates until Fiscal Year 2015, see "DISCUSSION OF FINANCIAL OPERATIONS-Effect of Economic Crisis on City Budget" in this Appendix A.

Business Privilege Tax. In May 1984, the City enacted an ordinance substituting the Business Privilege Tax for the Mercantile License Tax. The Business Privilege Tax has been levied since January 1985 on every entity engaging in business in the City.

The Business Privilege Tax is a composite tax. Tax rates vary according to business classification (regulated, non-regulated, persons registered under the Pennsylvania Securities Act of 1972, manufacturing, wholesale, or retail) and method of tax computation employed. The various methods of tax computation are as follows: effective Fiscal Year 1989, all regulated industries, banks, trust

companies, insurance companies, and public utilities, among others, were taxed at an annual rate of 3.25 mills on annual receipts not to exceed 6.5% of their net income. The tax on annual receipts and net income of all businesses, other than regulated industries, was levied at 3.25 mills and 6.5%, respectively, provided that persons registered under the Pennsylvania Securities Act of 1972 shall in no event pay a tax of less than 5.711 mills on all taxable receipts plus the lesser of 4.302% of net income or 4.302 mills on gross taxable receipts.

Non-regulated industry manufacturers can opt for a lower 5.395% rate on receipts from sales after deducting the applicable cost of goods. Non-regulated wholesalers may choose a gross receipts tax on wholesale transactions at a lower rate of 7.55% after deducting applicable product and labor costs. Non-regulated retailers have the option of choosing the lower rate of 2.1% on receipts from retail sales after deducting applicable product and labor costs.

All persons subject to both the Business Privilege Tax and the Net Profits Tax are entitled to apply a credit of 60% of their Business Privilege Tax liability against what is due on the Net Profits Tax, which credit may be carried back or forward for up to three years.

In Fiscal Year 1996, the City began a program of reducing the gross receipts portion of the Business Privilege Tax from its previous level of 3.25 mills. The tax rates for tax years 1999-2009 are set forth below.

<u>Tax Year</u>	<u>Business Privilege Tax/Gross Receipts</u>
1999	2.775 mills
2000	2.650 mills
2001	2.525 mills
2002	2.400 mills
2003	2.300 mills
2004	2.100 mills
2005	1.900 mills
2006	1.665 mills
2007	1.540 mills
2008	1.415 mills
2009	1.415 mills

In the Seventeenth Five-Year Plan, the Mayor approved further reductions in the gross receipts portion of the Business Privilege Tax for each of the Fiscal Years 2009-2013. The Eighteenth Five-Year Plan suspends future City-funded rate reductions until Fiscal Year 2015.

For a discussion of legislation approved by City Council that halts the reduction of City-funded business privilege tax rates until Fiscal Year 2015, see "DISCUSSION OF FINANCIAL OPERATIONS-Effect of Economic Crisis on City Budget" in this Appendix A.

All business activity is also assessed a one-time \$200 licensing fee administered by the Department of Licenses and Inspections.

Real Property Taxes. A real estate tax on all taxable real property is levied on the assessed value of residential and commercial property located within the City's boundaries. From Fiscal Year 2003 through Fiscal Year 2007 the City's portion of the rate was 34.74 mills and the School District's portion was 47.90 mills. In Fiscal Year 2008, City Council shifted 1.69 mills of City tax to the School District. In Fiscal Year 2008, the City's portion of the rate became 33.05 mills and the School District's portion became 49.59 mills. Those rates remain in effect.

Sales and Use Tax. In connection with the adoption of the Fiscal Year 1992 Budget, the City adopted a 1% sales and use tax (the "City Sales Tax") for City general revenue purposes. The Commonwealth authorized the levy of this tax under the PICA Act. Vendors are required to pay this sales tax to the Commonwealth Department of Revenue together with the similar Commonwealth sales and use tax. The State Treasurer deposits the collections of this tax in a special fund and disburses the collections, including any investment income earned thereon, less administrative fees of the Commonwealth Department of Revenue, to the City on a monthly basis.

The City Sales Tax is imposed in addition to, and on the same basis as, the Commonwealth's sales and use tax. The City Sales Tax became effective September 28, 1991 and is collected for the City by the Commonwealth Department of Revenue. The Fiscal Year 2010 budget assumes an increase to 2 percent from the current 1 percent rate. This increase requires approval of the Pennsylvania General Assembly. The Plan assumes this temporary increase will sunset on June 30, 2014. The table below sets forth the City Sales Tax collected in Fiscal Years 1999 through 2008, estimated collections for Fiscal Year 2009 and budgeted collections for Fiscal Year 2010.

<u>Fiscal Year</u>	<u>City Sales Tax Collections</u>
1999	\$101.4 million
2000	103.7 million
2001	111.3 million
2002	108.1 million
2003	108.0 million
2004	108.0 million
2005	119.9 million
2006	127.8 million
2007	132.6 million
2008	137.3 million
2009 (Current Estimate)	128.0 million
2010 (Adopted Budget)	234.7 million

Other Taxes. The City also collects real property transfer taxes, parking lot taxes, and other miscellaneous taxes such as the Amusement Tax.

Other Locally Generated Non-Tax Revenues. These revenues include license fees and permit sales, traffic fines and parking meter receipts, court related fees, stadium revenues, interest earnings and other miscellaneous charges and revenues of the City.

Revenue from Other Governments. The City's Fiscal Year 2009 General Fund current estimate projects that approximately 28.5% of General Fund revenues will be received from other governmental jurisdictions, including: (1) \$537 million from the Commonwealth for health, welfare, court, and various other specified purposes; (2) \$200 million from the Federal government; and (3) \$68.6 million from other governments, in which revenues are primarily rental and loan repayments from the Philadelphia Gas Works and the Convention Center Service Fee offset. In addition, the projected net collections of the PICA Tax of \$281.6 million are included in "Revenue from Other Governments." These amounts do not include the substantial amounts of revenues from other governments received by the Grants Revenue Fund, Community Development Fund, and other operating and capital funds of the City. The delay in the passage of the Commonwealth's budget for fiscal year 2010 is impacting the City's cash flow as the Commonwealth cannot make fiscal year 2010 payments to the City without the necessary appropriations. The City is meeting regularly to review its cash position and is limiting payment outflows, including delaying vendor payments (except for emergency services), to address this situation until the Commonwealth's fiscal year 2010 budget is passed. In addition, a material decrease in the level of funding from the Commonwealth in its fiscal year 2010 budget, once passed, could have a negative impact on the financial position of the City.

Revenues from City-Owned Systems

In addition to taxes, the City realizes revenues through the operation of various City-owned systems such as the Water and Wastewater Systems and PGW. The City has issued revenue bonds with respect to the Water and Wastewater Systems and PGW to be paid solely from and secured by a pledge of the respective revenues of these systems. The revenues of the Water and Wastewater Systems and PGW are not legally available for payment of other obligations of the City until, on an annual basis, all revenue bond debt service requirements and covenants relating to those bonds have been satisfied and then, in a limited amount and upon satisfaction of certain other conditions.

Effective June 1991, the revenues of the Water Department were required to be segregated from other funds of the City. Under the City's Restated General Water and Wastewater Revenue Bond Ordinance of 1989 (the "Water Ordinance"), an annual transfer may be made from the Water Fund to the City's General Fund in an amount not to exceed the lesser of (a) all Net Reserve Earnings, as defined below, or (b) \$4,994,000. Net Reserve Earnings means the amount of interest earnings during the fiscal year on amounts in the Debt Reserve Account and Subordinated Bond Fund, as defined in the Water Ordinance. Commencing in Fiscal Year 1991, the \$4,994,000 amount was reduced to \$4,138,000 by administrative agreement that remained in effect through Fiscal Year 2003. No such transfer was made in Fiscal Year 1992; however, the transfer was made in each subsequent year through Fiscal Year 2003. For Fiscal Year 2004, the transfer was to have increased to \$4,994,000 but no payment was made. For Fiscal Year 2005, the transferred amount was \$4,401,000; for Fiscal Year 2006, the transferred amount was \$4,994,000; and for Fiscal Years 2007 and Fiscal Year 2008, the transferred amount was \$4,994,000.

The revenues of PGW are segregated from other funds of the City. Payments for debt service on Gas Works Revenue Bonds are made directly by PGW. In previous years, PGW has also made an annual payment of \$18,000,000 to the City's General Fund. For Fiscal Year 2005 the City agreed to forgo the \$18,000,000 payment and for Fiscal Years 2006, 2007, 2008 and 2009 the City budgeted the receipt of the \$18,000,000 payment and the grant back of such amount to PGW. The City's Eighteenth Five-Year Plan assumes that the \$18,000,000 payment will be made in each of Fiscal Years 2010 through 2014 and that the City will grant back such payment to PGW in each such Fiscal Year.

Philadelphia Parking Authority

The Philadelphia Parking Authority ("PPA") was established by City ordinance pursuant to the Pennsylvania Parking Authority Law, P.L. 458, No. 208 (June 5, 1947). Various statutes, ordinances, and contracts authorized PPA to plan, design, acquire, hold, construct, improve, maintain and operate, own or lease land and facilities for parking in the City, including such facilities at Philadelphia International Airport (the "Airport"), and to administer the City's on-street parking program through an Agreement of Cooperation ("Agreement of Cooperation") with the City.

Revenues under the Lease Agreement with PPA – PPA owns and operates five parking garages at the Airport, as well as operating a number of surface parking lots at the Airport. The land on which these garages and surface lots are located is leased from the City, acting through the Department of Commerce, Division of Aviation, pursuant to a lease expiring in 2030 (the "Lease Agreement"). The Lease Agreement provides for payment of rent to the City, which is equal to gross receipts less operating expense, debt service on PPA's bonds issued to finance improvements at the Airport and reimbursement to PPA for capital expenditures and prior year operating deficits relating to its Airport operations, if any. The City received transfers of rental payments in Fiscal Years 2003 through 2008 that totaled \$11,629,311, \$14,539,053, \$27,239,000, \$30,186,642, \$33,184,918, and \$33,570,037, respectively. The Fiscal Year 2009 estimated transfer amount is \$35,000,000. The Fiscal Year 2010 budgeted transfer amount is \$36,000,000.

One component of the operating expenses is PPA's administrative costs. In 1999, at the request of the Federal Aviation Administration ("FAA"), PPA and the City entered into a letter agreement (the "FAA Letter Agreement") which contained a formula for calculating PPA's administrative costs and capped such administrative costs at 28% of PPA's total administrative costs for all of its cost centers. PPA owns and/or operates parking facilities at a number of non-Airport locations in the City. These parking facilities are revenue centers for purposes of the FAA Letter Agreement.

Assessment and Collection of Real and Personal Property Taxes

The Board of Revision of Taxes (the "Board") appoints real estate assessors who annually assess all real estate located within the City. The assessors return assessments for each parcel of real estate to the Board. The Board may increase or decrease the property valuations contained in the returns of the assessors in order that such valuations conform with law. After the Board gives proper notice of all changes in property assessments, and after it has heard all assessment appeals, it then makes assessments and certifies the results to the Department of Revenue.

Real estate taxes, if paid by February 28, are discounted by 1%. If the tax is paid during the month of March, the gross amount of tax is due. If the tax is not paid by the last day of March, tax additions of 1.5% per month are added to the tax for each month that the tax remains unpaid through the end of the calendar year. Beginning in January of the succeeding year, the 15% tax additions that accumulated during the last ten months of the preceding years are capitalized and the tax is registered delinquent. Interest is then computed on the new tax base at a rate of 0.5% per month until the real estate tax is fully paid. Commencing in February of the second year, an additional 1% per month penalty is assessed for a maximum of seven months. See the Fiscal Year 2008 Comprehensive Annual Financial Report for assessed and market values of taxable realty in the City and for levies and rates of collections.

During Fiscal Year 1997 and subsequent to the adoption of the Fiscal Year 1998 budget, the City decided to abandon the collection of the Personal Property Tax due to uncertainty as to the outcome of litigation challenging specific aspects of the tax then pending in other jurisdictions of the Commonwealth. As a result, the City realized no Personal Property Tax revenues in Fiscal Year 1998 or in subsequent years. The Personal Property Tax had been levied on the value of certain personal property of the residents of the City.

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Table A-3
City of Philadelphia
Summary of
Principal Operating Funds (Debt Related)
Revenues by Major Source
Fiscal Years 1999-2010 (Legal Basis)
(Amounts in Millions of USD)

Fiscal Year	Real Property Taxes ^(a)	Wage Earnings & Net Profits Taxes ^(a)	Business Privilege Tax ^(a)	Sales and Use Tax ^(a)	Other Taxes ^(b)	Total Taxes	Water & Wastewater Charges	Airport Charges	Other Locally Generated Charges	Total Local Revenue	Revenue from Other City Funds	Total Revenues	
1999	342.6	949.8 ^(c)	254.5	101.4	118.3	1,766.6	290.5	143.2	259.9	2,460.2	639.9	103.1	3,203.2
2000	353.6	985.7 ^(c)	290.1	103.7	123.5	1,856.6	296.1	149.4	258.0	2,560.1	708.3	79.9	3,348.3
2001	363.4	1,059.0 ^(d)	314.0 ^(d)	111.3	130.0 ^(d)	1,977.7	285.8	175.7	251.3	2,690.5	781.7	90.5	3,562.7
2002	376.8	1,019.3	295.8	108.1	148.6	1,945.4	302.8	181.7	257.9	2,687.8	722.5	80.8	3,491.1
2003	361.1	1,025.1	286.1	108.0	156.3	1,936.6	329.6	219.4	327.4	2,813.0	909.7	62.8	3,785.5
2004	377.7	1,062.6	309.2	108.0	202.2	2,059.7	383.1	235.0	207.4	2,885.2	834.2	92.1	3,811.5
2005	392.7	1,087.3	379.5	119.9	250.9	2,230.3	419.7	246.3	200.8	3,097.1	1,082.4	71.6	4,251.1
2006	395.8	1,125.8	415.5	127.8	304.1	2,369.0	460.4	269.4	236.2	3,335.0	953.1	69.9	4,358.0
2007	397.5	1,182.7	436.4	132.6	286.7	2,435.9	486.9	266.0	248.3	3,437.1	1,063.3	77.0	4,577.4
2008	402.8	1,197.3	398.8	137.3	260.3	2,396.5	555.0	275.3	267.5	3,494.3	1,066.2	153.1	4,713.6
2009 (Current Estimate)	412.8	1,127.3	365.7	128.0	212.7	2,246.5	487.3	325.1	285.7	3,334.6	1,125.8	225.4	4,685.8
2010 (Adopted Budget)	420.2	1,146.0	348.7	234.7	189.7	2,339.3	528.4	355.0	275.8	3,498.5	1,212.7	131.0	4,842.2

- (a) See Table 7 in the Fiscal Year 2008 Comprehensive Annual Financial Report for Tax Rates.
- (b) Includes Real Estate Transfer Tax, Parking Tax, Amusement Tax, and Other Taxes.
- (c) In Fiscal Year 1992, the City reduced the resident Wage and Earnings and Net Profits Taxes from 4.96% to 3.46% and levied the PICA Tax at a rate of 1.50%, the proceeds of which are remitted to PICA for payment of debt service on the PICA bonds and PICA's expenses.
- (d) Accounting accrual changes required by GASB #33 resulted in additional one-time tax revenue accruals in Fiscal Year 2001. (Wage Tax, \$50.4 million; Business Privilege, \$5.2 million; Other Taxes, \$4.3 million).

FIGURES MAY NOT ADD DUE TO ROUNDING.

Table A-4
City of Philadelphia General Fund
Tax Revenues (a)
Fiscal Years 2004-2010
(Amounts in Millions of USD)

	Actual 2004	Actual 2005	Actual 2006	Actual 2007	Actual 2008	Current Estimate 2009	Adopted Budget 2010
REAL PROPERTY TAXES							
Current	332.6	353.2	354.1	367.2	366.5	370.8	378.2
Prior	45.1	39.5	41.7	30.3	36.3	42.0	42.0
Total	<u>377.7</u>	<u>392.7</u>	<u>395.8</u>	<u>397.5</u>	<u>402.8</u>	<u>412.8</u>	<u>420.2</u>
WAGE AND EARNINGS TAX^(b)							
Current	1,034.5	1,066.0	1,104.0	1,162.4	1,176.5	1,115.3	1,134.0
Delinquent	15.1	7.6	7.2	5.1	8.3	12.0	12.0
Total	<u>1,049.6</u>	<u>1,073.6</u>	<u>1,111.2</u>	<u>1,167.5</u>	<u>1,184.8</u>	<u>1,127.3</u>	<u>1,146.0</u>
BUSINESS TAXES							
Business Privilege							
Current	269.9	326.7	390.5	401.9	376.1	340.7	323.7
Delinquent	39.2	52.8	25.0	34.5	22.7	25.0	25.0
Sub-Total Business	<u>309.1</u>	<u>379.5</u>	<u>415.5</u>	<u>436.4</u>	<u>398.8</u>	<u>365.7</u>	<u>348.7</u>
Privilege							
Net Profits Tax							
Current	11.3	12.0	11.8	10.9	9.1	8.3	8.4
Delinquent	1.7	1.7	2.8	4.3	3.4	3.5	4.0
Sub-Total Net Profits	<u>13.0</u>	<u>13.7</u>	<u>14.6</u>	<u>15.3</u>	<u>12.5</u>	<u>11.8</u>	<u>12.4</u>
Tax							
Total Business Taxes	<u>322.1</u>	<u>393.2</u>	<u>430.1</u>	<u>451.6</u>	<u>411.3</u>	<u>377.5</u>	<u>361.1</u>
OTHER TAXES							
Sales and Use Tax	108.0	119.9	127.8	132.6	137.3	128.0	234.7
Amusement Tax	18.3	13.5	17.0	16.4	18.0	18.4	18.9
Real Property Transfer	141.3	192.3	236.4	217.3	184.0	110.6	84.7
Tax							
Parking Taxes	42.5	45.0	48.4	50.3	55.5	69.0	70.7
Other Taxes	0.1	0.1	2.3	2.6	2.8	2.9	3.0
Sub-Total Other Taxes	<u>310.2</u>	<u>370.8</u>	<u>431.9</u>	<u>419.2</u>	<u>397.6</u>	<u>328.9</u>	<u>412.0</u>
TOTAL TAXES	<u>2,059.6</u>	<u>2,230.3</u>	<u>2,369.0</u>	<u>2,435.9</u>	<u>2,396.5</u>	<u>2,246.5</u>	<u>2,339.3</u>

(a) See Table 7 in the Fiscal Year 2008 Comprehensive Annual Financial Report for Tax Rates.

(b) Beginning in Fiscal Year 1992, the City reduced the resident Wage and Earnings and Net Profits Tax from 4.96% to 3.46% and levied the PICA Tax at a rate of 1.50%, the proceeds of which are remitted to PICA for payment of debt service on PICA bonds and the PICA expenses. After paying debt service and expenses, net proceeds from the tax are remitted to the City as Revenue from Other Governments.

FIGURES MAY NOT ADD DUE TO ROUNDING

**Table A-5
Ten Largest Certified Market and Assessment Values
of Tax-Abated Properties
Certified Values for 2008**

	Location	2008 Certified Market Value	Total Assessment	Total Taxable Assessment	Total Exempt Assessment
1	2201 Park Towne Place	\$48,000,000	\$15,360,000	\$13,452,400	\$ 1,907,600
2	819-41 Chestnut Street	45,200,000	14,464,000	5,440,000	9,024,000
3	1600-18 Arch Street	37,661,200	12,051,584	2,550,400	9,501,184
4	1825-51 North 10 th Street	33,200,000	10,624,000	0	10,624,000
5	3118-98 Chestnut Street	29,861,000	9,555,520	656,075	8,899,445
6	801 Market Street	30,000,000	9,600,000	1,544,000	8,056,000
7	1915-19 Chestnut Street	29,264,100	9,364,512	8,956,800	407,712
8	200 West Washington Square	30,572,000	9,783,040	640,000	9,143,040
9	11000 East Roosevelt Blvd.	24,277,400	7,768,768	3,680,000	4,088,768
10	3175 John F. Kennedy Blvd.	26,400,000	8,448,000	2,400,000	6,048,000

Source: City of Philadelphia, Board of Revision of Taxes

EXPENDITURES OF THE CITY

The major City expenditures are for personal services, employee benefits, purchase of services (including payments to SEPTA), and debt service.

Personal Services (Personnel)

As of June 30, 2009, the City employed 27,482 full-time employees with the salaries of 22,912 employees paid from the General Fund. Additional employment is supported by other funds, including the Water Fund and the Aviation Fund.

Additional operating funds for employing personnel are contributed by other governments, primarily for categorical grants, as well as for the conduct of the community development program. These activities are not undertaken if funding is not received.

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The following table sets forth the number of filled full-time positions of the City as of the dates indicated.

Table A-6
City of Philadelphia
Filled, Full Time Positions — All Operating Funds
at June 30 Actual

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010*</u>
General Fund							
Police	7,668	7,368	7,287	7,424	7,367	7,443	7,478
Streets	1,946	1,788	1,858	1,814	1,839	1,724	1,797
Fire	2,337	2,248	2,270	2,399	2,326	2,252	2,328
Health	745	667	662	664	665	662	739
Courts	2,046	2,004	1,936	1,928	1,970	1,889	1,965
Prisons	2,033	2,152	2,225	2,176	2,131	2,294	2,360
Human Services	1,815	1,743	1,703	1,721	1,784	1,743	1,858
All Other	5,170	4,995	4,878	4,941	5,029	4,905	4,982
Total General Fund	<u>23,760</u>	<u>22,965</u>	<u>22,819</u>	<u>23,067</u>	<u>23,111</u>	<u>22,912</u>	<u>23,507</u>
Other Funds	<u>4,659</u>	<u>4,649</u>	<u>4,616</u>	<u>4,598</u>	<u>4,642</u>	<u>4,570</u>	<u>5,044</u>
TOTAL	<u>28,419</u>	<u>27,614</u>	<u>27,435</u>	<u>27,665</u>	<u>27,753</u>	<u>27,482</u>	<u>28,551</u>

* Adopted Budget includes vacant positions.

Labor Agreements

Four major bargaining units represent City employees for collective bargaining purposes. District Councils 33 and 47 of the American Federation of State, County and Municipal Employees, AFL-CIO represents approximately 15,000 non-uniformed employees. The bargaining units for uniformed employees are the Fraternal Order of Police, Lodge 5 (the "FOP") and the Philadelphia Fire Fighters Association, Local 22, International Association of Fire Fighters AFL-CIO ("IAFF Local 22"), which together represent approximately 9,400 employees. The non-uniformed employees bargain under Act 195 of 1972, which allows for the limited right to strike over collective bargaining impasses. The uniformed employees bargain under Pennsylvania Act 111 of 1968, which provides for final and binding interest arbitration to resolve collective bargaining impasses. All contract expiration dates are June 30 unless otherwise noted.

In September 2004, a collective bargaining agreement was reached with District Council 47. This four-year contract includes a \$750 payment to each member with no general wage increase in Fiscal Year 2005 and wage increases of 2, 3 and 4 percent effective July 1 of each succeeding year, respectively. In December 2004, a collective bargaining agreement was reached with District Council 33, which mirrored the agreement previously reached with District Council 47. Each of the collective bargaining agreements included a health benefit reopener provision for the final two years of the agreement. The City concluded negotiations with District Councils 33 and 47 and agreed to increase the per member per month contributions to the unions by fourteen percent in Fiscal Year 2007 and an additional fourteen percent in Fiscal Year 2008.

On June 28, 2006, an arbitration panel issued a 3-year award to the IAFF Local 22. The award granted wage increases of 3.0% effective July 1, 2005, 3.0% effective July 1, 2006, and 4.0% effective July 1, 2007. In addition, the panel granted Local 22 health medical increases of 11.3% effective July 1, 2005, 14.1% effective July 1, 2006, and 14.0% effective July 1, 2007. The arbitration panel also addressed management issues believed by the City to be outside its jurisdiction. On August 24, 2007, the Commonwealth Court issued an opinion affirming in part and revising in part. The Court upheld the

medical increases granted by the arbitrator's and revised the decision that limited the City's management rights.

The FOP contract contained a 3% increase in wages effective July 1, 2004, 3% effective July 1, 2005, 3% effective July 1, 2006 and a 4% increase effective July 1, 2007. The award also called for a re-opener for health medical coverage for Fiscal Year 2006 and Fiscal Year 2007.

At the re-opener in August of Fiscal Year 2006, the arbitrators ordered the City to increase FOP healthcare contributions by 15.7 percent and 10 percent in Fiscal Year 2006 and Fiscal Year 2007, respectively. After a City appeal, the Court of Common Pleas remanded the ruling back to arbitration, but the panel reissued its original ruling with no change. The City appealed the ruling to Common Pleas Court on February 13, 2006, and lost. The City has appealed that ruling in Commonwealth Court which ruled in favor of the City. The FOP petitioned the Pennsylvania Supreme Court asking the Court to review the matter, which the Court declined to do. The Mayor and the FOP reached a settlement in which the City agreed to pay the amounts awarded by the arbitrator. Accordingly, the matter has been withdrawn as moot.

On July 10, 2008 the arbitration panel awarded a one-year contract to the FOP effective July 1, 2008. The award called for a 2 percent wage increase effective July 1, 2008, a 2 percent wage increase effective January 1, 2009 and a 1 percent increase in longevity pay effective January 1, 2009. In addition, the panel reduced the per member per month health medical payment from the current monthly rate of \$1,303 per member to \$1,165 per member.

On October 17, 2008, an arbitration panel awarded a one-year contract to the IAFF Local 22 effective July 1, 2008. The award called for a 2 percent wage increase effective July 1, 2008, a 2 percent wage increase effective January 1, 2009, and a 1 percent increase in longevity pay effective January 1, 2009. In addition, the panel reduced the per member per month health medical payment from the current monthly rate of \$1,444 per member to \$1,270 per member.

The City also reached a one year agreement with District Council 33 and District Council 47, which was effective July 1, 2008. The agreement called for a lump sum bonus of \$1,100 per member. The agreement also called for no increase in the current per member per month health benefit payment. The union memberships have ratified the agreements.

Contracts for the four major bargaining units representing City employees expired on June 30, 2009. Negotiations are underway with District Councils 33 and 47. The contract with the FOP is in arbitration. Arbitration for the IAFF Local 22 is scheduled to begin in September.

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The following table presents employee wage increases for the Fiscal Years 1998 through 2009.

Table A-7
City of Philadelphia
Employee Wage Increases
Fiscal Years 1998-2009

<u>Fiscal Year</u>	<u>District Council No. 33</u>	<u>District Council No. 47</u>	<u>Fraternal Order of Police</u>	<u>International Association of Fire Fighters</u>
1998	3.0% (a)	3.0% (a)	4.0% (b)	4.0% (c)
1999	3.0% (a)	3.0% (a)	3.0% (b)	3.0% (c)
2000	4.0% (d)	4.0% (d)	4.0% (e)	4.0% (f)
2001	No increase	No increase	3.0%	3.0%
2002	3.0% (h)	3.0% (h)	4.0%	4.0%
2003	3.0% (i)	3.0% (i)	3.0%	3.0%
2004	3.0%	3.0%	3.5%	3.5%
2005	No increase (j)	No increase (j)	3.0%	3.0%
2006	2.0%	2.0%	3.0%	3.0%
2007	3.0% (k)	3.0% (k)	3.0%	3.0%
2008	4.0% (l)	4.0% (l)	4.0%	4.0%
2009	No increase (m)	No increase (m)	4.0% (n)	4.0% (n)

- (a) Third year of a four year contract: 3% effective December 15, 1998.
- (b) First year of a two year contract: 3% effective September 15, 1998.
- (c) Third year of a four year contract: 3% effective September 15, 1998.
- (d) Fourth year of a four year contract: 4% effective March 15, 2000.
- (e) Second year of a two year contract: 4% effective September 15, 1999.
- (f) Fourth year of a four year contract: 4% effective September 15, 1999.
- (g) First year of a four year contract: cash bonus of \$1,500 paid in August 2000.
- (h) Second year of a four year contract: 3% effective December 15, 2001.
- (i) Third year of a four year contract: 3% effective December 15, 2002.
- (j) First year of a four year contract: cash bonus of \$750 paid in October 2004 to District Council 47 members and in December 2004 to District Council 33 members.
- (k) Third year of a four year contract: 3% effective July 1, 2006.
- (l) Fourth year of a four year contract: 4% effective July 1, 2007.
- (m) Cash bonus of \$1,100 paid 15 days after ratification.
- (n) One year contract: 2% effective July 1, 2008 and 2% effective January 1, 2009.

Employee Benefits

The City provides various pension, life insurance, health, and medical benefits for its employees. General Fund employee benefit expenditures for Fiscal Years 2004 through 2010 are shown in the following table.

Table A-8
City of Philadelphia
General Fund Employee Benefit Expenditures
Fiscal Years 2004-2010
(Amounts in Millions of USD)

	<u>Actual</u> <u>2004</u>	<u>Actual</u> <u>2005</u>	<u>Actual</u> <u>2006</u>	<u>Actual</u> <u>2007</u>	<u>Actual</u> <u>2008</u>	<u>Current</u> <u>Estimate</u> <u>2009</u>	<u>Adopted</u> <u>Budget</u> <u>2010</u>
Pension Contribution *	229.4	315.5	346.5	436.8	430.8	461.1	332.2
Health/Medical/Dental	253.7	285.9	291.8	331.5	421.0	368.8	368.8
Social Security	60.6	59.9	60.8	64.1	69.7	69.2	69.2
Other	<u>55.2</u>	<u>43.4</u>	<u>61.1</u>	<u>57.9</u>	<u>61.5</u>	<u>66.1</u>	<u>42.6</u>
Total	<u>598.9</u>	<u>704.7</u>	<u>760.2</u>	<u>890.3</u>	<u>983.0</u>	<u>965.2</u>	<u>812.8</u>

* The Pension Contribution amount includes debt service on the Pension Obligation Bonds, Series 1999. The Fiscal Year 2010 Pension Contribution assumes certain changes which require the approval of the Pennsylvania General Assembly.

Municipal Pension Fund (Related to All Funds)

The City is required by the Home Rule Charter to maintain an actuarially sound pension and retirement system covering all officers and employees of the City. Court decisions have interpreted this requirement to mean that the City must make contributions to the Municipal Pension Fund sufficient to fund:

A. Accrued actuarially determined normal costs.

B. Amortization of the unfunded actuarial accrued liability ("UAAL") determined as of July 1, 1985. The portion of that liability attributable to a class action lawsuit by pension fund beneficiaries is amortized in level installments, including interest, over 40 years through June 30, 2009. The remainder of the liability is amortized over 34 years with increasing payments expected to be level as a percentage of each year's aggregate payroll.

C. Amortization in level percent of pay of the changes in the July 1, 1985 liability due to: nonactive member's benefit modifications (10 years); experience gains and losses (15 years); changes in actuarial assumptions (20 years); and active members' benefit modifications (20 years).

The pension fund was actuarially valued every two years through 1984, and beginning with the July 1, 1985 valuation report, is required to be actuarially valued each year.

The July 1, 1980 unfunded liability, as amended by subsequent reports, will be amortized over 38 years through annual contributions which will closely approximate a level percent of payroll. The Pennsylvania Municipal Pension Plan Funding Standard and Recovery Act, enacted December 18, 1984 adopted changes in funding of municipal pensions that have been reflected in the valuation report for July 1, 1985. In particular, this act generally requires that unfunded actuarial accrued liability be funded in annual level dollar payments. The City is permitted to amortize the July 1, 1985 UAAL over 40 years as a level percentage of pay of each year's aggregate payroll ending in 2025.

A July 2004 amendment to Act 205 allowed for 2001 and 2002 calendar year investment losses to be amortized over 30 years, rather than the usual 15.

Based on the City's most recent actuarial report dated as of July 1, 2008, the unfunded accrued liability was \$3.775 billion which equals a funding ratio of 55.4%. Although no additional actuarial report concerning the Municipal Pension Fund funding ratio has been completed since July 1, 2008, it is anticipated that as a result of investment losses, the funding ratio of the fund has decreased. The City's current estimate of the Municipal Pension Fund funding ratio as of the end of Fiscal Year 2009, based on discussions with the City's actuary, is between 45-50%. See "DISCUSSION OF FINANCIAL OPERATIONS - Effect of Economic Crisis on City Budget" herein.

Non-uniformed employees become vested in the Municipal Pension Plan upon the completion of ten years of service. Upon retirement, non-uniformed employees may receive up to 80% of their average final compensation depending upon their years of credited service. Uniformed employees become vested in the Municipal Pension Plan upon the completion of ten years of service. Upon retirement, uniformed employees may receive up to 100% of their average final compensation depending upon their years of credited service. The retirement age differs for Plan 67 (age 55) and Plan 87 (age 60).

Effective January 1, 1987, the City adopted a new plan ("Plan 87") to cover employees hired after January 8, 1987, as well as members in the previous Plan who elected to transfer to Plan 87. Except for elected officials, Plan 87 provides for less costly benefits and reduced employee contributions. For elected officials, Plan 87 provides for enhanced benefits, with participating elected officials required to pay for the additional normal cost. Police and Fire personnel became eligible for Plan 87 on July 1, 1988. Because of Court challenges, members of District Council 33 and Locals 2186 and 2187 of District Council 47 were not eligible for Plan 87 until October 2, 1992.

The Eighteenth Five-Year Plan assumes several changes to the pension system, some of which will require approval of the Pennsylvania General Assembly. The City proposes to change the amortization period from 20 to 30 years and to lower the assumed rate of interest from 8.75 percent to 8.25 percent. Additionally, the Plan assumes a partial deferral of the pension payment in Fiscal Year 2010 (\$150 million) and Fiscal Year 2011 (\$80 million) to be paid back by Fiscal Year 2014. Through Fiscal Years 2010 to 2014, the impact of the City's proposed pension changes on the Municipal Pension Fund's funding percent is modest. Over time however, the effect is more significant. By Fiscal Year 2026 the funded ratio is projected to be approximately 85% under current funding assumptions, but less than 70% if the proposed changes are implemented.

A comprehensive statement of operations of the City Municipal Pension Fund for Fiscal Years 1999 through 2008 is contained in the Fiscal Year 2008 Comprehensive Annual Financial Report.

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Purchase of Services

The City accounts for a number of expenditures as purchase of services. The following table presents major purchases of services in the General Fund in Fiscal Years 2004 through 2010.

TABLE A-9
CITY OF PHILADELPHIA
PURCHASE OF SERVICE IN THE GENERAL FUND
FISCAL YEARS 2004-2010
(AMOUNTS IN MILLIONS OF USD)

	Actual			2007	Actual	Current Estimate	Adopted Budget
	2004	2005	2006		2008	2009	2010
Human Services (a)	493.7	511.8	467.9	495.3	515.3	498.9	490.6
Public Health	69.1	60.7	61.1	65.5	65.1	71.1	68.6
Public Property (b)	132.4	133.3	137.6	156.3	139.5	142.3	146.1
Streets (c)	53.9	54.6	54.8	58.3	58.4	52.0	45.6
Sinking Fund-Lease Debt (d)	70.8	70.7	77.0	84.3	85.1	91.6	93.7
Legal Services (e)	33.4	33.5	33.6	35.4	37.3	37.3	35.9
First Judicial District	23.0	28.3	24.4	24.8	25.6	22.1	20.9
Licenses & Inspections (f)	6.0	3.1	11.5	11.4	11.9	9.9	8.5
Emergency (g)	12.0	22.1	28.6	31.3	33.9	32.5	31.7
Prisons	80.8	84.9	82.8	87.5	93.6	111.1	116.7
All Other	<u>75.2</u>	<u>87.1</u>	<u>86.4</u>	<u>101.5</u>	<u>123.0</u>	<u>120.0</u>	<u>91.3</u>
Total	<u>1,050.3</u>	<u>1,090.1</u>	<u>1,065.7</u>	<u>1,151.6</u>	<u>1,188.7</u>	<u>1,188.8</u>	<u>1,149.6</u>

- (a) Includes payments for care of dependent and delinquent children.
- (b) Includes payments for SEPTA, space rentals, utilities, and telecommunications. In Fiscal Year 2008, the telecommunications division was transferred to the Mayor's Office of Information Services (M.O.I.S.). Services purchased for MOIS appear in the table under the category "All Other". In FY2010 telecommunications is budgeted in Public Property.
- (c) Includes solid waste disposal costs.
- (d) Includes, among other things, Justice Center, Neighborhood Transformation Initiative and Stadium lease debt.
- (e) Includes payments to the Defender Association to provide legal representation for indigents.
- (f) Includes payments for demolition in Fiscal Year 2006, Fiscal Year 2007, Fiscal Year 2008 and Fiscal Year 2009.
- (g) Includes homeless shelter and boarding home payments.

FIGURES MAY NOT ADD DUE TO ROUNDING

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City Payments to School District

In each fiscal year since Fiscal Year 1996, the City has made an annual grant of \$15 million to the School District. Pursuant to negotiations with the Commonwealth to address the School District's current and future educational and fiscal situation, the Mayor and City Council agreed to provide the School District with an additional annual \$20 million beginning in Fiscal Year 2002. In Fiscal Year 2008, the Mayor and City Council agreed to provide an additional \$2 million, bringing the total contribution to \$37 million. The Fiscal Year 2009 budget includes a \$38.5 million contribution, and the Fiscal Year 2010 budget includes a \$38.5 million contribution.

City Loan to PGW

The City made a loan of \$45 million to PGW during Fiscal Year 2001 to assist PGW in meeting its cash flow requirements. This loan was scheduled to mature in Fiscal Year 2007; however, PGW did not make the \$45 million payment. PGW repaid \$2 million to the City on August 31, 2007. PGW remitted a payment for \$20.5 million before December 28, 2007; and PGW remitted a payment for the balance of \$22.5 million on August 29, 2008. In addition, in order to assist PGW, (i) the City agreed to forgo the \$18 million annual payment in Fiscal Year 2004, (ii) for Fiscal Years 2005, 2006, 2007, 2008 and 2009 the City made a grant to PGW equal to the annual payment received from PGW in such fiscal years, and (iii) the City's Eighteenth Five-Year Plan contemplates that in each of the Fiscal Years 2010 through 2014, the City will make a grant to PGW equal to the annual payment received from PGW in such Fiscal Years.

City Payments to SEPTA

The City's Fiscal Year 2008 operating subsidy payment to SEPTA was \$61.3 million. The City's Fiscal Year 2009 operating subsidy payment to SEPTA was \$63.1 million. The Fiscal Year 2010 budget projects operating subsidy payments to SEPTA of \$64.2 million. The Eighteenth Five-Year Plan provides that the City's contribution to SEPTA will increase to \$70.9 million by Fiscal Year 2014.

DEBT OF THE CITY

The Constitution of the Commonwealth provides that the authorized debt of the City "may be increased in such amount that the total debt of said City shall not exceed 13.5% of the average of the annual assessed valuations of the taxable realty therein, during the ten years immediately preceding the year in which such increase is made, but said City shall not increase its indebtedness to an amount exceeding 3.0% upon such average assessed valuation of realty, without the consent of the electors thereof at a public election held in such manner as shall be provided by law." It has been judicially determined that bond authorizations once approved by the voters will not be reduced as a result of a subsequent decline in the average assessed value of City property.

The Constitution of the Commonwealth further provides that there shall be excluded from the computation of debt for purposes of the Constitutional debt limit, debt (herein called "self-supporting debt") incurred for revenue-producing capital improvements that may reasonably be expected to yield revenue in excess of operating expenses sufficient to pay interest and sinking fund charges thereon. In the case of general obligation debt, the amount of such self-supporting debt to be so excluded must be determined by the Court of Common Pleas of Philadelphia County upon petition by the City. Self-supporting debt is general obligation debt of the City, with the only distinction from tax-supported debt being that it is not used in the calculation of the Constitutional debt limit. Self-supporting debt has no lien on any particular revenues.

As of June 30, 2008, the Constitutional debt limitation for tax-supported general obligation debt was approximately \$1,417,996,300 (based upon a formula of 13.5% of the assessed value of taxable real estate within the City on a 10 year rolling average). As of June 30, 2008, the City's total amount of

authorized general obligation debt was \$1,688,913,000, which includes approximately \$359,651,000 of self-supporting debt, which does not count against the Constitutional debt limit. As of June 30, 2008, \$1,329,262,000 of general obligation debt subject to the constitutional debt limit was authorized, and of this authorized amount, \$1,144,477,000 was issued and outstanding. As of June 30, 2008, a balance of \$184,785,000 remained authorized and unissued, and after legally authorized deductions for appropriations of approximately \$30,855,700 for Fiscal Year 2009 maturing serial bonds, there remained a balance of \$119,590,000 available for future authorization and issuance. On May 14, 2009, the City introduced a bill to authorize the issuance of \$65,525,000 of general obligation bonds.

Of the balance of remaining authorized general obligation debt subject to the Constitutional debt limit, \$165,000,000 was utilized by the issuance on the General Obligation Bonds, Series 2008B on January 6, 2009, and \$19,785,000 remains authorized and unissued.

The City is also authorized to issue revenue bonds pursuant to The First Class City Revenue Bond Act of 1972. Currently, the City issues revenue bonds to support the Division of Aviation, the Water Department and PGW. Bonds so issued are excluded for purposes of the calculation of the Constitutional debt limit.

Short-Term Debt

The City has issued notes in anticipation of the receipt of income by the General Fund in each fiscal year since Fiscal Year 1972 (with a single exception). Each note issue was repaid when due prior to the end of the fiscal year of issuance. The City issued \$350 million of Tax and Revenue Anticipation Notes in November 2008. These notes were repaid on June 30, 2009.

Long-Term Debt

Table A-10 presents a synopsis of the bonded debt of the City and its component units at the close of Fiscal Year 2008. In addition, for tables setting forth a ten year historical summary of tax-supported debt of the City and School District and the debt service requirements to maturity of the City's outstanding bonded indebtedness as of June 30, 2008, see the Fiscal Year 2008 Comprehensive Annual Financial Report.

Of the total balance of City tax-supported general obligation bonds issued and outstanding at June 30, 2008, approximately 15% is scheduled to mature within 5 years and approximately 34% is scheduled to mature within 10 years.

Other Long-Term Debt Related Obligations

The City has entered into other contracts and leases to support the issuance of debt by public authorities related to the City pursuant to which the City is required to budget and appropriate tax or other general revenues to satisfy such obligations. As of June 30, 2008, the principal amounts of the outstanding bonds of each of these authorities relating to the City's contract and lease obligations were as follows:

PMA	\$ 185.9 million
PAID*	\$ 1,987.1 million
Parking Authority	\$ 16.9 million
Redevelopment Authority	\$ 265.6 million
Convention Center Authority	\$ 215.3 million

Source: Office of the Director of Finance

*This includes 100% of Pension Bonds, only 86% applicable to the general fund.

The bonds of the Parking Authority included in the previous table are payable from project revenues, and by the City only if and to the extent that net revenues are inadequate for this purpose. The City paid \$2.3 million in Fiscal Year 2006, \$1.2 million in Fiscal Year 2007, \$2.0 million in Fiscal Year 2008 and \$1.2 million in Fiscal Year 2009 toward the repayment of these bonds. The budgeted amount in Fiscal Year 2010 is \$1,335,650. See "Revenues of the City – Philadelphia Parking Authority."

The Hospitals Authority and the State Public School Building Authority have issued bonds on behalf of the Community College of Philadelphia ("CCP"). Under the Community College Act, each community college must have a local sponsor, which for CCP is the City. As the local sponsor, the City is obligated to pay up to 50% of the annual capital expenses of the college, which includes debt service. The remaining 50% is paid by the Commonwealth. Additionally, the City annually appropriates funds for a portion of CCP's operating costs (less tuition and less the Commonwealth's payment). The total payment to CCP in Fiscal Year 2008 was \$24,467,924. The amount paid in Fiscal Year 2009 is \$26,467,924. The budgeted amount in Fiscal Year 2010 is \$26,467,924. This amount represents the portion of operating costs (less student tuition and the Commonwealth payment) and up to half of the annual capital expenses for the year.

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Swap Information

The City has entered into various swaps related to its outstanding General Fund supported bonds as detailed in the following chart:

City Entity	City GO (1)	City Lease - PAID	City Lease - PAID	City Lease - PAID	City Lease - PAID
Related Bond Series	2007B	2001 (Stadium)	2001 (Stadium)	2007B (Stadium)	2007B (Stadium)
Initial Notional Amount	\$313,505,000	\$298,485,000	\$104,965,000	\$217,275,000	\$72,400,000
Current Notional Amount	\$313,505,000	\$193,520,000	\$104,965,000	\$217,275,000	\$72,400,000
Termination Date	8/1/2031	10/1/2030	10/1/2020	10/1/2030	10/1/2030
Product	Fixed Payer Swap	Basis Swap (2)	Constant Maturity Swap	Fixed Payer Swap	Fixed Payer Swap
Rate Paid by Dealer	SIFMA	67% 1-month LIBOR + 0.20%, plus fixed annuity	62.89% 5-year LIBOR CMS + 0.20%	SIFMA	SIFMA
Rate Paid by City Entity	3.829%	SIFMA	SIFMA	3.9713%	3.9713%
Dealer	Royal Bank of Canada	Merrill Lynch Capital Services, Inc.	Merrill Lynch Capital Services, Inc.	JP Morgan Chase Bank, N.A.	Merrill Lynch Capital Services, Inc.
Fair Value (3)	(\$16,616,713)	(\$9,346,012)	\$1,153,346	(\$14,639,304)	(\$4,878,046)

Notes:

(1) Notional amount will be reduced to \$100,000,000 in connection with the issuance of the General Obligation Bonds, Series 2009A Bonds, which is expected to close in August 2009.

(2) PAID receives annual fixed payments of \$1,216,500 from 7/1/2004 through 7/1/2013. As the result of an amendment on 7/14/2006, \$104,965,000 of the total notional was restructured as a constant maturity swap (the rate received by PAID on that portion was converted from a percentage of 1-month LIBOR to a percentage of the 5-year LIBOR swap rate from 10/1/2006 to 10/1/2020). The constant maturity swap is shown separately.

(3) Fair values are as of June 30, 2009 and are shown from the City's perspective and include accrued interest.

While the City is party to several interest rate swap agreements, for which there is General Fund exposure and on which the swaps currently have a negative mark against the City, the City has no obligation to post collateral on these swaps while the City's underlying ratings are investment grade.

For more information related to certain swaps entered into in connection with revenue bonds issued for the Water and Wastewater Systems, PGW and the Airport, see the City's 2008 Comprehensive Annual Financial Report attached as Appendix B. In addition, PICA has entered into swaps which are detailed in the City's 2008 Comprehensive Annual Financial Report attached as Appendix B.

Recent and Upcoming Financings

On April 16, 2008, the City priced \$195,170,000 of its General Obligation Refunding Bonds, Series 2008A. The 2008A Bonds, proceeds of which were used to refund all of the City's Series 2003B-1 and B-2 General Obligation Bonds, closed on May 1, 2008.

The City, in conjunction with PAID, replaced the Financial Guaranty Insurance Company ("FGIC") insurance policy on the Philadelphia Authority for Industrial Development Multi-Modal Lease Revenue Refunding Bonds, 2007 Series B with a direct pay letter of credit from J.P. Morgan and Bank of

New York. The remarketing of the bonds took place on April 30 and the restructuring closed on May 1, 2008.

On June 9, 2008, the City purchased a Letter of Credit from Wachovia Bank, N.A. related to the Sinking Fund Reserve Account for the 1998B Airport Revenue Bonds. The surety policy was originally provided by FGIC, but because FGIC was downgraded below the 'AA' category, the surety policy no longer met the rating requirements of the General Airport Revenue Bond Ordinance ("GARBO"). The Wachovia Letter of Credit in an amount of \$33.1 million meets the requirements of the bond ordinance and replaced the FGIC policy. This letter of credit was renewed for another year on June 8, 2009.

The City restructured \$78.5 million outstanding Water and Wastewater Revenue Bonds, Series 1997B. The Ambac Assurance Corporation ("Ambac") insurance policy was replaced by a Letter of Credit from Bank of America N.A. The transaction closed on September 10, 2008.

On November 18, 2008, the City priced \$350 million of Tax and Revenue Anticipation Notes. The transaction closed on November 25, 2008.

The City restructured \$178.6 million in outstanding Airport Revenue Bonds Series 2005C and the sinking fund reserve account in the approximate amount of \$18.7 million. The City replaced the MBIA insurance policy and the surety policy for the sinking fund reserve account for the Series 2005C Bonds with a letter of credit for both the Series 2005C Bonds and the reserve account provided by TD Bank. The City closed this transaction on December 23, 2008.

On December 15, 2008 the City priced \$165 million of General Obligation Bonds, Series 2008B. These bonds will be used to fund the cost of certain capital projects. The transaction closed on January 6, 2009.

The Airport Revenue Bonds, Series 2005B were insured by MBIA Insurance Corporation ("MBIA"). The Airport Revenue Bonds Series 2005A and 2005B also had MBIA surety policies for the Sinking Fund Reserve Account in the following approximate amounts: \$8.3 million, and \$4.0 million, respectively. When MBIA was downgraded below the 'AA' category, the surety policies no longer met the requirements of the GARBO. The City together with the Airport refunded the Series 2005B Bonds with the issuance of the 2009A fixed rate bonds. The MBIA reserve account surety policy for the 2005B bonds was replaced with bond proceeds. The City cash funded the 2005A sinking fund reserve account on April 9, 2009. The City closed the Airport Revenue Bonds, Series 2009A transaction on April 14, 2009.

On May 12, 2009, the City and the Water Department priced \$140 million of Water and Wastewater Revenue Bonds, Series 2009A. The bonds will be used to fund capital improvements to the City's water and wastewater systems. The transaction closed May 21, 2009.

The City, in conjunction with PMA, issued \$97.8 million of Lease Revenue Bonds, Series 2009. The proceeds of the bonds will be used to design, construct and equip a youth center facility. The transaction closed on June 30, 2009.

The City and the Water Department restructured \$83.6 million of its outstanding Water and Wastewater Revenue Refunding Bonds, Series 2005B on July 1, 2009. The City replaced the Financial Security Assurance ("FSA") insurance policy with a letter of credit from Bank of America N.A.

The City executed a \$31 million, four-year tax-exempt lease to finance an upgrade to its municipal radio communications system for emergency and normal public safety purposes. This financing closed July 7, 2009.

The PGW 6th Series Revenue Bonds are insured by FSA and had liquidity provided by J.P. Morgan, Wachovia Bank N.A., and Scotia Bank. The liquidity expired in January 2009. All of the 6th Series Revenue Bonds are owned by the banks. The City, together with PGW, plans to refund the 6th Series Revenue Bonds with the Eighth Series Bonds. The variable rate bonds (Eighth Series B, C, D & E) in the amount of \$255 million will be secured by letters of credit from Bank of America, N.A., Wachovia Bank, N.A., Scotia Bank and J.P. Morgan. The remaining bonds will be refunded as fixed rate bonds (Series A) and a portion of the swap related to the 6th Series Revenue Bonds will be terminated, as further described in the forepart of this Official Statement.

The City plans to issue approximately \$275 million of its annual tax and revenue anticipation notes in August 2009.

The City also has outstanding variable rate debt that is insured by FSA which has more recently experienced problems in the market. The \$313.5 million of General Obligation Bonds, Series 2007B are insured by FSA with Dexia as the liquidity provider. The City refunded the 2007B Bonds with the proceeds of the 2009A Bonds and the 2009B Bonds and terminated a portion of the swap related to the 2007B Bonds. The City closed this transaction on August 13, 2009.

The 2003 Variable Rate Series, Water and Wastewater Revenue Refunding Bonds are also insured by FSA insurance with Dexia as the liquidity provider. These bonds have had increases in interest rates and have at times had trouble being remarketed, leading to bonds becoming bank bonds. As of July 30, 2009 none of these bonds were bank bonds. The City, together with the Water Department, is currently evaluating options to best handle potentially restructuring or refunding these bonds.

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Table A-10
City of Philadelphia
City-related Bond Indebtedness
June 30, 2008
(Amounts in Thousands of USD)

	<u>Governmental Fund Types</u>				<u>Enterprise Funds</u>			<u>All Funds Total</u>
	<u>General Fund</u>	<u>Municipal Authority Fund</u>	<u>PICA</u>	<u>Total</u>	<u>Water Fund</u>	<u>Aviation Fund</u>	<u>Total</u>	
<u>Bonded Debt Outstanding, July 1, 2007</u>	<u>1,166,400</u>	<u>195,400</u>	<u>622,500</u>	<u>1,984,300</u>	<u>1,762,300</u>	<u>1,161,400</u>	<u>2,923,700</u>	<u>4,908,000</u>
<u>Increases:</u>								
<u>PAR Value of Bonds Issued:</u>								
General Obligation	697,600	-	214,600	912,200	-	-	-	912,200
Revenue	-	-	-	-	217,500	255,400	255,400	255,400
<u>Total Bonds Sold</u>	<u>697,600</u>	<u>-</u>	<u>214,600</u>	<u>912,200</u>	<u>-</u>	<u>255,400</u>	<u>255,400</u>	<u>1,167,600</u>
<u>Decreases</u>								
<u>Matured Bonds:</u>								
General Obligation	34,200	9,500	37,400	81,100	1,200	-	1,200	82,300
General Obligation Refunded	682,800	-	227,600	910,400	-	-	-	910,400
Revenue	-	-	-	-	91,300	32,600	123,900	123,900
Revenue Refunded	-	-	-	-	-	81,400	81,400	81,400
<u>Total Decrease</u>	<u>717,000</u>	<u>9,500</u>	<u>265,000</u>	<u>991,500</u>	<u>92,500</u>	<u>114,000</u>	<u>206,500</u>	<u>1,198,000</u>
<u>Bonded Debt Outstanding, June 30, 2008</u>	<u>1,147,000</u>	<u>185,900</u>	<u>572,100</u>	<u>1,905,000</u>	<u>1,669,800</u>	<u>1,302,800</u>	<u>2,972,600</u>	<u>4,877,600</u>

Source: Office of Director of Finance.

CITY CAPITAL IMPROVEMENT PROGRAM

The Capital Improvement Program for Fiscal Years 2010-2015 contemplates a total budget of \$7,953,891,000 of which \$2,186,356,000 is to be provided from Federal, Commonwealth, and other sources and the remainder through City funding. The following table shows the amounts budgeted each year from various sources of funds for capital projects. City Council adopted the Capital Improvement Program for Fiscal Years 2010-2015 on May 21, 2009.

Table A-11
City of Philadelphia
Fiscal Years 2010-2015
Capital Improvement Program
(Amounts in Thousands of USD)

CITY FUNDS – TAX SUPPORTED	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2010-2015</u>
Carried-forward Loans	229,502	0	0	0	0	0	229,502
Operating Revenue	38,339	17,439	20,439	17,439	17,439	17,439	128,534
New Loans	63,000	68,020	78,023	88,013	97,944	99,946	494,946
Pre-financed Loans	6,042	1,000	1,000	1,000	1,000	1,000	11,042
PICA Pre-financed Loans	<u>43,017</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>43,017</u>
Tax-supported Subtotal	379,900	86,459	99,462	106,452	116,383	118,385	907,041
CITY FUNDS - SELF-SUSTAINING							
Carried-forward Loans	653,509	0	0	0	0	0	653,509
Operating	146,926	41,961	40,352	40,743	40,134	40,525	350,641
New Loans	<u>496,729</u>	<u>532,113</u>	<u>525,404</u>	<u>582,679</u>	<u>883,025</u>	<u>810,394</u>	<u>3,830,344</u>
Self-Sustaining Subtotal	1,297,164	574,074	565,756	623,422	923,159	850,919	4,834,494
REVOLVING FUNDS	26,000	0	0	0	0	0	26,000
OTHER THAN CITY FUNDS							
Federal *	598,182	84,762	70,048	68,008	77,023	74,458	972,481
Federal Off Budget	96,553	95,859	79,906	81,815	97,600	117,840	569,573
State *	96,650	6,205	5,837	6,897	5,968	6,321	127,878
State Off Budget	20,772	35,902	36,933	35,058	36,799	34,732	200,196
Other Governments *	62,663	0	0	0	0	0	62,663
Other Governments/Off Budget	9,883	11,989	5,435	5,514	5,793	6,081	44,695
Private *	81,670	26,020	26,020	25,020	25,020	25,020	208,770
Private Off Budget	<u>0</u>	<u>100</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>100</u>
Other Than City Funds Subtotal	<u>966,373</u>	<u>260,837</u>	<u>224,179</u>	<u>222,312</u>	<u>248,203</u>	<u>264,452</u>	<u>2,186,356</u>
TOTAL	2,669,437	921,370	889,397	952,186	1,287,745	1,233,756	7,953,891

*Other Than City Funds in FY 2010 contain both New and Carried-Forward amounts as follows:

Federal	New – \$ 250,399	Carried Forward – \$ 347,783
State	New – 15,399	Carried Forward – 81,251
Other Governments	New – 0	Carried Forward – 62,663
Private	New – 5,030	Carried Forward – 76,640

LITIGATION

Generally, judgments and settlements on claims against the City are payable from the General Fund, except for claims against the Water Department, the Aviation Division, and the Gas Works. Claims against the Water Department are paid first from the Water Fund and only secondarily from the General Fund. Claims against the Aviation Division, to the extent not covered by insurance, are paid first from the Aviation Fund and only secondarily from the General Fund. Claims against the Gas Works, to the extent not covered by insurance, are paid first from Gas Works revenues and only secondarily from the General Fund.

The Act of October 5, 1980, P.L. 693, No. 142, known as the "Political Subdivision Tort Claims Act," (the "Tort Claims Act") establishes a \$500,000 aggregate limitation on damages for injury to a person or property arising from the same cause of action or transaction or occurrence or series of causes of action, transactions or occurrences with respect to governmental units in the Commonwealth such as the City. The constitutionality of that aggregate limitation has been repeatedly upheld by the Pennsylvania Supreme Court. In February 1987, an appeal of a decision upholding such constitutionality to the United States Supreme Court was dismissed for want of jurisdiction. However, under Pennsylvania Rule of Civil Procedure 238, delay damages in State Court cases are not subject to the \$500,000 limitation. Moreover, the limit on damages is inapplicable to any suit against the City which does not arise under state tort law such as claims made against the City under Federal civil rights laws.

The aggregate loss resulting from general and special litigation claims was \$30.2 million for Fiscal Year 2001, \$30.0 million for Fiscal Year 2002, \$24.1 million for Fiscal Year 2003, \$24.5 million for Fiscal Year 2004, \$27.5 million for Fiscal Year 2005, \$23.0 million for Fiscal Year 2006, \$26.6 million for Fiscal Year 2007 and \$29.3 million for Fiscal Year 2008. Estimates of settlements and judgments from the General Fund are \$35.0 million, \$24.5 million, \$24.5 million, \$24.5 million, and \$24.5 million for Fiscal Years 2009 through 2013, respectively. In budgeting for settlements and judgments in the annual Operating Budget and projecting settlements and judgments for each Five-Year Plan, the City bases its estimates on past experience and on an analysis of estimated potential liabilities and the timing of outcomes, to the extent a proceeding is sufficiently advanced to permit a projection of the timing of a result. General and special litigation claims are budgeted separately from back-pay awards and similar settlements relating to labor disputes. Usually, some of the costs arising from labor litigation are reported as part of current payroll expenses. For Fiscal Year 2008, payments for claims arising from labor settlements in the General Fund were \$1.11 million of which \$0.85 million was paid from the Indemnities account, and \$0.26 million from the Operating budgets of the affected departments. Actual claims paid out from the General Fund for settlements and judgments averaged \$26.1 million per year over the five years from Fiscal Year 2004 through Fiscal Year 2008.

In addition to routine litigation incidental to performance of the City's governmental functions and litigation arising in the ordinary course relating to contract and tort claims and alleged violations of law, certain special litigation matters are currently being litigated and/or appealed and adverse final outcomes of such litigation could have a substantial or long-term adverse effect on the City's General Fund. These proceedings involve: environmental-related actions and proceedings in which it has been or may be alleged that the City is liable for damages, including but not limited to property damage and bodily injury, or that the City should pay fines or penalties or the costs of response or remediation, because of the alleged generation, transport, or disposal of toxic or otherwise hazardous substances by the City, or the alleged disposal of such substances on or to City-owned property; a class action suit alleging that the City failed to properly oversee management of funds in the deferred compensation plan of City employees; civil rights claims; and a pay dispute with former and current paramedics. The ultimate outcome and fiscal impact, if any, on the City's General Fund of the claims and proceedings described in this paragraph are not currently predictable.

Various claims in addition to the lawsuits described in the preceding paragraph have been asserted against the Water Department and in some cases lawsuits have been instituted. Many of these Water Department claims have been reduced to judgment or otherwise settled in a manner requiring payment by the Water Department. The aggregate loss for Fiscal Year 2003 which resulted from these claims and lawsuits was \$3.9 million, \$2.9 million for Fiscal Year 2004, \$2.4 million for Fiscal Year 2005 \$4.2 million for Fiscal Year 2006, \$2.5 million in Fiscal Year 2007 and \$4.6 million in Fiscal Year 2008. The Water Fund's budget for Fiscal Year 2009 contains an appropriation for Water Department claims in the amount of \$6.5 million, although the current estimate, based on the first three quarters of Fiscal Year 2009 expenditures, is for only \$4.2 million. The Water Fund is the first source of payment for any of the claims against the Water Department.

In addition, various claims have been asserted against the Aviation Division and in some cases lawsuits have been instituted. Many of these Aviation Division claims have been reduced to judgment or otherwise settled in a manner requiring payment by the Aviation Division. The aggregate loss for Fiscal Year 2008 which resulted from these claims and lawsuits was \$1.3 million. The Indemnities budget for Aviation Fund claims for Fiscal Year 2009 contains an appropriation in the amount of \$2.5 million, although the current estimate, based on the first three quarters of fiscal year 2009 expenditures, is for only \$460,000. The Aviation Division is the first source of payment for any of the claims against the Aviation Division.

ADDITIONAL INFORMATION

Current City Practices

It is the City's practice to file its Comprehensive Annual Financial Report ("CAFR"), which contains the audited combined financial statements of the City, with a Repository as soon as practicable after delivery of such report. The CAFR for the City's fiscal year ended June 30, 2008 was deposited with a Repository on February 24, 2009. The CAFR is prepared by the Director of Finance of the City in conformance with guidelines adopted by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants' audit guide, Audits of State and Local Government Units. Upon written request to the Office of the Director of Finance and payment of the costs of duplication and mailing, the City will make available copies of the CAFR for the Fiscal Year ended June 30, 2008. Such a request should be addressed to: Office of the Director of Finance, Municipal Services Building, Suite 1300, 1401 John F. Kennedy Boulevard, Philadelphia, PA 19102. The CAFR is also available online at www.phila.gov/investor, the City's website ("City Website" or "Website"). The City also expects to provide financial and other information from time to time to Moody's Investors Service, Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. and Fitch Ratings, in connection with the securities ratings assigned by those rating agencies to bonds or notes of the City.

The foregoing statement as to filing or furnishing of additional information reflects the City's current practices, but is not a contractual obligation to the holders of the City's bonds or notes.

The City Website contains information in addition to that set forth in the CAFR. The "Terms of Use" statement of the City Website, incorporated herein by this reference, provides, among other things, that the information contained therein is provided for the convenience of the user, that the City is not obligated to update such information, and that the information may not provide all information that may be of interest to investors.

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CITY SOCIOECONOMIC INFORMATION

Introduction

The City includes within its boundaries an area of approximately 130 square miles and a resident population of approximately 1.45 million according to the U.S. Census Bureau, 2006 Population Estimates. The City is in the heart of a nine-county metropolitan area with approximately 5.1 million residents. Air, rail, highway, and water routes provide easy access to the City.

The City is strategically located on the east coast with easy access to markets, resources, government centers, and transportation. The City's metropolitan area is the nation's fourth largest in the retail market with over 2,400 retail stores.

Quality of Life

The City is rich in history, art, architecture, and entertainment. World-class cultural and historic attractions include the Philadelphia Museum of Art (which houses the third largest art collection in the United States), the Philadelphia Orchestra, Academy of Music, Pennsylvania Ballet, the Constitution Center, the Kimmel Center (which had over 1 million people in attendance in 2007), Pennsylvania Academy of Fine Arts, Franklin Institute, Mann Music Center, Opera Company of Philadelphia, and the Rodin Museum. The South Philadelphia sports complex, currently consisting of Lincoln Financial Field, Citizens Bank Park, the Wachovia Spectrum and the Wachovia Center, is home to the Philadelphia 76ers, Flyers, Phillies and Eagles. The City also offers its residents and visitors America's most historic square mile, which includes Independence Hall and the Liberty Bell, as well as Fairmount Park, which spans 8,000 acres and includes Pennypack Park and the country's first zoo.

The City is a center for health, education, and science facilities with the nation's largest concentration of healthcare resources within a 100-mile radius. There are presently more than 30 hospitals, seven medical schools, two dental schools, two pharmacy schools, as well as schools of optometry, podiatry and veterinary medicine, and the Philadelphia Center for Health Care Sciences in West Philadelphia. The City is one of the largest health care and health care education centers in the world, and a number of the nation's largest pharmaceutical companies are located in the Philadelphia area.

The City has the second largest concentration of students on the East Coast with eighty degree granting institutions of higher education and a total enrollment of over 300,000 students. Included among these institutions are the University of Pennsylvania, Temple University, Drexel University, St. Joseph's University, and LaSalle University. Within a short drive from the City are such schools as Villanova University, Bryn Mawr College, Haverford College, Swarthmore College, Lincoln University, and the Camden Campus of Rutgers University. The undergraduate and graduate programs at these institutions help provide a well-educated and trained work force to the Philadelphia community.

Hospitals and Medical Centers

The City also has major research facilities, including those located at its universities, the medical schools, the Wistar Institute, the Fox Chase Cancer Center, and the University City Science Center. The Children's Hospital of Philadelphia (ranked number one in U.S. children's hospitals) has recently completed the construction of a new \$100 million biomedical research facility located within the Philadelphia Center for Health Care Sciences in West Philadelphia. A Comprehensive Cancer Center is also located at the University of Pennsylvania.

Hospitals and Medical Centers: The following table presents the most recent published data regarding hospitals and medical centers in Philadelphia. Due to mergers, consolidations and closures that have occurred or may occur in the future, this table is accurate only as of its publication date.

Table A-12
City of Philadelphia
Hospitals and Medical Centers

(As of October 2008)

<u>Institution</u>	<u>Beds</u>
Albert Einstein	424
Chestnut Hill	143
Frankford ⁽¹⁾	477
Jeane ⁽³⁾	176
Kensington	35
Mercy Hospital of Philadelphia	180
Methodist Hospital Division, TJUH	202
Nazareth	195
Northeastern Temple East	187
Pennsylvania	410
Presbyterian	223
Roxborough Memorial	137
St. Joseph's	146
Veteran's Affairs Medical Ctr Phila	137
Hahnemann University	497
Hosp of the Univ of Pennsylvania	743
Temple ⁽²⁾	746
Thomas Jefferson	694
Children's Hospital of Philadelphia ⁽⁴⁾	431
Fox Chase Cancer Center	100
Girard	106
Kindred - Philadelphia	52
Shriner's	35
St. Agnes Continuing Care	58
St. Christopher's	124
Belmont	147
Fairmount BHS	180
Friends	192
Magee Rehabilitation	96
MossRehab	166

Source: Delaware Valley Healthcare Council of HAP, Monthly Utilization Report-Summary Stats, October 2008

- (1) Frankford includes data for all three divisions — Frankford, Torresdale and Bucks County.
- (2) Temple includes data for Episcopal Hospital.
- (3) Jeanes Hospital Closed NICU Unit as of April 30, 2007 and OB as of May 31, 2007.
- (4) Children's Seashore House is now consolidated into Children's Hospital of Philadelphia's data.

Children's Hospital Expansion. The Children's Hospital of Philadelphia is expanding its research facilities in West Philadelphia. The \$400 million first phase of the new complex is expected to be completed in Fall 2009; the \$500 million second phase has been put on hold for the time being due to market conditions.

University of Pennsylvania. A major new \$302 million cancer research and treatment center, the Center for Advanced Medicine, opened in October 2008. The West Tower of the Center of Advanced Medicine is estimated to be completed in 2010 at a cost of \$370 million and is currently under construction.

The Fox Chase Cancer Center. The Center is a non-profit institution, which is expanding its campus in the northeast section of the City. The Center's 25-year Master Plan is over \$1 billion, providing over 2.7 million square feet of space dedicated to research and patient care. While a planned expansion into Burholme Park is currently the subject of litigation, the Cancer Research Pavilion will open in July 2009 on the current main campus. The project cost is \$100 million. Other projects on the current main campus are being planned at this time.

Demographics

During the ten-year period between 1990 and 2000, the population of the City decreased from 1,585,577 to 1,517,550. During the same period, the population of Pennsylvania increased by 3.4%, less than one-third the national rate of increase.

**Table A-13
Population
City, Pennsylvania & Nation**

	<u>1990</u>	<u>2000</u>	<u>2008 (est.)</u>	<u>% Change 1990-2000</u>	<u>% Change 2000-2007</u>
Philadelphia	1,585,577	1,517,550	1,447,395	-4.3%	-4.6%
Pennsylvania	11,881,643	12,281,054	12,448,279	3.4%	1.4%
United States	248,709,873	281,421,906	304,059,724	13.2%	8.0%

Source: U.S. Census Bureau, 2007 Population Estimates, Census 2000, 1990 Census.

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**Table A-13
Population Age Distribution**

Philadelphia County						
Age	1990	% of Total	2000	% of Total	2005- 2007* (est)	% of Total
0-24	563,816	35.6	551,308	36.3	523,318	36
25-44	490,224	30.9	444,774	29.3	402,896	27.7
45-64	290,803	18.3	307,746	20.2	339,409	23.3
65-84	217,913	13.7	186,383	12.3	160,269	11
85 & up	22,801	1.4	27,339	1.8	28,490	2
Total	1,585,577	100	1,517,550	100	1,454,382	100

Pennsylvania						
Age	1990	% of Total	2000	% of Total	2005-2007* (est)	% of Total
0-24	4,021,585	33.8	4,016,670	32.6	3,996,274	32.2
25-44	3,657,323	30.8	3,508,562	28.6	3,212,382	25.9
45-64	2,373,629	20	2,836,657	23.1	3,308,060	26.8
65-84	1,657,270	13.9	1,681,598	13.7	1,614,969	13
85 & up	171,836	1.4	237,567	1.9	269,274	2.2
Total	11,881,643	100	12,281,054	100	12,400,959	100

United States						
Age	1990	% of Total	2000	% of Total	2005-2007* (est)	% of Total
0-24	90,342,198	36.3	99,437,266	35.3	103,110,927	34.5
25-44	80,754,835	32.5	85,040,251	30.2	83,587,234	28
45-64	46,371,009	18.6	61,952,636	22	74,794,039	25
65-84	28,161,666	11.3	30,752,166	11	32,289,322	10.8
85 & up	3,080,165	1.2	4,239,587	1.5	4,975,788	1.7
Total	248,709,873	100	281,421,906	100	298,757,310	100

Source: U.S. Dept. of Commerce, Bureau of the Census.

*2005-2007 American Community Survey 3 year estimates

The Economy

Philadelphia's economy is composed of diverse industries, with virtually all classes of industrial and commercial businesses represented. The City is a major business and personal service center with strengths in insurance, law, finance, health, education, and utilities.

The cost of living in Philadelphia is relatively moderate compared to other major metropolitan areas. The City, as one of the country's education centers, offers the business community a large, diverse, and industrious labor pool.

Table A-14
Office Rental Rates in Cities
Throughout the United States

(In \$ Per Square Foot)

	January <u>2004</u>	January <u>2005</u>	May <u>2006</u>	November <u>2006</u>	May <u>2007</u>	May <u>2008</u>	November <u>2008</u>	May <u>2009</u>
Atlanta	23.09	21.92	20.08	20.56	20.16	21.76	21.23	21.29
Chicago	29.97	28.47	23.77	22.97	22.44	24.75	24.78	24.56
Dallas	20.58	19.71	17.43	16.47	17.20	22.96	23.72	23.71
Denver	17.84	17.24	19.03	20.37	22.17	27.15	27.55	26.53
Houston	19.29	18.21	19.15	19.52	21.53	28.92	26.83	24.91
Los Angeles	25.56	26.55	23.12	22.59	23.74	30.52	30.51	29.92
New York	45.51	45.16	55.15	62.07	69.44	103.43	98.08	68.63
Philadelphia	23.24	21.97	22.42	22.96	22.60	24.35	25.26	25.24
Phoenix	20.38	19.39	24.29	26.19	27.32	29.14	29.17	28.23
Portland	20.59	19.65	21.58	22.41	23.00	25.85	27.62	26.99
San Francisco	27.15	27.75	30.62	31.11	35.81	49.71	48.57	39.40
St. Louis	20.52	19.91	21.12	21.75	21.21	22.82	22.42	22.78
Tampa	19.23	18.01	20.54	21.13	22.46	25.30	26.22	26.36
Washington, D.C.	31.05	35.95	42.74	43.58	44.00	51.05	51.26	51.77

Source: CB Richard Ellis, Global Market Rents Report; Global MarketView: Office Occupancy Costs Report.

Employment

The employment and unemployment rates and the total number of jobs within the City are reflected in Tables A-15 and A-16, respectively.

The employment changes within the City principally have been due to declines in the manufacturing sector and the relatively stronger performance of the service economy. The City's and region's economies are diversified, with strong representation in the health care, government, and education sectors but without the domination of any single employer or industry.

In March 2000, the Philadelphia Authority for Industrial Development ("PAID") took ownership of more than 1,000 acres at the site of the former Philadelphia Navy Shipyard, Naval Station. Naval Hospital and Defense Supply Center and has begun to implement aggressive redevelopment activities. To date, at least 47 companies have leased or purchased in excess of 2 million square feet of facilities at the complex, now known as the Philadelphia Naval Business Center ("PNBC"). In addition to this employment, the Navy has retained more than 2 million square feet of facilities. Together, the private and Navy facilities employ more than 7,000 people. Long term plans call for more than 10 million square feet of industrial and commercial space at PNBC, with employment targeted between 15,000-20,000.

Table A-15
Labor Force Data Annual Average
Based on Residency (not seasonally adjusted)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Philadelphia (000)*							
Labor Force	635.2	622.6	619.1	617.7	615.4	614.7	627.2
Employment	588.5	575.7	573.9	576.2	577.3	577.8	582.3
Unemployment	46.6	46.9	45.2	41.4	38.1	37.0	44.9
Unemployment Rate (%)	7.3	7.5	7.3	6.7	6.2	6.0	7.2
Philadelphia PMSA (000)**							
Labor Force	2,898.4	2,879.2	2,893.1	2,924.8	2,954.5	2,948.2	2,986.2
Employment	2,743.1	2,722.4	2,746.1	2,786.6	2,821.7	2,822.8	2,826.3
Unemployment	155.2	156.8	147.1	138.2	132.7	125.4	159.9
Unemployment Rate (%)	5.4	5.4	5.1	4.7	4.5	4.3	5.4
Pennsylvania (000)							
Labor Force	6,218.0	6,145.0	6,205.0	6,257.0	6,290.0	6,287.0	6,395.0
Employment	5,869.0	5,796.0	5,868.0	5,946.0	6,003.0	6,013.0	6,051.0
Unemployment	349.0	349.0	338.0	311.0	287.0	274.0	344.0
Unemployment Rate (%)	5.6	5.7	5.4	5.0	4.6	4.4	5.4
United States (000,000)							
Labor Force	144.9	146.5	147.4	149.3	151.4	153.1	154.3
Employment	136.5	137.7	139.3	141.7	144.4	146.0	145.4
Unemployment	8.4	8.8	8.1	7.6	7.0	7.1	8.9
Unemployment Rate (%)	5.8	6.0	5.5	5.1	4.6	4.6	5.8

Source: Center for Workforce Information and Analysis, PA Dept of Labor and Industry, 2009.

* Philadelphia County

** The Philadelphia PMSA includes Philadelphia-Camden-Wilmington, PA, NJ, DE, MD Metro Stat Area.

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Table A-16
Philadelphia County
Total Monthly Employment and Monthly Unemployment Rates
Based on Residency
2002 – 2008

Month	Total Employment in 000's							Unemployment Rate %						
	2002	2003	2004	2005	2006	2007	2008	2002	2003	2004	2005	2006	2007	2008
January	589.9	580.5	574.5	576.0	576.4	580.7	582.1	6.9	7.5	7.5	6.9	6.2	6.1	6.7
February	591.3	580.3	574.2	574.3	576.9	580.0	576.6	7.1	7.5	7.3	7.2	6.4	5.9	6.8
March	589.5	579.7	572.8	573.1	577.2	579.4	576.3	7.2	7.3	7.7	7.0	6.3	5.8	6.7
April	589.9	578.9	573.4	575.7	578.0	577.4	580.1	7.4	7.5	7.4	6.8	6.4	5.9	6.8
May	591.2	576.1	570.7	577.5	577.8	576.1	582.2	7.3	7.5	7.5	6.7	6.2	6.0	7.0
June	590.6	575.9	571.5	575.5	578.4	578.2	580.2	7.3	7.7	7.5	6.6	6.2	6.0	7.0
July	588.3	573.4	574.3	577.8	576.0	578.5	577.0	7.5	7.6	7.4	6.4	6.3	6.0	7.0
August	589.2	573.7	573.6	576.6	577.5	578.0	577.7	7.4	7.6	7.3	6.5	6.3	6.0	7.9
September	590.4	573.1	574.6	577.5	577.3	577.2	578.6	7.3	7.7	7.1	6.6	6.1	6.1	7.5
October	586.8	573.1	574.9	576.9	578.7	576.3	579.4	7.4	7.6	7.1	6.5	5.9	6.1	7.7
November	583.5	573.3	576.3	576.5	577.3	577.7	573.6	7.6	7.5	6.9	6.7	6.0	6.0	8.0
December	582.0	570.7	576.0	577.9	576.7	574.0	572.6	7.6	7.4	6.9	6.5	6.0	6.3	8.6

Source: Center for Workforce Information and Analysis, PA Dept of Labor and Industry, 2009 (monthly Seasonally Adjusted Labor Force), Philadelphia County.

Table A-17
Philadelphia City
Non-Farm Payroll Employment*

(Amounts in Thousands)

	2002	2003	2004	2005	2006	2007	2008**
Total Non-Farm	683.5	671.3	657.9	660.3	662.5	662.4	660.9
Natural Resources, Construction & Mining	12.9	12.3	11.4	12.0	12.4	11.8	11.2
Manufacturing	37.7	34.0	32.6	31.2	29.9	28.3	26.5
Trade, Transportation & Utilities	98.5	95.8	90.9	90.0	88.5	88.0	88.4
Information	17.0	15.9	13.6	13.2	12.8	12.9	12.9
Financial Activities	52.3	50.7	49.0	48.2	47.7	47.1	46.1
Professional & Business Services	82.9	80.9	80.3	82.4	84.2	85.3	84.0
Education & Health Services	181.0	185.3	184.1	186.8	192.2	196.4	202.9
Leisure & Hospitality	54.2	52.9	54.6	56.6	58.0	58.4	57.4
Other Services	29.9	29.0	28.5	28.5	28.2	28.2	28.3
Government	117.1	114.7	113.0	111.4	108.6	105.9	103.2

Source: Bureau of Labor Statistics, 2009.

* Includes persons employed within the City, without regard to residency.

** Preliminary, December 2008.

Table A-18
City of Philadelphia
Largest Employers in Philadelphia
June 30, 2008
(Listed Alphabetically)

Albert Einstein Medical
Children's Hospital of Philadelphia
City of Philadelphia
School District of Philadelphia
Southeastern Pennsylvania Transportation Authority
Temple University
Thomas Jefferson University Hospitals
United States Postal Service
University of Pennsylvania
University of Pennsylvania Hospital

Source: Philadelphia Department of Revenue

Table A-19
Fortune 500
Largest Corporations
With Headquarters in Philadelphia, 2008

<u>Corporation</u>	<u>Type of Industry</u>	<u>Ranking</u>	<u>Revenues</u> <u>(\$ Millions)</u>
Sunoco	Petroleum Refining	41	\$56,652.0
Comcast	Telecommunications	68	\$34,256.0
Cigna	Health Care/Insurance	132	\$19,101.0
ARAMARK	Diversified Outsourcing Services	198	\$13,470.0
Rohm & Haas	Chemical	281	\$9,575.0
Crown Holdings	Metal Products	312	\$8,305.0

Source: Fortune Magazine website, May 2008.

Income

The following table presents data relating to per-capita income for the City, the PMSA, and the United States. It illustrates that, for the past few years, real per-capita income has generally outpaced the urban cost of living index, suggesting that on average, the newly created service jobs have generated positive real income growth for City wage earners.

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TABLE A-20
CONSUMER PRICE INDICES AND MEDIAN HOUSEHOLD EFFECTIVE BUYING INCOME

	<u>1990</u>	<u>2000</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
CPLLI United States ^(a)	130.7	172.2	179.9	184.0	188.9	195.3	201.6	207.3	215.3
CPL U Philadelphia PMSA ^(a)	135.8	176.5	184.9	188.8	196.5	204.2	212.1	216.7	224.1
<u>Buying Income</u> ^(b)									
Philadelphia	\$24,880	\$31,621	\$29,995	\$28,015	\$28,150	\$29,269	\$30,748	\$31,292	\$30,746
Philadelphia Metro Area*	\$33,277	\$47,152	\$43,800	\$41,820	\$42,852	\$44,060	\$45,395	\$46,413	\$46,900
United States	\$27,912	\$37,233	\$38,365	\$38,035	\$38,201	\$39,324	\$39,324	\$40,710	\$41,792

* Statistic is a measure of the Philadelphia, Camden & Wilmington Metropolitan Area.

Source: (a) Consumer Price Index - All Urban Consumers. U.S. Bureau of Labor Statistics.

(b) Sales & Marketing Management's 2008 Survey of Buying Power.

Table A-21
Number of Households by Income Range in Philadelphia County

<u>Income</u>	<u>Number of Households*</u>			<u>Percentage of Households*</u>		
	<u>1990</u>	<u>2000</u>	<u>2005-2007** (est)</u>	<u>1990</u>	<u>2000</u>	<u>2005-2007** (est)</u>
Under \$ 9,999	136,335	109,237	86,260	22.6	18.5	15.5
\$10,000-14,999	59,331	49,035	50,017	9.9	8.3	9.0
\$15,000-24,999	108,405	89,059	75,816	18.1	15.0	13.6
\$25,000-49,999	190,237	171,215	147,471	31.7	29.0	26.4
\$50,000 and over	<u>106,432</u>	<u>171,737</u>	<u>198,421</u>	<u>17.6</u>	<u>29.1</u>	<u>35.5</u>
Total	600,740	590,283	557,985	100.0	100.0	100.0

Source: U.S. Department of Commerce, Bureau of the Census.

* A household includes all the persons who occupy a housing unit.

** 2005-2007 American Community Survey 3 year estimates

Number of Households by Income Range in United States

<u>Income</u>	<u>Number of Households</u> <u>(000's)</u>			<u>Percentage of Households</u>		
	<u>1990</u>	<u>2000</u>	<u>2005-2007* (est)</u>	<u>1990</u>	<u>2000</u>	<u>2005-2007* (est)</u>
Under \$ 9,999	14,214	10,067	8,514	15.5	9.5	7.6
\$10,000-14,999	8,133	6,657	6,429	8.8	6.3	5.8
\$15,000-24,999	16,124	13,536	12,364	17.5	12.8	11.1
\$25,000-49,999	31,003	30,965	28,489	33.7	29.3	25.5
\$50,000 and over	22,519	44,312	55,811	24.5	42.1	50
Total	91,994	105,537	111,609	100.0%	100.0%	100.0%

Source: U.S. Department of Commerce, Economics and Statistics Administration, 2000 Census of Population. Figures may not add due to rounding.

* 2005-2007 American Community Survey 3 year estimates

Retail Sales

The following table reflects taxable sales for Philadelphia from Fiscal Years 1997 to 2008.

Table A-22
Philadelphia
Taxable Retail Sales 1997-2008
(\$000's)

<u>Fiscal Year</u>	<u>Taxable Sales</u>
1997	9,637,833
1998	8,276,083
1999	9,604,970
2000	10,432,800
2001	11,107,100
2002	10,980,914
2003	10,933,524
2004	11,172,231
2005	12,001,439
2006	12,839,137
2007	13,643,582
2008	13,704,958

Source: Figures determined by dividing the Philadelphia local sales tax reported by the Pennsylvania Department of Revenue by the local sales tax rate of 0.01.

Transportation

The residents of the City and surrounding counties are served by a commuter transportation system operated by SEPTA. This system includes two subway lines, a network of buses and trolleys, and a commuter rail network joining Center City and other areas of the City to the airport and to the surrounding counties. A high speed train line runs from southern New Jersey to Center City and is operated by the Delaware River Port Authority. An important addition to the area's transportation system was the opening of the airport high speed line between Center City and the Philadelphia International Airport in 1985. The line places the airport less than 25 minutes from the Center City business district and connects directly with the commuter rail network and the Convention Center, which opened in June 1993. The opening of the commuter rail tunnel in 1984 provided a unified City transportation system linking the commuter rail system, the SEPTA bus, trolley, and subway lines, the high speed line to New Jersey, and the airport high speed line.

Amtrak, SEPTA, Norfolk Southern, CSX Transportation, Conrail and the Canadian Pacific provide inter-city commuter and freight rail services connecting Philadelphia to the other major cities and markets in the United States. More than 100 truck lines serve the Philadelphia area.

The City now has one of the most accessible downtown areas in the nation with respect to highway transportation by virtue of I 95; the Vine Street Expressway (I 676), running east-to-west through the Central Business District between I 76 and I 95; and the "Blue Route" (I 476) in suburban Delaware and Montgomery Counties which connects the Pennsylvania Turnpike and I 95 and thereby feeds into the Schuylkill Expressway (I 76) and thus into Center City Philadelphia.

The Philadelphia International Airport (PHL) and Northeast Philadelphia Airport (PNE) comprise the Philadelphia Airport System (the "Airport System"). The Airport System is owned by the City of Philadelphia and is operated by the Department of Commerce's Division of Aviation. PHL is located 7.2 miles southwest of Center City; and PNE, a smaller reliever airport, is located 10 miles northeast of

Center City. PHL is accessible from major highways within the City and from surrounding communities and SEPTA's Airport rail line. PHL provides its passengers with service on 11 domestic carriers, two of which also provide international service, and 13 regional carriers, while five foreign flag carriers also provide international service. In addition, there are four all-cargo carriers. PHL serves as a key connecting hub for US Airways.

Water and Wastewater Systems

The water and wastewater systems of Philadelphia are owned by the City and operated by the City's Water Department. The water system provides water to the City (130 square mile service area), to Aqua Pennsylvania, Inc., formerly Philadelphia Suburban Water Company, and to the Bucks County Water and Sewer Authority. The City obtains approximately 58 percent of its water from the Delaware River and the balance from the Schuylkill River. The water system serves approximately 472,600 accounts through 3,137 miles of mains, three water treatment plants, 15 pumping stations and provides fire protection through more than 25,000 fire hydrants.

The wastewater system services a total of 360 square miles of which 130 square miles are within the City and 230 square miles are in suburban areas. The total number of accounts is approximately 471,000. The wastewater and stormwater systems contain three water pollution control plants, a biosolids processing facility, 13 pumping stations, and approximately 3,652 miles of sewers. Based on its current NPDES discharge permit, the City is required to achieve effluent limitations that are considered more stringent than those required to achieve secondary treatment levels as defined in the Federal Water Pollution Control Act, as amended.

Municipal Solid Waste Disposal

The City is responsible for collecting solid waste, including recycling, from residential households and some commercial establishments. On average, approximately 3,000 tons of solid waste per day is collected by the City. Municipal solid waste is disposed of through a combination of recycling processing facilities, private and City transfer stations within the City limits, and at various landfills operated outside the City limits. The City significantly reduced its waste disposal costs over the last decade. The current disposal contract, which began July 1, 2005, continues this trend. With three one-year City options, the contract can be extended through Fiscal Year 2012. Disposal rates escalate at a relatively low rate of approximately three percent per year over the contract term, and multiple vendors maximize operational flexibility and efficiencies.

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Housing

While the City's housing market has remained relatively stable, recently home values have gone up, as shown on the table below:

Table A-23
Characteristics of Housing Units

	<u>1990</u>	<u>2000</u>	<u>2005-2007*</u> <u>(est)</u>
Total Housing Units			
Philadelphia County	674,899	661,958	660,244
Pennsylvania	4,938,140	5,249,750	5,451,386
Percent Owner-Occupied			
Philadelphia County	62.0%	59.3%	57.3%
Pennsylvania	70.6%	71.3%	71.7%
Median Value of Owner-Occupied Housing			
Philadelphia County	\$49,400	\$59,700	\$ 117,500
Pennsylvania	\$69,700	\$97,000	\$ 144,100
Number/Average Persons per Housing Unit			
Philadelphia County	2.56	2.65	2.66
Pennsylvania	2.72	2.62	2.59

Source: U.S. Department of Commerce, Bureau of the Census.

*2005-2007 American Community Survey 3 year estimates.

Promoting Economic Development

Mission

The goal of the City's economic development strategy is to create, maintain, and develop: (1) jobs by fostering an improved business environment; (2) increases in population; and (3) enhanced quality of life within the City of Philadelphia—all in order to grow the City's tax base.

Background

In response to the national recession, in 2009 the City is poised to launch several reforms aimed at enhancing its competitive position. By reorienting economic development services to provide transparency and better address customer service needs, Philadelphia will strive to become the business location of choice. This new business climate, coupled with recent cultural additions, neighborhood reinvestment and a renewed sense of civic pride, is designed to enhance Philadelphia's position as a world-class city.

Philadelphia's Competitive Advantages

Philadelphia's competitive advantages as a business location are based on size, strategic location, relative affordability, cultural and recreational amenities, and its growing strength in key knowledge industries. The City of Philadelphia, the fifth-largest city in the nation as of the last official census with the third largest downtown population, is at the center of the sixth largest metropolitan region. Our region includes the fourth largest retail sales market in the nation, as well as a diverse network of business suppliers and complementary industries.

Accessibility

Philadelphia is in a key position to access regional and international markets, due to the transportation infrastructure centered here, including Philadelphia International Airport, AMTRAK's Northeast Corridor service, major interstate highway access, regional SEPTA service and the port. The capacity of Philadelphia's transportation infrastructure is demonstrated by its median commuting time, which is 19 percent lower than the national metropolitan average. Recent analysis has shown that employees also benefit: Commuters to suburban firms, nearly all of whom drive to work, spend over \$6,200 per year in vehicle expenses. By contrast, 70 percent of downtown office workers use public transit to get to work, and the annual cost of a SEPTA regional rail pass is just \$2,172. In addition, 37 percent of downtown residents walk to work, the highest percentage of any major American city.

Culture

As a major urban center with a rich historical legacy, Philadelphia is increasingly gaining national recognition for its cultural and recreational advantages, which include the many tourism assets concentrated within city limits. Independence National Historical Park, the Philadelphia Art Museum, and the Franklin Institute, as well as recent developments, such as the construction of the stunning Kimmel Center for the Performing Arts and the National Constitution Center, are increasingly drawing national attention. The development of new first-class sports facilities, as well as continued access and development along the City's Delaware and Schuylkill River waterfronts, adds to this array.

Affordability

Philadelphia remains affordable when compared to its peers, as noted in the chart below.

Cost of Living 2008 (Third Quarter)

Index	Philadelphia, PA	Washington-Arlington – Arlington, DC-VA	Boston, MA	New York (Manhattan), NY	National Average
Composite (100%)	124.1	137.7	133.7	220.3	100.0

Source: Council for Community and Economic Research ACCRA Cost of Living Index

The Council for Community and Economic Research determines "Cost of Living" by weighing various living expenses including: cost of groceries, housing, utilities, transportation and health. The national average cost for each index area is set at "100", and the indices for each place are then calculated based upon their relation to that average. With lower composite indices indicating lower cost of living, Philadelphia's composite index of 124.1 is an indication of how our region matches up to other east coast peer metropolitan regions.

Educational Attainment

Philadelphia captures a significant portion of the region's educational employment and enrollment because of its major colleges and universities. The City houses 40 percent of all students during their studies, and the Philadelphia region retains a strong share of its graduates (55 percent) and an even greater share of graduates who are originally from the region (82 percent). The region retains 26 percent of non-native graduates, based on a survey of the class of 2005. On average, the region's workforce over age 25 is better educated (with four-year college degrees) than those in other metropolitan areas across the U.S. (32 percent, compared to 27 percent). At the same time, the City has one of the lowest educational attainment rates in the nation, with only 20.7 percent of its 25-years-or-older population possessing a bachelor's degree or higher in 2006.

Real Estate Market

Despite challenges in the national economy, Philadelphia's central business district ("CBD"), encompassing 42.2 million rentable square feet, shows stable office market conditions. The strength of the market is driven by the continued expansion of the city's major healthcare and educational institutions, which are less likely to be impacted by the slowdown, and the growth of Comcast Corporation. Recent developments in the financial services market offer both retention risks and attraction opportunities for Philadelphia. Significant downsizing among law firms and other professional services businesses pose the greatest challenge to the office market.

On the recovery side, Cushman & Wakefield's market forecast names Boston, Philadelphia, Washington, DC and Seattle as places where markets "will be in a recovery-ready mode in 2010." The Center City office market has seen positive results in recent years, with 1 million square feet of net absorption in 2006, 992,000 square feet in 2007 and approximately 876,000 square feet of positive net absorption in 2008. Philadelphia's CBD boasted a direct vacancy rate of under 9% for the sixth quarter in a row as of the first quarter of 2009. The overall vacancy rate, including the sublease market which has seen a slight increase in activity but is still below national levels, is at 10.2%. The CBD experienced 130,000 square feet of leasing activity year to date. As building owners make substantial capital investments and 'trophy' locations are in demand, Class A asking rental rates in the CBD have risen from \$25.85 in 2006 to \$27.52 per square foot in the first quarter of 2009. A concerted attraction and retention campaign involving the combined efforts of the City, PIDC, the Center City District, the Greater Philadelphia Chamber of Commerce, and the Commonwealth has sustained these market conditions.

Amidst the national slowdown in real estate, Philadelphia's single-family property market remains consistent but is showing some signs of strain due to threats of increased foreclosures and a stagnant buyers market. However, the rental real estate market continues to be positioned favorably. Unburdened by a glut of speculative multifamily projects outstripping tenant demand, Philadelphia has maintained a low apartment vacancy rate and has fared well when compared to other regions.

Major Industry Sectors

When compared to the average sector concentration in Pennsylvania counties, Philadelphia has a higher concentration of employment in six sectors, as noted in the chart below.

Philadelphia Industry Concentrations Compared to Pennsylvania

<u>Industry</u>	<u>Pennsylvania</u>	<u>Philadelphia County</u>
Education and Health Services	1.34	2.27
Financial Activities	0.97	1.22
Other Services	0.98	1.06
Professional and Business Services	0.91	0.99
Leisure and Hospitality	0.87	0.94
Information	0.82	0.90
Trade, Transportation, and Utilities	0.99	0.69
Manufacturing	1.10	0.44
Construction	0.80	0.33
Unclassified	0.01	0.02
Natural Resources and Mining	0.55	0.00

Source BLS: 2007 Location Quotient, 2006 Quarterly Census of Employment and Wages Data. Ratio of analysis-industry employment in the analysis area to base-industry employment in the analysis area divided by the ratio of analysis-industry employment in the base area to base-industry employment in the base area.

Philadelphia has maintained an above-average concentration of employment in Education and Health Services, Financial Activities, Other Services, Professional Business Services, Leisure and Hospitality as well as Information Services. The employment base has undergone a gradual shift over the last decade, most notably marked by growth in leisure/hospitality and education/health services sector employment.

Despite a continued rise in unemployment over the past year, the overall gap between local and national unemployment has shrunk considerably due to deteriorating market conditions brought on by the nation's financial crisis.

As indicated in the chart below, until this year's economic downturn the City has consistently had an unemployment rate between 1.4 to 1.9 percent higher than the national average.

Year	U.S.	Pennsylvania	Philadelphia	% Difference between U.S. and Phila
1997	4.9%	5.1%	6.8%	1.9%
1998	4.5%	4.6%	6.2%	1.7%
1999	4.2%	4.4%	6.1%	1.9%
2000	4.0%	4.2%	5.6%	1.6%
2001	4.7%	4.8%	6.1%	1.4%
2002	5.8%	5.6%	7.3%	1.5%
2003	6.0%	5.7%	7.5%	1.5%
2004	5.5%	5.4%	7.3%	1.8%
2005	5.1%	5.0%	6.7%	1.6%
2006	4.6%	4.7%	6.3%	1.7%
2007	4.6%	4.4%	6.0%	1.4%
2008	5.8%	5.5%	7.2%	1.4%
2009*	8.3%	8.1%	9.5%	1.2%

Source: Bureau of Labor Statistics (BLS).2008.

*2009 Preliminary estimate based on 4 month average (Jan. – Apr.)

The jobs report is mixed. As shown in the chart below, the local economy has reflected a trend toward growth in particular sectors. Overall job growth in the City has decreased slightly in 2008 and continues to be sluggish.

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Cluster Employment Data: City of Philadelphia
2003-2009
(in thousands)

Sector	2003	2004	2005	2006	2007	2008	2009*	% Change from 2003-2009*	Average Annual % Change
Construction & Mining	12.3	11.4	12	12.6	11.8	12.2	10.4	-15%	-2.1%
Manufacturing	34	32.6	31.2	30	28.3	27.3	25.4	-25%	-3.5%
Trade, Transportation, & Utilities	95.8	90.9	90	88.6	88.0	87.5	85.1	-11%	-1.5%
Information	15.9	13.6	13.2	12.7	12.9	12.3	11.8	-26%	-3.7%
Financial Activities	50.7	49	48.2	47.6	47.1	46.3	45.3	-11%	-1.5%
Professional & Business Services	80.9	80.3	82.4	84.1	85.3	85.5	81.4	1%	.1%
Education & Health Services	185.3	184.1	186.8	192	196.4	201.1	202.7	9%	1.2%
Leisure & Hospitality	52.9	54.6	56.6	57.6	58.4	57.8	55.7	5%	.7%
Other Services	29	28.5	28.5	28.2	28.2	28.1	27.7	-4%	-0.6%
Government	114.7	113	111.4	108.4	105.9	104.5	104.2	-9%	-1.2%
Total	671.5	658	660.3	661.8	662.4	662.5	649.7		

Source: Bureau of Labor Statistics.

Note: All years have been restated based on current BLS data, retrieved 5.22.2009 from data.bls.gov.

* 2009 Preliminary estimates based on 3 month average (Jan. – March.)

While the ongoing economic crisis has dampened employment growth across virtually every sector of the economy, "Philadelphia is coping better than many other urban areas throughout the U.S.," according to a recent economic report published by the Center City District. Much of this can be attributed to the City's diverse employment base and its avoidance of speculative real estate and high-risk financial activities that swept through the country following the "Technology Bust" of 2001.

The sector of Philadelphia's economy which has remained most insulated from the current recession has been Education and Health Services, capturing a 9% growth rate since 2003. The City, in its strategic plan for economic development and job growth, has identified the "Eds and Meds", along with Professional and Business Services, and Leisure and Hospitality, as targeted growth sectors that will drive the City's recovery process and position it for continued long-term growth.

The Education sector not only provides stable support to the local economy, but also generates a steady supply of potential "Knowledge Industry" workers. In the knowledge industry, which relies on the supply of new college graduates, companies apply emerging technologies to deliver high-quality, knowledge-based services. The knowledge industry includes sectors as diverse as financial services, engineering, health care, insurance, law, life sciences, printing, publishing, and academia. In a 2009 report published by the Milken Institute, the Greater Philadelphia region's life sciences industry earned the number one ranking of the study's "current impact" category by directly employing 94,400 workers and generating \$7.7 billion in direct revenue in 2008. These advantages equip Philadelphia and the region to continue to build its knowledge industries.

While Philadelphia has a strong core of knowledge-based industries, the City must capitalize on these advantages to ensure future growth and dynamism. Within the knowledge economy is another

sector of great importance to Philadelphia and the region, the life sciences, which includes health care, research, biotechnology, and pharmaceuticals. Philadelphia is capitalizing on the region's opportunity to become an incubator for research generated by life sciences and educational institutions. Several sites now foster incubator opportunities, including the Philadelphia Navy Yard, the Science Center in West Philadelphia, and the west bank of the Schuylkill River bordered by the University of Pennsylvania, Children's Hospital of Pennsylvania and Drexel University.

Philadelphia's economy enjoys a large market share of for-profit creative industry companies which are technology-driven, known as businesses representing the "creative economy." A subset of the knowledge industry, the sector includes architecture, communications, design and merchandising, digital media, engineering, fashion design, graphic arts, information technology, interior and industrial design, marketing, music, film and video production, multimedia design, photography, planning product design and software development. Philadelphia supports several initiatives with the goal of increasing employment in this sector and fostering population growth in the City as a result.

Philadelphia International Airport

Philadelphia International Airport served 31.8 million passengers, including 4.0 million international travelers, in calendar year 2008. In 2007, PHL ranked seventeenth in the nation in terms of total passengers and is presently the tenth busiest in the world for aircraft operations, according to data reported by Airports Council International North America. The regional economic impact of the Airport is \$14 billion annually. PHL opened a new commuter terminal in 2001, a new international terminal in May 2003, and recently completed the extension of Runway 17-35 to increase airfield capacity.

In 2005, the Airport issued three series of Airport Revenue Bonds which included \$125 million in fixed-rate Series 2005A bonds, \$41 million in variable-rate Series 2005B bonds and \$189.5 million in variable-rate Series 2005C bonds. Proceeds of the 2005A and B bonds have enabled the Airport to undertake critical infrastructure projects, such as expansion of Terminals D and E, improvements to Terminal A East, expansion of security checkpoints at Terminals B and C, and resurfacing of Runway 9R-27L. Proceeds of the 2005C bonds were used to refund the Airport's Series 1995A revenue bonds.

In August of 2007, the City issued the 2007A Bonds and the 2007B Bonds. Proceeds from the 2007A Bonds provide funding for several new capital projects including international terminal gate expansion, design work for the expansion of Terminal F, design of a new in-line baggage system for Terminal B/C, and an infrastructure improvement program. The 2007B Bonds refunded the Series 1997B Airport Revenue Bonds.

Philadelphia Industrial Development Corporation

Philadelphia Industrial Development Corporation (PIDC) is a private, not-for-profit Pennsylvania corporation, founded in 1958 by the City of Philadelphia and the Greater Philadelphia Chamber of Commerce to promote economic development throughout the City. The many programs provided by PIDC include (i) direct mortgage funding in a subordinate position at reduced interest rates for fixed asset improvement to companies who intend to build or expand in Philadelphia; (ii) tax-exempt bond financing to eligible borrowers through the Philadelphia Authority for Industrial Development (PAID); (iii) offering of fully improved parcels of land for sale in more than a dozen designated industrial parks and districts across the City; and (iv) offering of development assistance and project management to a range of Philadelphia's development and non-profit corporations.

Financing Programs

PIDC offers a variety of Financing Programs to assist economic development for all segments of the Philadelphia market. Primary categories include:

PIDC Loan Programs: Largely funded by federal, state, and local government sources, PIDC loan programs generally offer subordinated financing and below-market rates which encourage investment in Philadelphia. Specific terms and uses vary and may cover infrastructure costs, land acquisition, building construction, machinery/equipment purchase, or working capital. During 2008, PIDC settled 37 loan transactions and provided approximately \$55 million of funding to projects valued at \$237 million.

PAID Bond Program: PIDC also manages the Philadelphia Authority for Industrial Development (PAID). PAID issues, as a conduit, tax-exempt bonds for qualified manufacturing and not-for-profit and other projects. PAID is also a conduit for taxable issues. During calendar year 2008, PAID settled 25 bond issues for \$389.8 million in financing and total project costs of \$419.3 million.

Real Estate Services

On behalf of the City of Philadelphia, PIDC is responsible for acquiring, improving and selling industrial and commercial land in strategic locations throughout the City. Over the years, PIDC has successfully leveraged economic development on more than 2,000 acres of such land.

- Industrial Land: PIDC parcels are competitively priced, zoned for immediate development, environmentally clean, and fully improved with roads and utilities. Many of these sites are located in established Northeast, West, and Southwest Philadelphia industrial park settings with excellent access to transportation and workforce. Others are situated in redeveloping commercial neighborhood corridors.
- Most of PIDC's properties are in designated incentive areas, which include specific entitlements to tax abatements, low interest loans and other benefits. Of particular note are the Keystone Opportunity Zones (KOZs), which abate business taxes for varying terms.
- Public Property Sales: In 2005, PIDC entered into an agreement with the City's Department of Public Property to market the City's surplus real estate throughout Philadelphia. During 2008, PIDC completed 8 different transactions with a combined sale price of \$5.996 million. Since this effort began, PIDC has completed the sale of 27 properties resulting in approximately \$14 million for the City's General Fund.
- Developer Selection: When demand is present, PIDC also manages developer selection and sales of key real estate assets utilizing conventional RFQ/RFP methodology. Currently, PIDC is developing a handful of RFQ/RFP documents for sites that are likely to be in demand when the real estate market rebounds.
- In summary, PIDC closed 12 land sales, totaling 44.3 acres in 2008. This level of activity is consistent with 2008 and represents the impacts of the overall slowdown in the national and regional economy. In Fiscal Year 2009, PIDC working along with the City of Philadelphia's Commerce Department and the City Planning Commission will complete a study of Philadelphia's industrial land inventory, characteristics, and projected demand to develop a new industrial land policy to serve as a guide for the nature, location and scale of industrial land acquisition and development for the foreseeable future.

The Navy Yard

During the past decade, the United States Department of Defense has downsized significantly in the Philadelphia area, resulting in substantial excess real estate in the city. PIDC is responsible for converting these former military properties to civilian use, and many of the dispositions realized during 2003-2006 included development sites from this portfolio.

Located on the Delaware River at the south end of Broad Street, The Navy Yard is the largest former Defense Department asset, with 1,000 acres and 6.5 million square feet of existing industrial and office space. Since the ownership transfer in March 2000, PIDC has been responsible for planning, operations and development of this massive property.

Initial emphasis was on upgrading roads and utilities systems with over \$25 million of infrastructure investment. Development of the Aker Philadelphia Shipyard, a \$300 million state-of-the-art facility, was funded by federal, state, and local sources. Successful leasing and development efforts have resulted in more than 80 companies and three Navy operations occupying more than 4.5 million square feet of space and employing more than 7,000 people. In September 2004, PIDC and the City released an updated Navy Yard Master Plan, which focuses on mixed use development on 400 acres east of Broad Street and envisions over \$2 billion of private investment in office, research, retail, residential, and recreational projects. To date, major progress was achieved in implementation of the Master Plan:

- **Industrial Anchors:** The Navy Yard continues to be a vital industrial and manufacturing center, with the Aker Philadelphia Shipyard as a major anchor activity. Aker employs 1,300 in its commercial shipbuilding operation and is in the midst of \$2 billion worth of ship orders. This robust activity also supports a number of supplier and related industrial and manufacturing companies located at The Navy Yard. The US Navy also retains significant industrial facilities to support its foundry and propeller shop with nearly 800 employees. Building on the skilled workforce and range of industrial supplier companies located at The Navy Yard, an affiliate of Boston Ship repair leased a dry-dock, pier and related facilities in 2007 and commenced ship repair in 2008. Also in 2007, Tasty Baking Company announced plans for, and began construction on, a new 350,000 SF bakery and distribution center at The Navy Yard. This facility will be operational in 2009. This facility, along with an additional 200,000 SF of speculative flex and industrial space, is being developed in the Navy Yard Commerce Center by Liberty Property Trust and Synterra Partners.
- **Navy Yard Corporate Center:** In 2003, PIDC selected a team led by Liberty Property Trust and Synterra Partners to develop 72 acres with 1.4 million square feet of Class A office space. Liberty/Synterra has developed three buildings, (i) a 77,000-square-foot, multi-tenant speculative building which is now 100 percent leased, (ii) a 47,000 square foot build-to-suit headquarters for Unique Industries and (iii) a 95,000 square foot office building currently under construction. The third building will be a multi-tenant building to include Tasty Baking Company's corporate headquarters as the anchor tenant and will open in 2009 with more than 70% of the space now leased..
- **Additional Corporate Office Activity:** The Navy Yard's shift from a federal, industrial property to a private sector business park with corporate/research future has defined itself in recent years with a combination of headquarters relocations by Vitetta Architects and Engineers, Unique Industries, and Barthco International. In 2006, Urban Outfitters, a major retailer of clothing, furnishings and accessories completed its \$115 million corporate campus, an award-winning historic conversion of approximately 300,000 SF of former industrial facilities now housing more than 900 employees.
- **Research and Development:** In addition to the development of general corporate office facilities, The Navy Yard has established an important market segment in technology and R&D activity. This activity is anchored by the Naval Ship Systems Engineering Station, an 1,800 person federal research lab that houses the Navy's premier research organization focusing on power, energy, fuel cells, propulsion, IT and systems integration. In order to complement and expand this research base, the Commonwealth designated the Navy Yard as a Keystone Innovation Zone (KIZ), providing access to variety of state incentives for

technology development. The KIZ team led by PIDC includes the U.S. Navy, Penn State University, the Delaware Valley Industrial Resource Center (DVIRC), the City of Philadelphia and the Ben Franklin Technology Partners of Southeastern Pennsylvania. Early initiatives of the KIZ have resulted in Penn State establishing a Navy Yard location for its graduate level engineering program; the relocation of Ben Franklin Technology Partners' Corporate Office to The Navy Yard; the development of the Building 100 Innovation Center by Ben Franklin, DVIRC and PIDC to house early stage technology companies focused on power and energy related research; and a cadre of 12 KIZ related companies with offices at The Navy Yard. PIDC and Penn State have also prepared initial plans for a \$70 million, 120,000 SF Energy Engineering and Technology Innovation Center that will provide Penn State with a major research presence at The Navy Yard.

The Navy Yard also supports a significant and growing life sciences community. In 2004, AppTec Laboratory Services, a Minneapolis based provider of contract testing and manufacturing services to the pharmaceutical sector, developed a new, 75,000 SF office and lab facility at The Navy Yard. Established with approximately 40 employees initially, AppTec now has more than 260 employees at The Navy Yard. In 2008, WuXi Pharmaceuticals acquired AppTec and now houses its North American contract testing operation at The Navy Yard. Phoenix IP Ventures, an intellectual property Merchant Bank focused in the life sciences area, established its corporate headquarters at The Navy Yard, where it also houses operations for its growing base of companies.

Additional Projects under Construction

The following table lists additional projects currently under construction in the City for the City/Public sector.

**Table A-25
Projects under Construction**

Project	Estimated Cost
City Hall Exterior Renovation Project	\$90,000,000
Presidents House	\$8,400,000
Robin Hood Dell Restoration	\$5,500,000
Emergency Standby Generators	\$4,600,000
Herron & Gambrel Playground Improvements	\$2,600,000
Philadelphia Industrial Correctional Center Security Upgrade Project	\$ 2,100,000
Fire Point Source Capture	\$ 11,000,000
Waterworks Dredging Enhancement	\$1,000,000

Source: Office of Budget and Program Evaluation, January 2009

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APPENDIX D

SUMMARIES OF THE ACT AND LEGISLATION AUTHORIZING THE ISSUANCE OF THE BONDS

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APPENDIX D

SUMMARIES OF THE ACT AND LEGISLATION AUTHORIZING THE ISSUANCE OF THE BONDS

The following are summaries of certain provisions of The First Class City Revenue Bond Act, as amended and supplemented (the "Act"), the General Gas Revenue Bond Ordinance of 1975, as amended and supplemented (the "1975 General Ordinance") and the General Gas Works Revenue Bond Ordinance of 1998, as amended and supplemented (the "1998 General Ordinance"), which generally authorize the issuance of Gas Works Revenue Bonds (1975 General Ordinance) and Gas Works Revenue Bonds (1998 General Ordinance), respectively. Also summarized herein is the Ninth Supplemental Ordinance to the 1998 General Ordinance (the "Ninth Supplemental Ordinance"), which authorizes the issuance of the Gas Works Revenue Refunding Bonds, Eighth Series (1998 General Ordinance) (the "Eighth Series Bonds"). The summaries are not, and should not be regarded as, complete statements of the provisions of this legislation or of the portions thereof summarized. Reference is made to the Act, the 1975 General Ordinance, the 1998 General Ordinance and the Ninth Supplemental Ordinance, copies of which are available from the Office of the Director of Finance, 1300 Municipal Services Building, 1401 John F. Kennedy Boulevard, Philadelphia, Pennsylvania 19102, for the complete terms and provisions thereof. Certain terms used in this summary are defined below. Other terms used herein are defined in the Act, the 1975 General Ordinance, the 1998 General Ordinance and the Ninth Supplemental Ordinance and, unless otherwise stated, shall have the meanings set forth therein.

THE FIRST CLASS CITY REVENUE BOND ACT **(Act 234 of the General Assembly of the Commonwealth** **Approved October 18, 1972, P.L. 955; 53 P.S. §§ 15901-24)**

General Authorization; Definitions; Bonds to be Special Obligations

The Act is intended to provide a comprehensive authorization to The City of Philadelphia, Pennsylvania (the "City") and any other Pennsylvania city of the first class to issue revenue bonds ("Bonds") to finance various types of projects or to refund previously issued Bonds and certain other bonds, as more fully described herein under "Refunding."

Project is defined as any buildings, structures, facilities or improvements of a public nature, the related land, rights or leasehold estates in land, and the related furnishings, machinery, apparatus or equipment of a capital nature, which the City is authorized to own, construct, acquire, improve, lease as lessor or lessee, operate, maintain or support; any item of construction, acquisition or extraordinary maintenance or repair thereof, the City's share of the cost of any of the foregoing or any combination thereof undertaken jointly with others; and any combination of the foregoing or any undivided portion of the cost of any of the foregoing as may be designated a project by the City for financing purposes and in respect of which the City may reasonably be expected to receive Project Revenues.

Project Revenues is defined as, in respect of a Project, all rents, rates, tolls or charges imposed or charged for the use or product of or services generated from the Project to the

ultimate users or customers thereof, all payments under bulk contracts with municipalities, government instrumentalities or other bulk users, all subsidies or payments payable by federal, state or local governments or governmental agencies on account of the cost of operation of, or the payment of the principal of or interest on moneys borrowed to finance the cost of the Project, and may include reasonable estimates of all interest on and profits from investment of moneys derived from the foregoing.

Bonds issued under the Act are required to be secured by and payable solely from Project Revenues and by any reserve funds which may be created or funded in connection with the Bonds. The Bonds are not permitted to pledge the credit or taxing power of the City, to create a debt or charge against the tax or general revenues of the City, or to create a lien against any City property of the City other than the Project Revenues pledged therefor. The obligations represented by the Bonds do not constitute a debt of the City, and are excluded from the calculation of the City's debt-incurring capacity under the Pennsylvania Constitution.

Estimate of Future Revenues in Ordinance

The Act requires a finding to be made in the ordinance authorizing the issuance of the Bonds that the pledged Project Revenues will be sufficient to pay any prior parity charges on such pledged Project Revenues and the principal of and interest on the Bonds. This finding is to be based on a report of the chief fiscal officer of the City filed with the City Council and supported by appropriate schedules and summaries. The report of the chief fiscal officer of the City may be based on the final report of the head of the department or agency of the City having jurisdiction over the project involved or on certificates of a registered engineer engaged by the City to compile relevant data.

For the purpose of calculating projected annual Project Revenues for each year, the Act provides that: (i) only those rents, rates, tolls or charges to the general public shall be included which, under an appropriate ordinance, resolution or rate schedule duly adopted and in full force and effect as of the date of calculation will be reasonably collectible in such year under the schedule or rate of rents, rates, tolls or charges which are or will be in effect during such year, or which may be imposed by administrative action without further legislation; (ii) only those bulk payments shall be included which may be imposed under subsisting legislation or which are provided under subsisting agreements or are the subject of an expression of intent by the prospective obligor deemed reliable by the chief fiscal officer of the City; and (iii) only those governmental subsidies or payments shall be included which, under existing legislation, are subject to reasonably precise calculation and, unless stated in such legislation or authorization to be of an annual or more frequently recurring nature, are payable in such year.

Details of Bonds and City Covenants

The Act provides that the ordinance authorizing the issuance of the Bonds shall state the aggregate amount of Bonds to be issued and determine, or designate officers of the City to determine, the form and details of the Bonds. Subject to applicable constitutional provisions, the City may include in its bond ordinance various covenants with bondholders, including covenants governing the segregation, custody, investment and disbursement of construction funds, the imposition, collection, custody and disbursement of Project Revenues, the operation and

maintenance, replaced and insurance of the Project, the establishment, segregation, maintenance, custody, investment and disbursement of sinking funds and other special funds, accounts and reserves, the issuance of additional priority or parity Bonds, the redemption of Bonds, the rights and remedies of obligees upon default, and such other provisions as the City deems necessary or desirable in the interest of or for the protection of the City or of such bondholders. Under the Act, such covenants, terms and provisions of the bond ordinance constitute contractual obligations of the City subject to modification (with such limitations as may be specified in the bond ordinance) by agreement with a majority in interest of the bondholders or such larger portion thereof as may be provided in the bond ordinance.

Sinking Fund

The Act requires that the bond ordinance shall provide for the establishment and maintenance of a sinking fund or shall designate a previously established sinking fund for the payment of the principal of and interest on the Bonds as the same become due and payable or upon redemption and for the payment of State taxes, if any, assumed by the City to be paid on the Bonds. Payment into such sinking fund shall be made in annual or more frequent installments commencing not later than one year subsequent to the completion of the Project in respect of Bonds issued for construction or acquisition of the Project, and in all other cases, not later than one year subsequent to the date of the Bonds, and shall be sufficient to pay or accumulate for payment all principal of and interest on the Bonds for which the sinking fund is established and all State taxes, if any, assumed by the City to be paid on such Bonds, as and when the same shall become due and payable. The sinking fund and any other funds or accounts established by the bond ordinance shall be managed by the chief fiscal officer of the City and moneys therein, to the extent not currently required, shall be invested, subject to limitations established by the bond ordinance and the Act. Interest and profits from investment of moneys in the sinking fund and other funds shall be added to such fund and may be applied in reduction of or to complete required deposits to the sinking fund. Excess moneys in the sinking fund shall be repaid to the City for its general purposes or as otherwise provided in the bond ordinance. All moneys deposited in the sinking fund are subject to a perfected security interest for the Bonds for which the sinking fund is established until properly disbursed.

Refunding

Bonds outstanding under the Act or other bonds issued for purposes for which Bonds are issuable under the Act, whether issued before or after the effective date of the Act, may be refunded by Bonds issued under the Act and such refunding Bonds are subject to the same protections and provisions required for the issuance of an original issue of Bonds, provided that the last stated maturity date of the refunding Bonds is not later than ten years after the last stated maturity date of the bonds to be refunded. The principal of and interest to payment or redemption date and redemption premium payable, if any, in respect of bonds to be refunded will no longer be deemed to be outstanding obligations of the City (i) when the City shall have deposited with a bank, bank and trust company or trust company funds represented by demand deposits, interest-bearing time accounts, savings deposits, certificates of deposit or specified noncallable obligations of the United States or of the Commonwealth of Pennsylvania (provided such deposits or accounts are insured or secured as public deposits with securities having at all times a market value exclusive of accrued interest equal to the principal amount thereof), which

are sufficient to effect, and are irrevocably pledged to, the redemption or payment of such bonds. and, (ii) when the City shall have duly called the Bonds for redemption and shall have met all notice requirements or given irrevocable instruction to give such notice.

Validity of Proceedings; Suits and Limitations Thereon

Prior to the delivery of Bonds, the City must file with the Court of Common Pleas of Philadelphia County (the "Court") a transcript of the proceedings authorizing the issuance of such Bonds. If no action asserting the invalidity of such proceedings is brought on or before the twentieth day following the date of recording of the transcript, the validity of the proceedings, the City's right to issue such Bonds authorized thereby, the lawful nature of the purpose for which such Bonds are issued, and the validity and enforceability of such Bonds in accordance with their terms may not thereafter be inquired into judicially, in equity, at law, or by civil or criminal proceedings, or otherwise, either directly, or collaterally, except where a constitutional question is involved.

Negotiable Instruments

The Act provides that Bonds issued thereunder shall have all the qualities and incidents of securities under Article 8 of the Uniform Commercial Code of the Commonwealth of Pennsylvania and shall be negotiable instruments.

Exemption from State Taxation

The Commonwealth pledges with the Holders from time to time of Bonds issued under the Act that such Bonds and the interest thereon shall at all times be free from taxation within and by the Commonwealth of Pennsylvania, but this exemption does not extend to underwriting profits or to gift, succession or inheritance taxes or any other taxes not levied directly on the Bonds, the receipt of income therefrom or the realization of gains on the sale therefrom. Profits, gains or income derived from the sale, exchange or other disposition of the Bonds are subject to state and local taxation within the Commonwealth of Pennsylvania.

Defaults and Remedies

If the City should fail to pay or cause to be paid the principal of or interest on any Bond as the same shall become due, the Act permits the Holder of any such Bond, subject to the limitations described below, to recover the amount due in an action in assumpsit the court of common pleas of the county. However, a judgment rendered in favor of the bondholder in such an action is limited to assessments, revenues, rates, rents, tolls and charges from the Project which are pledged for the payment of such Bond. The Holders of 25% in aggregate principal amount of any series of Bonds then outstanding which are in default, whether because of failure of timely payment which is not cured within 30 days or failure of the City to comply with any other provisions of the Bonds or any bond ordinance, may appoint a trustee to represent the Holders of all such Bonds, and such representation shall be exclusive for the purposes provided in the Act. Such trustee may and, upon written request of the Holders of 25% in aggregate principal amount of such Bonds then outstanding, and on being furnished with indemnity satisfactory to it, shall take one or more of the following actions which, if taken, shall preclude similar action, whether previously or subsequently initiated, by individual Holders of Bonds: (1)

enforce, by proceedings at law or in equity, all rights of the Holders of the Bonds, including the right to require the City to impose and collect pledged rents, rates, tolls and charges or to require the City to carry out any other agreements with the Holders of such Bonds; (2) bring suit on the Bonds with the same effect as a suit by any Holder of the Bonds; (3) bring suit in equity to require the City to account as if it were a trustee of an express trust for the holders of such Bonds for all pledged Project Revenues received and/or to enjoin any acts or things which may be unlawful or in violation of the rights of the Holders of any Bonds; and (4) after 30 days' written notice to the City and subject to any limitations in the bond ordinance, declare the unpaid principal of all Bonds issued pursuant to the 1998 General Ordinance to be immediately due and payable, together with interest thereon at the rates stated in the Bonds until final payment, and, upon the curing of all defaults, to annul such declaration and its consequences. The court, in cases of extreme hardship, may provide for the payment of sums levied in five or less annual installments with interest at a rate sufficient to cover the interest accruing on the Bonds. In any suit, action or proceeding by or on behalf of Holders of defaulted Bonds, the fees and expenses of a trustee, including operating costs of a Project and reasonable counsel fees, which are allowed by the court shall be deemed additional principal due on the Bonds and shall be paid in full from any recovery prior to any distribution to the Holders of the Bonds. (The 1998 General Ordinance limits any such recovery to Project Revenues.) The trustee shall make distribution of any sums so collected in accordance with the Act.

Refunding With General Obligation Bonds

Upon certification by the City's chief fiscal officer that Project Revenues for the payment of Bonds have become insufficient to meet the requirements of the ordinance or ordinances under which the Bonds were issued, the City Council is empowered, but not required, subject to applicable Pennsylvania constitutional debt limitations, to authorize the issuance and sale of general obligation refunding bonds of the City without limitation as to rate of interest and in such principal amount as may be required, together with other available funds to pay and redeem such Bonds, including principal, interest to the date fixed for redemption or payment and redemption premium, if any.

THE 1975 GENERAL ORDINANCE
Ordinance of City Council Approved
May 30, 1975 - Bill No. 1871
(the "1975 General Ordinance")

Pursuant to the authorization contained in the Act; the City has enacted the 1975 General Ordinance. The City has made a pledge of, and has granted a security interest in all Project Revenues and all accounts, contract rights and general intangibles representing Project Revenues for the security and payment of all Bonds issued under the 1975 General Ordinance.

Definitions Under the 1975 General Ordinance

Act means The First Class City Revenue Bond Act approved October 18, 1974 (Act No. 234, 53 P.S. §15901 to 15924) as from time to time amended. The words and phrases which are defined in the Act shall have such defined meaning when used in the 1975 General Ordinance.

Bond or Bonds means any gas works revenue bond of the City issued and outstanding pursuant to the Act under the 1975 General Ordinance and any supplemental ordinance thereto and shall include installment bonds, temporary bonds and interim certificates.

Bondholder means the Holder of any bearer bond and the registered owner of any registered bond and the term Holder, or Holders unless the context otherwise requires, shall be deemed to include the registered owners of any bond or bonds as well as the Holders of bearer bonds.

City means the City of Philadelphia, Pennsylvania.

City Charges are defined to be the proportionate charges for services performed for the Gas Works by all officers, departments, boards or commissions of the City which are contained in the computation of Operating Expenses of the Gas Works including, without limitation, the expenses of the Gas Commission and the base payments to the City contained in the agreement between the City and the manager of the Gas Works and all other payments made to the City from Project Revenues.

Director of Finance means the chief financial, accounting and budget officer of the City as established by the Philadelphia Home Rule Charter.

Fiscal Agent means the bank named as such in the 1975 General Ordinance.

Fiscal Year is defined as the fiscal year for the Gas Works provided in any ordinance of the City from time to time enacted and, if no other Fiscal Year is established by ordinance, it shall mean the fiscal year of the City.

Gas Works means all property, real and personal, owned by the City and used in the acquisition or manufacture, storage and distribution of natural, liquefied, synthetic or manufactured gas or in the maintenance, management or administration thereof, and also means, as the context may require, the business entity managed by the Manager.

Manager means The Philadelphia Facilities Management Corporation currently managing the Gas Works pursuant to an ordinance of City Council approved December 29, 1972, setting forth the Agreement between the City and The Philadelphia Facilities Management Corporation, or its successor or such other person, corporation, board, commission or department of the City, which may be designated by ordinance to manage the Gas Works.

Net Operating Expenses are defined to be Operating Expenses exclusive of City Charges.

Operating Expenses are defined to be all costs and expenses of the Gas Works necessary and appropriate to operate and maintain the Gas Works in good operable condition during each Fiscal Year including, without limitation, the manager's fee, salaries and wages, purchases of service by contract, costs of materials, supplies and expendable equipment, maintenance costs, costs of any property or the replacement thereof or for any work or project related to the Gas Works which does not have a probable useful life of at least five years, pension and welfare plan and workmen's compensation requirements, provision for claims, refunds and uncollectible receivables and for City Charges, all in accordance with generally acceptable municipal

accounting principles consistently applied, but shall exclude depreciation and interest and sinking fund charges.

Project Revenues are defined to include all rents, rates and charges imposed or charged by the City upon the owners or occupants of properties connected to, and upon all users of gas distributed by the Gas Works and all other revenues derived from the Gas Works (the Project Revenues) as such term is defined in the Act, and all accounts, contract rights and general intangibles representing the Project Revenues and in each case, the proceeds of the foregoing.

Rate Covenant means the rate covenant contained in subsection (b) of Section 4.03 of the 1975 General Ordinance.

Series when applied to Bonds means collectively all of the Bonds of a given issue authorized by Supplemental Ordinance as provided therein and may also mean, if appropriate, a subseries of any series if, for any reason, the City should determine to divide any series into one or more subseries of Bonds.

Sinking Fund means the Gas Works Revenue Bond Sinking Fund established by Section 6.01 of the 1975 General Ordinance.

Sinking Fund Depository means the bank named as such in Section 6.02 of the 1975 General Ordinance or its successor.

Sinking Fund Reserve means the Sinking Fund Reserve established by Section 6.04 of the 1975 General Ordinance.

Supplemental Ordinance means an ordinance supplemental to the 1975 General Ordinance enacted pursuant to the Act and the 1975 General Ordinance by the Council of the City authorizing the issuance of a series of Bonds.

Security

The City has pledged, pursuant to the 1975 General Ordinance, for the security and payment of all Bonds issued under the 1975 General Ordinance and has granted a lien on and security interest in, all Project Revenues.

Priority in Application of Project Revenues

Prior to default, the 1975 General Ordinance establishes the following priorities in the application of Project Revenues during each Fiscal Year.

- (a) to Net Operating Expenses;
- (b) to required payments into the Sinking Fund established under the 1975 General Ordinance to pay the principal of and interest on all Bonds issued under the 1975 General Ordinance and to accumulate, or to restore any deficiency in the Sinking Fund Reserve;

(c) to the payment of general obligation bonds, which have been adjudged to be self-liquidating on the basis of expected revenues from the Gas Works:

(d) to the payment of interest and sinking fund charges of other general obligation debt incurred for the Gas Works; and

(e) to the payment of City Charges, including any Base Payment due to the City.

The 1998 General Ordinance and the 2005 Note Ordinance establish a priority in application of Gas Works Revenues that modifies the application after item Second above (see the priority in application under the summary of the 1998 General Ordinance that follows).

The balance of the Project Revenues in any Fiscal Year may, upon the approval of the Gas Commission, be paid to the City, provided that in a given Fiscal Year the balance so paid does not exceed the amount of earnings on the Sinking Fund Reserve transferred and paid to the Gas Work's operating funds during the same Fiscal Year. The 1975 General Ordinance does not require the segregation of revenues upon their collection prior to default.

Rate Covenant

The Rate Covenant requires the City, at a minimum, to impose, charge and collect in each Fiscal Year such gas rates and charges as shall, together with all other Project Revenues to be received in such Fiscal Year, equal not less than the greater of:

First: The sum of:

(A) all Net Operating Expenses payable during such Fiscal Year;

(B) 150% of the amount required to pay Sinking Fund requirements for the principal of and interest on all Bonds issued and outstanding under the 1975 General Ordinance which will become due and payable during such Fiscal Year; and

(C) the amount, if any, required to be paid into the Sinking Fund Reserve during such Fiscal Year, or

Second: The sum of:

(A) all Net Operating Expenses payable during such Fiscal Year; and

(B) all Sinking Fund deposits required during such Fiscal Year in respect of all outstanding Bonds and in respect of all outstanding general obligation bonds issued for improvements to the Gas Works and all amounts, if any, required during such Fiscal Year to be paid into the Sinking Fund Reserve.

Additional Covenants

The City further covenants that: (1) it will pay or cause to be paid from the Project Revenues the principal of, premium, if any, and interest on all Bonds as the same shall become due and payable; (2) it will continuously maintain in good condition and operate the Gas Works; and (3) it will not, in any Fiscal Year, pay from Project Revenues any City Charges or deposit from the Project Revenues in the general sinking fund of the City any sinking fund charges in respect of general obligation bonds of the City unless, prior to or concurrently with such payment, it shall satisfy all Sinking Fund requirements on Bonds outstanding under the 1975 General Ordinance for such Fiscal Year.

Report Requirements

The City shall file with the Fiscal Agent not later than 120 days after the close of each Fiscal Year a report of the operation of the Gas Works, including specified financial data, showing compliance with the Rate Covenant and accompanied by a certificate of the manager of the Gas Works that the Gas Works are in good operating condition and a certificate of the Director of Finance that, as of the date of such report, the City has complied with all covenants and requirements of the 1975 General Ordinance and Supplemental Ordinances. Copies of such reports will be available, for a period of ten (10) years, to bondholders and may be inspected and copied at all reasonable times by bondholders or their representatives.

General Obligation Bonds - Junior Lien Revenue Bonds

The City reserves the right to finance Gas Works Projects by issuing general obligation bonds or revenue bonds, under authorization other than the 1975 General Ordinance and Supplemental Ordinances, for the payment of which Project Revenues may be pledged, provided that such pledge is subject and subordinate to the prior payments in each Fiscal Year of all Sinking Fund requirements of all Bonds issued under the 1975 General Ordinance.

Conditions of Issuing Bonds

Prior to the issuance of any series of Bonds, the Council of the City shall adopt an ordinance supplemental to the 1975 General Ordinance meeting the requirements of the 1975 General Ordinance.

Prior to the issuance of any series of Bonds under the 1975 General Ordinance, the Director of Finance shall, in addition to the filing requirements of Section 12 of the Act, file with the Fiscal Agent a transcript of the proceedings authorizing the issuance of such series of Bonds which shall include (i) a certified copy of the 1975 General Ordinance (unless previously so filed); (ii) a certified copy of the Supplemental Ordinance; (iii) an executed or certified copy of the report of the Director of Finance required by subsection (a) of Section 8 of the Act; (iv) an executed copy of the opinion of the City Solicitor required by subsection (b) of Section 8 of the Act; and (v) an executed copy of the Engineer's report required pursuant to the terms of the 1975 General Ordinance; and (vi) a certificate of the Director of Finance that there is no default in the payment of the principal of, interest on, or premiums, if any, payable in respect of any Bonds, that the amounts currently on deposit in the Sinking Fund Reserve meet the requirements of the 1975 General Ordinance with respect thereto, that the report for the latest completed Fiscal Year

of the City was in compliance with the Rate Covenant as therein shown, and that the City is currently in compliance with the Rate Covenant and all other covenants contained in the 1975 General Ordinance and all Supplemental Ordinances; and thereupon the proper officers of the City and the Fiscal Agent shall be authorized to execute and deliver the Bonds so authorized, to receipt for the purchase price thereof and to execute and deliver on behalf of the City the usual closing statements, affidavits and certificates.

Sinking Fund and Sinking Fund Reserve

A Gas Works Revenue Bond Sinking Fund is established for the benefit of all Bonds issued under the 1975 General Ordinance which shall be held in an account separate and apart from all other accounts of the City. On or before each interest and principal payment date for the Bonds, the Director of Finance shall deposit in the Sinking Fund from Project Revenues the amount sufficient, together with interest and profits on investments held therein, to pay the principal of and interest on the Bonds due and payable on such interest or principal payment date. The 1975 General Ordinance authorizes the appointment, in accordance with legal procedures, of one or more banks to act as Fiscal Agent and/or paying agent for all Bonds or for any series of Bonds issued thereunder and reserves to the City the right to appoint other or additional banks from time to time. The Fiscal Agent for any particular series will act as registrar and Sinking Fund Depository for that series. The moneys in the Sinking Fund are required to be secured, and invested and reinvested under management of the Director of Finance.

The Sinking Fund Reserve is established as a separate account in the Sinking Fund and is to be held by the Sinking Fund Depository in an amount equal to the maximum amount required in any Fiscal Year to pay the debt service on the Bonds. The Sinking Fund Reserve shall be funded from either (i) the proceeds of each series of Bonds in an a series becoming due and payable in such Fiscal Year or (ii) the accumulation of Project Revenues over a period of not more than six Fiscal Years.

The moneys and investments (valued at market) in the Sinking Fund Reserve shall be maintained in an amount equal at all times to the maximum principal and interest requirements in any subsequent Fiscal Year of all Bonds issued and outstanding under the 1975 General Ordinance; provided, however, that the Supplemental Ordinance authorizing the issuance of any such series may provide for the funding of such amount from Project Revenues over a period of not more than six Fiscal Years after the issuance and delivery of such Bonds. If at any time the moneys in the Sinking Fund, other than in the Sinking Fund Reserve, are insufficient to pay when due the principal of (and premium, if any) or interest on any Bond or Bonds, the Sinking Fund Depository shall withdraw from the Sinking Fund Reserve and pay to the Fiscal Agent the amount of such deficiency. If, by reason of such withdrawal or for any other reason, there shall be a deficiency in the Sinking Fund Reserve, the City covenants to restore such deficiency by daily deposits of at least 50% of Project Revenues.

Transfer of Income on Sinking Fund Reserve

The 1975 General Ordinance provides that all interest and income earned on moneys held in the Sinking Fund Reserve may, to the extent not required to comply with the requirements of

the 1975 General Ordinance relating to the Sinking Fund Reserve, be transferred to the operating funds of the Gas Works to be applied as Project Revenues in accordance with the terms of the 1975 General Ordinance. To the extent that in any Fiscal Year a balance remains in the Project Revenues, such balance, upon approval of the Gas Commission, may be paid to the City, provided that in a given Fiscal Year such balance does not exceed the amount of Sinking Fund Reserve Earnings transferred to the operating funds during the same Fiscal Year.

Remedies; Limitations on Liabilities of City

In addition to the remedies provided by the Act, if the City shall fail or neglect to make deposits into the Sinking Fund, including the Sinking Fund Reserve, in the amounts and at the times required by the 1975 General Ordinance or if, for any reason, moneys in the Sinking Fund shall be insufficient to pay debt service on any Bonds, the City shall, immediately and without notice, deposit to the Sinking Fund, on a daily basis 50% of all pledged Project Revenues, or such greater percentage thereof as the Director of Finance shall determine, so long as the default or deficiency shall continue. The 1975 General Ordinance provides that all remedies are enforceable only against pledged Project Revenues and investments thereof, and that no decree or judgment against the City on action brought under the provisions of the 1975 General Ordinance shall order, or be construed to permit, the occupation, attachment, seizure or sale upon execution of any other property of the City.

Amendments

The 1975 General Ordinance and any Supplemental Ordinance may be amended without the consent of any bondholders (1) to cure ambiguities, formal defects or omissions, or (2) to grant to bondholders or any trustee therefor additional rights, remedies, powers or security, or (3) to comply with mandatory provisions of state or federal law or with permissive provisions of such law which do not substantially impair the security or right to payment of bondholders. The 1975 General Ordinance and any Supplemental Ordinance may be amended in such other respects as may be authorized by 67% in principal amount of the Holders of Bonds outstanding and affected, but no alteration of the amount, rate or time of payment, respectively, of the principal thereof or the interest thereon or of the redemption provisions may be made without the consent of the Holders of all Bonds outstanding and affected.

Amendments Not Affecting Outstanding Bonds

The 1975 General Ordinance or any part thereof may be amended and the foregoing covenants (including the Rate Covenant) may be rescinded, amended or supplemented by further covenants and agreements, from time to time by Supplemental Ordinance, but no such amendments or further provisions, terms, covenants or agreements contained in a Supplemental Ordinance, other than those permitted by and adopted pursuant to 8.01 of the 1975 General Ordinance governing amendments generally, which shall be inconsistent with, or would impair a prior covenant in, the 1975 General Ordinance as at the time amended or supplemented, shall become effective until all Bonds, the Holders of which are entitled to the protection of, or to force compliance with, such prior provisions or covenants, shall cease to be outstanding.

THE 1998 GENERAL ORDINANCE
Ordinance of City Council Approved
May 8, 1998 — Bill No. 980232
(the “1998 General Ordinance”)

Pursuant to the authorization contained in the Act, the City has enacted the 1998 General Ordinance. The City has made a pledge of, and has granted a security interest in, all Gas Works Revenues and all accounts, contract rights and general intangibles representing Gas Works Revenues for the security and payment of all Bonds issued under the 1998 General Ordinance.

Definitions Under the 1998 General Ordinance

Accreted Value means, with respect to any Capital Appreciation Bond, as of any specified date, the Original Value of such Bond, plus interest accreted on such Bond to such date, all as may be provided in an applicable Supplemental Ordinance.

Act means The First Class City Revenue Bond Act approved October 18, 1972 (Act No. 234, 53 P.S. § 15901 to 15224), as from time to time amended. The words and phrases which are defined in the Act shall have such defined meanings when used in the 1998 General Ordinance.

Bond or Bonds means any Gas Works revenue bond or note of the City issued and outstanding pursuant to the Act under the 1998 General Ordinance and any Supplemental Ordinance.

Bond Counsel means any firm of nationally recognized bond counsel acceptable to the City.

Bondholder or Holder means the registered owner of any Bond.

Bond Register means the list of the names and addresses of Bondholders and the principal amounts and numbers of the Bonds held by them maintained by the Fiscal Agent on behalf of the City.

Bond Year for any Series of Bonds means each one-year period (or shorter period from the date of issue) that ends at the close of business on the date in the calendar year that is selected by the City as permitted under the Code. If no day is selected by the City before the earlier of the final maturity date of the Series of Bonds or the date that is five (5) years after the issue date, the Bond Year with respect to such Series of Bonds shall end on each anniversary of the issue date and on the final maturity date.

Business Day means a day other than a Saturday, Sunday or holiday on which the Fiscal Agent is authorized or required to be closed under applicable state or federal law.

Capital Appreciation Bonds means any Bonds issued under the 1998 General Ordinance which do not pay interest until maturity or until a specified date prior to maturity, but whose Original Value accretes periodically to the amount due on the maturity date.

City means The City of Philadelphia, Pennsylvania.

City Charges means the proportionate charges, if any, for services performed for the Gas Works by all officers, departments, boards or commissions of the City which are contained in the computation of operating expenses of the Gas Works, including, without limitation, the expenses of the Gas Commission, and also means the base payments to the City contained in the Management Agreement and all other payments made to the City from Gas Works Revenues.

City Controller means the head of the City's auditing department as provided by the Philadelphia Home Rule Charter.

City Solicitor means the head of the City's law department as provided by the Philadelphia Home Rule Charter.

Code means the Internal Revenue Code of 1986, as amended, or any successor legislation, and the regulations and published rulings promulgated thereunder or applicable thereto.

Credit Facility means any letter of credit, standby bond purchase agreement, line of credit, surety bond, insurance policy or other insurance commitment or similar agreement (other than a Qualified Swap or an Exchange Agreement) that is provided by a commercial bank, insurance company or other institution, with a current long term rating (or whose obligations thereunder are guaranteed by a financial institution with a long term rating) from Moody's and S&P not lower than "A."

Credit Facility Issue or issuer of a Credit Facility means each issuer of a Credit Facility then in effect, and its successors. References to the Credit Facility Issuer shall be read to mean the issuer of the Credit Facility applicable to a particular Series of Bonds or each issuer of a Credit Facility, as the context requires.

Debt Service Requirements means, for a specified period, the sum of (i) the principal of (whether at maturity or pursuant to mandatory redemption) and interest (other than capitalized interest) on Outstanding Bonds payable during the period and (ii) all net amounts due and payable by the City under Qualified Swaps and Exchange Agreements during the period. For purposes of estimating Debt Service Requirements for any future period, (i) any Option Bond outstanding during such period shall be assumed to mature on the stated maturity date thereof, except that the principal amount of any Option Bond tendered for payment and cancellation before its stated maturity date shall be deemed to accrue on the date required for payment pursuant to such tender; (ii) Debt Service Requirements on Bonds for which the City has entered into a Qualified Swap or an Exchange Agreement shall be calculated assuming that the interest rate on such Bonds shall equal the stated fixed or variable rate payable by the City on the Qualified Swap or Exchange Agreement or, if applicable and if greater than such stated rate, the applicable rate for any Bonds issued in connection with the Qualified Swap or Exchange Agreement adjusted, in the case of variable rate obligations, as provided in Section 4.03(b); and (iii) Debt Service Requirements with respect to Variable Rate Bonds shall be subject to adjustments as permitted by Section 4.03(b) of the 1998 General Ordinance.

Director of Finance means the chief financial, accounting and budget officer of the City as established by the Philadelphia Home Rule Charter, including a person acting as Director of Finance under applicable law.

Exchange Agreement means, with respect to a Series of Bonds, or any portion thereof to the extent from time to time permitted by applicable law, any interest exchange agreement, interest rate swap agreement, currency swap agreement or other contract or agreement, other than a Qualified Swap, authorized, recognized and approved by a Supplemental Ordinance as an Exchange Agreement and providing for payments to and from an entity whose senior long term debt obligations, other senior unsecured long term obligations, or claims paying ability or whose obligations under an Exchange Agreement are guaranteed by an entity whose senior long term debt obligations, other senior unsecured long term obligations or claims paying ability, are rated not less than A3 by Moody's, A- by S&P or A- by Fitch, or the equivalent thereof by any successor thereto as of the date the Exchange Agreement is entered into, which payments are calculated by reference to fixed or variable rates and constituting a financial accommodation between the City and the counterparty.

Fiscal Agent means any bank, bank and trust company or trust company named as such in Section 6.02 of the 1998 General Ordinance or its successor.

Fiscal Year means the fiscal year of the Gas Works.

Fitch means Fitch IBCA, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns and if such corporation shall for any reason no longer perform the functions of a securities rating agency, "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency designated by the City. Whenever rating categories of Fitch are specified in the 1998 General Ordinance, such categories shall be irrespective of gradations within a category.

Gas Commission means the Gas Commission provided for by the Philadelphia Home Rule Charter as presently constituted or hereafter reconstituted in accordance with law.

Gas Works means all property, real and personal, owned by the City and used in the acquisition or manufacture, storage and distribution of natural, liquefied, synthetic or manufactured gas or in the maintenance, management or administration thereof and all activities ancillary and related thereto, and also means, as the context may require, the business entity managed by the Manager.

Gas Works Revenues means all operating and nonoperating revenues of the Gas Works derived from its activities and assets involved in the supply, manufacture, storage and distribution of gas, including all rents, rates and charges imposed or charged by the City upon the owners or occupants of properties connected to, and upon all users of, gas distributed by the Gas Works and all other revenues derived therefrom and all other income derived by the City from the Gas Works. Revenues derived from activities unrelated to the supply, manufacture, storage and distribution of gas or assets related thereto shall not be included in Gas Works Revenues, provided that the Gas Works receives fair payment for the use of gas related assets and personnel of the Gas Works used in such activities, which payments shall be included in Gas Works

Revenues. In particular, Gas Works Revenues shall not include revenues from enterprises or functions not related to gas activities (e.g., activities involving the supply, generation or distribution of electricity). Gas Works Revenues shall not include those portions of the Gas Works' rents, rates and charges which are securitized and sold pursuant to Section 4.03(b) of the 1998 General Ordinance. Gas Works Revenues may be divided into separate components in one or more Supplemental Ordinances and any Series of Bonds issued thereafter may be limited as to source of payment to one or more of such components as provided in the Supplemental Ordinance authorizing the particular Series of Bonds.

Government Obligations means any of the following which are noncallable and which at the time of investment are legal investments under the Act for the moneys proposed to be invested therein:

(a) direct general obligations of, or obligations the payment of principal of and interest on which are *unconditionally* guaranteed as to full and timely payment by, the United States of America;

(b) direct obligations and fully guaranteed certificates of beneficial interest of the Export-Import Bank of the United States; consolidated debt obligations and letter of credit-backed issues of the Federal Home Loan Banks; participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation; debentures of the Federal Housing Administration; mortgage-backed securities (except stripped mortgage securities which are valued greater than par on the portion of unpaid principal) and senior debt obligations of the Federal National Mortgage Association; participation certificates of the General Services Administration; guaranteed mortgage-backed securities and guaranteed participation certificates of the Government National Mortgage Association; guaranteed participation certificates and guaranteed pool certificates of the Small Business Administration; debt obligations and letter of credit-backed issues of the Student Loan Marketing Association; local authority bonds of the U.S. Department of Housing & Urban Development; guaranteed Title XI financings of the U.S. Maritime Administration; or

(c) obligations issued by the Resolution Funding Corporation pursuant to the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (the "FIRRE Act"), (i) the principal of which obligations is payable when due from payments of the maturing principal of non-interest bearing direct obligations of the United States of America which are issued by the Secretary of the Treasury and deposited in the Funding Corporation Principal Fund established pursuant to the FIRRE Act, and (ii) the interest on which obligations, to the extent not paid from other specified sources, is payable when due by the Secretary of the Treasury pursuant to the FIRRE Act.

Independent means a person who is not a salaried employee or elected or appointed official of the City; provided, however, that the fact that such person is retained regularly by or transacts business with the City shall not make such person an employee within the meaning of this definition.

Interim Debt means any bond anticipation notes or other temporary borrowing which the City anticipates permanently financing with Bonds or other long term indebtedness under the 1998 General Ordinance or otherwise.

Management Agreement means the Agreement dated December 29, 1972 between the City and the Manager for the management and operation of the Gas Works, as presently or hereafter amended, or any successor agreement which may be entered into by the City pertaining to the management of the Gas Works.

Manager means Philadelphia Facilities Management Corporation, currently managing the Gas Works pursuant to the Management Agreement, or its successor or such other person, corporation, board, commission or department of the City which may be designated by the City to manage the Gas Works.

Mayor means the Mayor of the City.

Moody's means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and if such corporation shall for any reason no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the City. Whenever rating categories of Moody's are specified in the 1998 General Ordinance, such categories shall be irrespective of gradations.

Net Operating Expenses means Operating Expenses exclusive of City Charges.

1975 Ordinance means the General Gas Works Revenue Bond Ordinance of 1975, as amended.

Office of the Fiscal Agent means the corporate trust office of the Fiscal Agent designated by the Fiscal Agent.

Operating Expenses means all costs and expenses of the Gas Works necessary and appropriate to operate and maintain the Gas Works in good operable condition during each Fiscal Year, and shall include, without limitation, the Manager's fee, salaries and wages, purchases of service by contract, costs of materials, supplies and expendable equipment, maintenance costs, costs of any property or the replacement thereof or for any work or project, related to the Gas Works, which does not have a probable useful life of at least five years, pension and welfare plan and workmen's compensation requirements, provision for claims, refunds and uncollectible receivables and for City Charges, all in accordance with generally accepted municipal accounting principles consistently applied, but shall exclude depreciation and interest and sinking fund charges. Operating Expenses shall not include Unrelated Expenses.

Option Bond means any Bond which by its terms may be tendered by and at the option of the Holder thereof for payment by the City prior to its stated maturity date or the maturity date of which may be extended by and at the option of the Holder thereof.

Ordinance means the 1998 General Ordinance, as from time to time amended.

Original Value, with respect to a Series of Bonds issued as Capital Appreciation Bonds, means the principal amount paid by the initial purchasers thereof on the date of original issuance.

Outstanding, when used with reference to the Bonds, means, as of any particular date, all Bonds which have been authenticated and delivered under the 1998 General Ordinance, except:

(a) Bonds canceled after purchase in the open market or because of payment or redemption prior to maturity;

(b) Bonds for the payment or redemption of which sufficient moneys shall have been theretofore deposited with the Fiscal Agent (whether upon or prior to the maturity or redemption date of any such Bonds), provided that, if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in Section 5.02 of the 1998 General Ordinance or arrangements satisfactory to the Fiscal Agent shall have been made therefor, or waiver of such notice satisfactory in form to the Fiscal Agent shall have been filed with the Fiscal Agent; and

(c) Bonds in lieu of which or, in substitution for which others have been authenticated and delivered under Section 3.04 of the 1998 General Ordinance.

(d) Bonds paid with the proceeds of any Credit Facility shall be Outstanding until the issuer of such Credit Facility has been reimbursed for the amount of the payment or has presented the Bonds for cancellation.

Philadelphia Home Rule Charter means the Philadelphia Home Rule Charter, as amended or superseded by any new home rule charter, adopted pursuant to authorization of the First Class City Home Rule Act approved April 21, 1949, P.L. 665 §1 et seq. (53 P.S. §13101 et seq.).

Prior Obligations means the obligations of the Gas Works to The Philadelphia Municipal Authority existing on the date of adoption of the 1998 General Ordinance.

Qualified Escrow Securities means funds which are represented by (i) demand deposits, interest-bearing time accounts, savings deposits or certificates of deposit, but only to the extent such deposits or accounts are fully insured by the Federal Deposit Insurance Corporation or any successor United States governmental agency, or to the extent not insured, fully secured and collateralized by Government Obligations having a market value (exclusive of accrued interest) at all times at least equal to the principal amount of such deposits or accounts, (ii) if at the time permitted under the Act, obligations of any state or political subdivision thereof or any agency or instrumentality of such state or political subdivision for which cash, Government Obligations or a combination thereof have been irrevocably pledged to or deposited in a segregated escrow account for the payment when due of principal or redemption price of and interest on such obligations, and any such cash or Government Obligations pledged and deposited are payable as to principal or interest in such amounts and on such dates as may be necessary without reinvestment to provide for the payment when due of the principal or redemption price of and interest on such obligations, and such obligations are rated by any Rating Agency in the highest rating category assigned by such Rating Agency to obligations of the same type, or (iii) noncallable Government Obligations. In each case such funds (i) are subject to withdrawal,

mature or are payable at the option of the Holder at or prior to the dates needed for disbursement, provided such deposits or accounts, whether deposited by the City or by such depository, are insured or secured as public deposits with securities having at all times a market value exclusive of accrued interest equal to the principal amount thereof, (ii) are irrevocably pledged for the payment of such obligations and (iii) are sufficient, together with the interest to the disbursement date payable with respect thereto, if also pledged, to meet such obligations in full.

Qualified Swap or Swap Agreement means, with respect to a Series of Bonds or any portion thereof, any financial arrangement that (i) is entered into by the City with an entity that is a Qualified Swap Provider at the time the arrangement is entered into; (ii) provides that (a) the City shall pay to such entity an amount based on the interest accruing at a fixed rate on an amount equal to the principal amount of the Outstanding Bonds of such Series or portion thereof, and that such entity shall pay to the City an amount based on the interest accruing on a principal amount initially equal to the same principal amount as such Bonds, at either a variable rate of interest or a fixed rate of interest computed according to a formula set forth in such arrangement (which need not be the same as the actual rate of interest borne by the Bonds) or that one shall pay to the other any net amount due under such arrangement or (b) the City shall pay to such entity an amount based on the interest accruing on the principal amount of the Outstanding Bonds of such Series or portion thereof at a variable rate of interest as set forth in the arrangement and that such entity shall pay to the City an amount based on interest accruing on a principal amount equal to the same principal amount of such Bonds at a variable rate of interest or a fixed rate of interest computed according to a formula set forth in such arrangement (which need not be the same as the actual rate of interest borne by the Bonds) or that one shall pay to the other any net amount due under such arrangement; and (iii) which has been designated in writing to the Fiscal Agent by the City as a Qualified Swap with respect to such Bonds.

Qualified-Swap Provider means, with respect to a Series of Bonds, an entity whose senior long term debt obligations, other senior unsecured long term obligations or claims paying ability, or whose payment obligations under a Qualified Swap are guaranteed by an entity whose senior long term debt obligations, other senior unsecured long term obligations or claims paying ability, are rated (at the time the subject Qualified Swap is entered into) at least as high as Aa by Moody's and AA by S&P, or the equivalent thereof by any successor thereto.

Rate Covenant means the rate covenant contained in subsection (b) of Section 4.03 of the 1998 General Ordinance.

Rating Agency means Moody's, S&P or Fitch, to the extent that any of such rating services have issued a credit rating on any of the Outstanding Bonds or, upon discontinuance of any of such rating services, such other nationally recognized rating service or services if any such rating service has issued a credit rating on any of the Outstanding Bonds.

Rebate Amount means the amount with respect to a Series of Bonds, which is required to be paid to the United States of America, as of any computation date, in compliance with the restrictions imposed by Section 148(1) of the Code.

S & P means Standard & Poor's Ratings Services, a corporation organized and existing under the laws of the State of New York, its successors and assigns, and if such corporation shall for any reason no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the City. Whenever rating categories of S&P are specified in the 1998 General Ordinance, such categories shall be irrespective of gradations within a category.

Senior Bonds means Bonds which shall be first in right of payment and as to which the coverage requirement under the Rate Covenant shall be 150%.

Series, when applied to Bonds, means collectively all of the Bonds of a given issue authorized by Supplemental Ordinance as provided in Article IV of the 1998 General Ordinance and may also mean, if appropriate, a subseries of any such issue if, for any reason, the City should determine to divide any such issue into one or more subseries of Bonds.

Sinking Fund means the 1998 Ordinance Gas Works Revenue Bond Sinking Fund established by Section 6.01 of the 1998 General Ordinance.

Sinking Fund Depositary means the Fiscal Agent or any other bank, bank and trust company or trust company appointed as such by the City.

Sinking Fund Reserve means the Sinking Fund Reserve established by Section 6.04 of the 1998 General Ordinance.

Sinking Fund Reserve Requirement means, with respect to all Bonds secured by the Sinking Fund Reserve, an amount equal to the greatest amount of Debt Service Requirements payable in any Fiscal Year (except that such Debt Service Requirements will be computed as if any Qualified Swap did not exist and the Debt Service Requirements attributable to any Variable Rate Bonds may be based upon the fixed rate of interest as set forth in the Supplemental Ordinance for such Bonds), determined as of any particular date.

Subordinate Bonds means those Bonds which shall be subordinate in right of payment to Senior Bonds and as to which the coverage requirement under the Rate Covenant shall be 100%.

Supplemental Ordinance means an ordinance supplemental to the 1998 General Ordinance enacted pursuant to the Act and the 1998 General Ordinance by the Council of the City authorizing the issuance of a Series of Bonds.

Uncertificated Bond means any Bond which is fully registered as to principal and interest and which is not represented by an instrument.

Unrelated Expenses means expenses unrelated to the supply, manufacture, storage and distribution of gas or assets related thereto.

Variable Rate Bond means any Bond, the rate of interest on which is subject to change prior to maturity and cannot be determined in advance of such change.

Concerning the Bonds

Bonds may be issued in one or more series as the City may from time to time determine by supplemental ordinance (each a "Supplemental Ordinance"). The 1998 General Ordinance provides for the method of setting the details and terms of the Bonds authorized by such Supplemental Ordinance. The 1998 General Ordinance sets forth the general form and content of Bonds, the manner of making payment of principal, interest and premium, the requirements governing such payments, the rules regarding registration, transfer and exchange of Bonds, and general provisions governing redemption and the effect thereof. The 1998 General Ordinance authorizes the issuance of definitive and temporary Bonds, provides for the execution of the Bonds and provides for the issuance of Bonds to replace mutilated, destroyed, lost or stolen Bonds. The 1998 General Ordinance authorizes the issuance of Bonds in book-entry form.

Purposes For Which Bonds May Be Issued, Conditions of Issuance, Engineering Report

Bonds may be issued to (1) pay the cost of projects related to the Gas Works, (2) reimburse any City fund from which such costs shall have been paid or advanced, (3) fund any such cost for which the City shall have outstanding bond anticipation notes or other obligations, (4) refund any bonds of the City issued for the foregoing purposes under the Act, (5) refund any general obligation bonds of the City issued for the foregoing purposes, or (6) finance anything else relating to the Gas Works permitted under the Act.

The City covenants that so long as any Bonds shall remain outstanding, no Bonds will be issued under the 1998 General Ordinance or any ordinance supplemental thereto unless the financial report of the City's chief fiscal officer, required by the Act, is filed with the City Council in connection with such issuance. Such report may be given in reliance on an engineering report of an Independent consulting engineer or an Independent firm of consulting engineers, in either case having broad experience in the design and analysis of the operation of gas works or gas distribution systems of the magnitude and scope of the Gas Works and a favorable reputation for competence in such field. The report must set forth the qualifications of the engineers and must contain a statement that the engineers have made an investigation of the physical properties and of the books and records of the Gas Works, as they deemed necessary.

On the basis of such investigation, the engineering report must contain the same matters, statements and opinions as are required to be contained in the report of the chief fiscal officer to the City Council, supported by appropriate schedules and summaries, namely: (1) a brief description of the project or projects for which the Bonds are to be issued; (2) a statement identifying the sources from which the pledged revenues are to be derived; (3) a statement that, on the basis of actual, if appropriate, and estimated future annual financial operations of the project or projects from which the pledged project revenues are to be derived, the project or projects will, in the opinion of the engineers, yield pledged project revenues over the amortization period of such Bonds sufficient to meet the payment or deposit requirements of all expenses of operation, maintenance, repair and replacement of the Project, reserve requirements, debt service of all Bonds outstanding for which Project Revenues are pledged, any State taxes assumed by the City to be paid on such Bonds and surplus requirements fixed by the 1998 General Ordinance or the Supplemental Ordinance authorizing the issuance of any Series of Bonds, and (4) that the project revenues upon which the preceding statements are based comply

with the definition of "Project Revenues" contained in the Act. The 1998 General Ordinance also requires that the engineering report state that the Gas Works rents, rates and charges, on the basis of which the foregoing statements are made, are currently and will be sufficient to comply with the Rate Covenant and that the Gas Works are in good operating condition or that adequate steps are being taken to make them so.

Prior to the issuance of the Bonds, a transcript of the proceedings authorizing the issuance of the Bonds, including the engineering report, if any, shall be filed with the Fiscal Agent.

Security

The City pledges, pursuant to the 1998 General Ordinance, for the security and payment of all Bonds issued under the 1998 General Ordinance and thereby grants a lien on and security interest in, all Gas Works Revenues, all accounts, contract rights and general intangibles representing the Gas Works Revenues and all funds and accounts established under the 1998 General Ordinance, and in each case, the proceeds of the foregoing, except as limited for a Series of Bonds in the Supplemental Ordinance authorizing the issuance of such Series of Bonds; provided, however, that the pledge of the 1998 General Ordinance may also be for the benefit of the provider of a Credit Facility, Qualified Swap or Exchange Agreement, or any other person who undertakes to provide moneys for the account of the City for the payment of principal or redemption price, of and interest on any Series of Bonds on an equal and ratable basis with the related Series of Bonds, to the extent provided by any Supplemental Ordinance.

Subordinate Bonds shall be subordinate to Senior Bonds in right of payment of principal, premium, if any, and interest. Senior Bonds and Subordinate Bonds shall not have any preference, priority or distinction as to lien or otherwise, except as otherwise provided in the 1998 General Ordinance or in a Supplemental Ordinance, over any other Senior Bonds or Subordinate Bonds, respectively.

Priority in Application of Gas Works Revenues

The 1998 General Ordinance provides that all Gas Works Revenues as and when collected in each Fiscal Year shall be applied in order of priority, to the extent then payable,

First: to Net Operating Expenses then payable;

Second: to debt service on bonds issued under the 1975 Ordinance and amounts required to be paid into the sinking fund reserve under the 1975 Ordinance;

Third: to debt service on Senior Bonds, payments (other than termination payments) due to the issuers of Qualified Swaps and Exchange Agreements related to Senior Bonds and payments due in respect of obligations of the Gas Works to The Philadelphia Municipal Authority existing on the date of adoption of the 1998 General Ordinance;

Fourth: payments due to issuers of Credit Facilities related to Senior Bonds;

Fifth: to debt service on Subordinate Bonds and payments due in respect of obligations of the Gas Works on a parity with Subordinate Bonds (including notes issued under the City's General Inventory and Receivables Gas Works Revenue Note Ordinance of 1993, or any similar ordinance, and amounts payable to the provider of a Credit Facility in respect of such notes) and payments (other than termination payments) due to the issuers of Qualified Swaps and Exchange Agreements related to Subordinate Bonds;

Sixth: to payments due to issuers of Credit Facilities related to Subordinate Bonds;

Seventh: to required payments of the Rebate Amount to the United States;

Eighth: to replenishment of any deficiency in the Sinking Fund Reserve;

Ninth: to payment of general obligation bonds of the City adjudged to be self-liquidating from Gas Works Revenues;

Tenth: to debt service on other general obligation bonds issued for the Gas Works; and

Eleventh: to the payment of City charges and any other proper purpose of the Gas Works (including any termination payments to issuers of Qualified Swaps and Exchange Agreements) except Unrelated Expenses.

The 1998 General Ordinance does not require the segregation of revenues upon their collection.

Rate Covenant

The Rate Covenant requires the City, at a minimum, to impose, charge and collect in each Fiscal Year such gas rates and charges as shall, together with all other Gas Works Revenues to be received in such Fiscal Year, equal not less than the greater of:

- (i) all Net Operating Expenses payable during such Fiscal Year;
- (ii) all principal of and interest on bonds issued and outstanding under the 1975 Ordinance payable during such Fiscal Year and amounts required to be paid into the sinking fund reserve under the 1975 Ordinance during such Fiscal Year;
- (iii) 150% of the amount required to pay all Sinking Fund deposits required during such Fiscal Year in respect of all Outstanding Senior Bonds and 100% of the amounts payable in respect of the Prior Obligations during such Fiscal Year;

(iv) the amount required to pay Sinking Fund deposits required during such Fiscal Year in respect of all Outstanding Subordinate Bonds and other obligations of the Gas Works on a parity with Subordinate Bonds payable during such Fiscal Year;

(v) the amount, if any, required to be paid into the Sinking Fund Reserve during such Fiscal Year;

(vi) the Rebate Amount required to be paid to the United States during such Fiscal Year; and

(vii) the amounts required to be paid to the issuers of Credit Facilities and the providers of Qualified Swaps and Exchange Agreements during such Fiscal Year; or

(B) The sum of:

(i) all Net Operating Expenses payable during such Fiscal Year;

(ii) all principal of and interest on bonds issued and outstanding under the 1975 Ordinance payable during such Fiscal Year and amounts required to be paid into the sinking fund reserve under the 1975 Ordinance during such Fiscal Year;

(iii) all Sinking Fund deposits required during such Fiscal Year in respect of all Outstanding Bonds and all amounts payable in respect of obligations of the Gas Works which are on a parity with any of the Bonds and in respect of general obligation bonds issued for improvements to the Gas Works and all amounts, if any, required during such Fiscal Year to be paid into the Sinking Fund Reserve;

(iv) the Rebate Amount required to be paid to the United States during such Fiscal Year; and

(v) the amounts required to be paid to the issuers of Credit Facilities and the providers of Qualified Swaps and Exchange Agreements during such Fiscal Year.

For purposes of estimating Sinking Fund deposits with respect to Interim Debt and Variable Rate Bonds, the City shall be entitled to assume that (1) Interim Debt will be amortized over a period of up to the maximum term permitted by the Act, but not in excess of the useful life of the assets to be financed, on an approximately level debt service basis and bear interest at the average interest rate on bonds of a similar maturity and credit rating (without any credit enhancement) as the Bonds Outstanding under the 1998 General Ordinance and (2) Variable Rate Bonds will bear interest at a rate equal to the average interest rate on such Variable Rate Bonds during the period of twenty-four (24) consecutive calendar months immediately preceding the date of calculation or during such shorter period that such Variable Rate Bonds have been Outstanding.

The Gas Commission is authorized and directed, without further authorization, to impose and charge and to collect, or cause to be collected, rents, rates and charges which shall be sufficient in each Fiscal Year to comply with the foregoing Rate Covenant.

Notwithstanding the requirements of Section 4.03(b) of the 1998 General Ordinance and the pledge under Section 4.02 thereof, the City may, at such time as there are no bonds outstanding under the 1975 Ordinance, pursuant to a Supplemental Ordinance, securitize and sell that portion of the Gas Works rents, rates and charges which relate to assets which are designated as non-performing by the Gas Commission and as to which the Gas Commission has designated specific rents, rates or charges; provided that prior to any such securitization and sale the City delivers to the Fiscal Agent (1) an Engineer's report including a statement that, for the three year period following such securitization and sale, the Gas Works rents, rates and charges (excluding those securitized and sold) are currently and will be sufficient to comply with the Rate Covenant set forth in Section 4.03(b) of the 1998 General Ordinance applied as if the percentage in subsection A(iii) thereof were 175% rather than 150% and (2) an opinion of Bond Counsel that such securitization and sale will not adversely affect the exclusion from gross income for Federal income tax purposes of interest on any Outstanding Bonds the interest on which is intended to be so excluded. Proceeds received from any such securitization and sale shall be excluded from Gas Works Revenues in all calculations relating to the Rate Covenant and, notwithstanding any provision of the 1998 General Ordinance to the contrary, may be used to redeem or refund obligations issued to finance the related assets designated as non-performing.

Additional Covenants

The City further covenants that (1) it will pay or cause the Fiscal Agent or any paying agent appointed by the City to pay from the Gas Works Revenues deposited in the Sinking Fund the principal of, and premium, if any, and interest on, all Bonds as the same shall become due and payable; (2) it will continuously maintain in good condition and continuously operate the Gas Works; and (3) it will not in any Fiscal Year pay from the Gas Works Revenues any City Charges or deposit from the Gas Works Revenues in the general sinking fund of the City any sinking fund charges in respect of general obligation bonds of the City unless prior thereto or concurrently therewith all sinking fund charges then payable in respect of Outstanding Bonds shall have been deposited in the Sinking Fund, all amounts then payable in respect of obligations of the Gas Works which are on a parity with Bonds shall have been paid, all amounts then payable to issuers of Credit Facilities and providers of Qualified Swaps and Exchange Agreements shall have been paid and all deposits then required to the Sinking Fund Reserve shall have been made.

Report Requirements

The City shall file with the Fiscal Agent not later than 120 days after the close of each Fiscal Year a report of the operation of the Gas Works, including specified financial data, showing compliance with the Rate Covenant and accompanied by a certificate of the Manager of the Gas Works that the Gas Works are in good operating condition and a certificate of the Director of Finance that, as of the date of such report, the City has complied with all covenants of the 1998 General Ordinance and all Supplemental Ordinances. Copies of such reports will be

available to Bondholders for a period of ten (10) years and may be inspected and copied at all reasonable times by Bondholders or their representatives.

General Obligation Bonds - Junior Lien Revenue Bonds

The City reserves the right to finance improvements to the Gas Works by issuing (1) its general obligation bonds or (2) under authorization other than the 1998 General Ordinance and Supplemental Ordinances, obligations for the payment of which Gas Works Revenues may be pledged, subject and subordinate in each Fiscal Year to the prior payment from such revenues of all principal, premium, interest and sinking fund requirements payable during such Fiscal Year under the 1998 General Ordinance.

Conditions of Issuing Bonds

Prior to the issuance of any Series of Bonds, the Council of the City shall adopt an ordinance supplemental to the 1998 General Ordinance meeting the requirements of the 1998 General Ordinance.

Prior to the issuance of any Series of Bonds under the 1998 General Ordinance, the Director of Finance shall, in addition to the filing requirements of Section 12 of the Act, file with the Fiscal Agent a transcript of the proceedings authorizing the issuance of such Series of Bonds which shall include (i) a certified copy of the 1998 General Ordinance (unless previously so filed); (ii) a certified copy of the Supplemental Ordinance; (iii) an executed or certified copy of the report of the Director of Finance required by subsection (a) of Section 8 of the Act; (iv) an executed copy of the opinion of the City Solicitor required by subsection (b) of Section 8 of the Act; and (v) an opinion of Bond Counsel to the effect that (1) the Series of Bonds has been duly issued for a permitted purpose under the Act and under the 1998 General Ordinance, (2) all conditions precedent to the issuance of the Series of Bonds pursuant to the Act and the 1998 General Ordinance have been satisfied, (3) the Series of Bonds has been duly authorized, executed and delivered and constitutes the legal, valid and binding obligation of the City and (4) if the interest on the Series of Bonds is intended to be excluded from gross income for Federal income tax purposes, interest on the Series of Bonds will be so excluded; and thereupon the proper officers of the City and the Fiscal Agent shall be authorized to execute and deliver the Bonds so authorized, to receipt for the purchase price thereof and to execute and deliver on behalf of the City the usual closing statements, affidavits and certificates.

Sinking Fund and Sinking Fund Reserve

The Sinking Fund was established for the benefit and security of the Holders of all Bonds issued under the 1998 General Ordinance. The Sinking Fund shall be held in an account or accounts separate and apart from all other accounts of the City. The City covenants and the Director of Finance is directed to deposit in the Sinking Fund from Gas Works Revenues in each Fiscal Year such amounts as will, together with interest and profits on investments held therein, be sufficient to accumulate therein (exclusive of amounts in the Sinking Fund Reserve), on or before each interest and principal payment date of the Bonds, the amounts required to pay the principal of and interest on the Bonds then becoming due and payable. The 1998 General Ordinance authorizes the appointment, in accordance with legal procedures, of one or more

banks to act as Fiscal Agent and/or paying agent for all Bonds or for any series of Bonds issued thereunder and reserves to the City the right to appoint other or additional banks from time to time. The Fiscal Agent for any particular series will act as registrar and Sinking Fund Depository for that series. The moneys in the Sinking Fund are required to be secured, and invested and reinvested under management of the Director of Finance.

The Sinking Fund Depository shall, on direction of the Director of Finance, or if for any reason s/he should fail to give such direction, on the direction of the Fiscal Agent, liquidate investments, if necessary, and pay over from the Sinking Fund in cash to the Fiscal Agent not later than the due date thereof the full amount of the principal, interest on, and premium, if any, payable upon redemption of Bonds. Any excess moneys in the Sinking Fund, including any excess amount in the Sinking Fund Reserve, shall be transferred to the operating accounts of the Gas Works.

The Sinking Fund Reserve is established as a separate account in the Sinking Fund and is to be held by the Sinking Fund Depository as part of the Sinking Fund, but for which a separate account shall be maintained. Unless otherwise provided in the applicable Supplemental Ordinance, the City shall, under direction of the Director of Finance, deposit in the Sinking Fund Reserve from the proceeds of sale of each Series of Bonds issued under the 1998 General Ordinance and/or Gas Works Revenues an amount which, together with other amounts in the Sinking Fund Reserve, will cause the amount in the Sinking Fund Reserve to equal the Sinking Fund Reserve Requirement. The money and investments (valued at market) in the Sinking Fund Reserve and amounts which can be drawn under Credit Facilities held for the Sinking Fund Reserve shall be held and maintained in an amount equal to the Sinking Fund Reserve Requirement.

In lieu of a deposit to the Sinking Fund Reserve or in substitution for amounts in the Sinking Fund Reserve, the City may provide one or more letters of credit or other Credit Facilities in the same aggregate amount issued by a provider or providers whose credit facilities are such that bonds secured by such credit facilities are rated in one of the three highest rating categories by Moody's or S&P, provided that (1) in the case of a substitution for moneys in the Sinking Fund Reserve, an opinion of Bond Counsel is delivered to the Fiscal Agent that such substitution will not adversely affect the exclusion from gross income for Federal income tax purposes of interest on the Bonds the interest on which is intended to be so excluded, (2) each such Credit Facility permits the Fiscal Agent to make a draw thereon up to the principal amount thereof if the Sinking Fund Reserve is needed to cover a shortfall in the Sinking Fund and other moneys in the Sinking Fund Reserve are insufficient and (3) each such Credit Facility provides that a draw will be made thereon to replenish the Sinking Fund Reserve on the expiration thereof unless the City has otherwise made such deposit to the Sinking Fund Reserve or has obtained another Credit Facility meeting the above requirements.

If, at any time and for any reason, the moneys in the Sinking Fund, other than in the Sinking Fund Reserve, shall be insufficient to pay as and when due, the principal of, and premium, if any, and interest on, any Bond or Bonds secured by the Sinking Fund Reserve, the Sinking Fund Depository is authorized pursuant to the 1998 General Ordinance and directed to withdraw from the Sinking Fund Reserve and to draw on Credit Facilities held for the Sinking Fund Reserve and pay over to the Fiscal Agent the amount of such deficiency. If by reason of

such withdrawal (including draws on any Credit Facilities held to satisfy the Sinking Fund Reserve Requirement) or for any other reason there shall be a deficiency in the Sinking Fund Reserve, the City covenants pursuant to the 1998 General Ordinance to restore such deficiency (either by a deposit of funds or the reinstatement of the cash limits of Credit Facilities) within twelve months. The Sinking Fund Reserve shall be valued by the Sinking Fund Depository promptly after any withdrawal from the Sinking Fund Reserve or any other event indicating a possible deficiency in the Sinking Fund Reserve and on August 31 of each Fiscal Year.

The Sinking Fund shall be a consolidated fund for the equal and proportionate benefit of the Holders of all Bonds from time to time Outstanding under the 1998 General Ordinance and may be invested and reinvested on a consolidated basis. The principal of and interest on and profits (and losses if any) realized on investments in the Sinking Fund shall be allocated pro rata for the Series of Bonds or the specific Bonds in respect of which such investments were made without distinction or priority, but moneys (and the investments thereof) specifically deposited for the payment of any particular installment of principal, interest (including capitalized interest) or premium in respect of particular Bonds shall be held and applied exclusively to the payment of such particular principal, interest or premium.

Remedies; Limitations on Liabilities of City

If the City shall fail or neglect to pay or to cause to be paid the principal of, or the redemption premium, if any, or the interest on, any Bond, whether at stated maturity or upon call for prior redemption, or if the City, after written notice to it, shall fail or neglect to make any payment owed by it to the provider of a Credit Facility, a Qualified Swap or an Exchange Agreement provided with respect to the Bonds and such provider gives the Fiscal Agent written notice of such failure or neglect, or if the City shall fail to comply with any provision of the Bonds or with any covenant of the City contained in the 1998 General Ordinance or an applicable Supplemental Ordinance, then, under and subject to the terms and conditions stated in the Act, the Holder or Holders of any Bond or Bonds shall be entitled to all of the rights and remedies provided in the Act, including the appointment of a trustee; provided, however, that the remedy provided in Section 20(b)(4) of the Act may be exercised only upon the failure of the City to pay, when due, principal and redemption price of (including principal due as a result of a scheduled mandatory redemption) and interest on a Series of Bonds. Upon the occurrence of an event of default specified above, the Fiscal Agent shall, within thirty (30) days, give written notice thereof by first class mail to all Bondholders.

Any decree or judgment for the payment of money against the City by reason of default under the 1998 General Ordinance shall be enforceable only against the Gas Works Revenues, amounts in the Sinking Fund Reserve and other amounts which may be specifically pledged therefor and investments thereof and no decree or judgment against the City upon an action brought under the 1998 General Ordinance shall order or be construed to permit the occupation, attachment, seizure, or sale upon execution of any other property of the City.

Amendments

The 1998 General Ordinance and any Supplemental Ordinance may be further supplemented, modified or amended: (a) to cure any ambiguity, formal defect or omission

therein; (b) to make such provisions in regard to matters or questions arising thereunder which shall not be inconsistent with the provisions thereof and which shall not adversely affect the interests of Bondholders; (c) to grant to or confer upon Bondholders or a trustee, if any, for the benefit of Bondholders any additional rights, remedies, powers, authority or security that may be lawfully granted or conferred; (d) to incorporate modifications requested by any Rating Agency to obtain or maintain a credit rating on any Series of Bonds; (e) to comply with any mandatory provision of state or federal law or with any permissive provision of such law or regulation which does not substantially impair the security or right to payment of the Bonds, but no amendment or modification shall be made with respect to any Outstanding Bonds to alter the amount, rate or time of payment, respectively, of the principal thereof or the interest thereon or to alter the redemption provisions thereof without the written consent of the Holders of all affected Outstanding Bonds; and (f) except as aforesaid, in such other respect as may be authorized in writing by the Holders of a majority in principal amount (using Accreted Value in the case of Capital Appreciation Bonds) of the Bonds Outstanding and affected. The written authorization of Bondholders of any supplement to or modification or amendment of the 1998 General Ordinance or any Supplemental Ordinance need not approve the particular form of any proposed supplement, modification or amendment but only the substance thereof.

Closure of the 1975 Ordinance

After the adoption of the 1998 General Ordinance, the City shall not issue any bonds under the 1975 Ordinance except to refund bonds issued under the 1975 Ordinance or to replace bonds issued thereunder which have been mutilated, destroyed, lost or stolen as provided therein or in substitution for bonds issued thereunder upon transfer or exchange as provided therein.

Any refunding bonds issued under the 1975 Ordinance shall include in the title of such bonds a designation indicating that such bonds relate to the 1975 Ordinance in order to distinguish such bonds from Bonds issued under the 1998 General Ordinance.

Deposit of Funds for Payment of Bonds

When interest on, and principal or redemption price (as the case may be) of, all Bonds issued under the 1998 General Ordinance, and all amounts owed under any Credit Facility, Qualified Swap and Exchange Agreement entered into under the 1998 General Ordinance (other than termination payments), have been paid, or there shall have been deposited with the Fiscal Agent an amount, evidenced by moneys or Qualified Escrow Securities the principal of and interest on which, when due, will provide sufficient moneys to fully pay the Bonds at the maturity date or date fixed for redemption thereof, and all amounts owed under any Credit Facility, Qualified Swap and Exchange Agreement entered into under the 1998 General Ordinance (other than termination payments), the pledge and grant of security interest in the Gas Works Revenues made under the 1998 General Ordinance shall cease and terminate, and the Fiscal Agent and any other depository of funds and accounts established under the 1998 General Ordinance shall turn over to the City or to such person, body or authority as may be entitled to receive the same all balances remaining in any funds and accounts established thereunder.

If the City deposits with the Fiscal Agent moneys or Qualified Escrow Securities sufficient to pay the principal or redemption price of any particular Bond or Bonds becoming

due, either at maturity or by call for redemption or otherwise, together with all interest accruing thereon to the due date, interest on such Bond or Bonds shall cease to accrue on the due date and all liability of the City with respect to such Bond or Bonds shall likewise cease, except as provided in the following paragraph. From and after such deposit, such Bond or Bonds shall be deemed not to be Outstanding under the 1998 General Ordinance and the Holder or Holders thereof shall have recourse solely and exclusively to the funds so deposited for any claims of whatsoever nature with respect to such Bond or Bonds, and the Fiscal Agent shall hold such funds in trust for the Holder or Holders of such Bond or Bonds.

Moneys deposited with the Fiscal Agent pursuant to the preceding paragraphs which remain unclaimed two (2) years after the date payment thereof becomes due shall, upon written request of the City, if the City is not at the time to the knowledge of the Fiscal Agent (the Fiscal Agent having no responsibility to independently investigate) in default with respect to any covenant in the 1998 General Ordinance or the Bonds, be paid to the City, and the Holders of the Bond for which the deposit was made shall thereafter be limited to a claim against the City; provided, however, that before making any such payment to the City, the Fiscal Agent shall, at the expense of the City, publish in a newspaper of general circulation published in the City, a notice that said moneys remain unclaimed and that, after a date named in said notice, which date shall not be less than thirty (30) days after the date of publication of such notice, the balance of such moneys then unclaimed will be paid to the City.

THE NINTH SUPPLEMENTAL ORDINANCE
Ordinance of City Council
Approved June 3, 2009
Bill No. 090322
(the "Ninth Supplemental Ordinance")

The Ninth Supplemental Ordinance authorizes the Mayor, the City Controller and the City Solicitor (the "Bond Committee"), or a majority of them, on behalf of the City, to borrow, by the issuance and sale of Gas Works Revenue Bonds, Eighth Series (1998 General Ordinance) of the City (the "Eighth Series Bonds"), which may be issued in one or more subseries, designated "Eighth Series Bonds" and consecutively thereafter by letter designation and in one or more subseries within each such subseries, and with such relative priorities as the Bond Committee may deem desirable, pursuant to the Act and the 1998 General Ordinance, a sum or sums which in the aggregate shall not exceed the aggregate principal amount of \$450,000,000. The Eighth Series Bonds shall be sold at public or private sale and shall contain such terms and provisions as are determined by a majority of the Bond Committee to be in the best interests of the City and are not inconsistent with the provisions of the Ninth Supplemental Ordinance, the Act, the 1998 General Ordinance or any applicable law.

If a majority of the Bond Committee determines it to be in the best interests of the City, the Eighth Series Bonds may be issued in book-entry form; and in such event a majority of the Bond Committee shall also select a securities depository (the "Depository") for the Eighth Series Bonds. If a majority of the Bond Committee determines it to be in the best interests of the City, the City may obtain Credit Facilities in the form of credit enhancement and liquidity for all or a portion of the Eighth Series Bonds. If a majority of the Bond Committee determines that the entry by the City into one or more Qualified Swap Agreements, or the modification of an

existing Qualified Swap Agreement, will assist the City in more effectively managing its interest costs or interest rate exposure, the City may enter into one or more Qualified Swap Agreements with respect to all or a portion of the Eighth Series Bonds, or one or more amendments to an existing Qualified Swap Agreement with respect to the Eighth Series Bonds and/or the Bonds to which such Qualified Swap Agreement to be amended relates, or may enter into one or more amendments to an existing Qualified Swap Agreement to relate all or a portion thereof to all or a portion of a different series of outstanding Gas Works Revenue Bonds and designate in writing to the Fiscal Agent that such Qualified Swap Agreements constitute Qualified Swaps, in accordance with the requirements of the 1998 General Ordinance and the Ninth Supplemental Ordinance. The Eighth Series Bonds shall mature or be subject to mandatory redemption in such principal amounts and on such date or dates and at such rate or rates (including, without limitation, variable, adjustable or convertible rates), as shall be determined by a majority of the Bond Committee. A majority of the Bond Committee is authorized to take any and all other actions as may be necessary or appropriate in connection with the consummation of the transactions contemplated herein.

The Eighth Series Bonds are authorized to be issued under the Ninth Supplemental Ordinance in an aggregate principal amount up to Four Hundred Fifty Million Dollars (\$450,000,000.00); provided that, if any of the Eighth Series Bonds are to be sold at discounts which are in lieu of periodic interest, the aggregate principal amount of the Eighth Series Bonds which may be issued under the Ninth Supplemental Ordinance shall be increased to reflect such discounts, as long as the aggregate gross proceeds to the City from the sale of the Eighth Series Bonds shall not exceed Four Hundred Fifty Million Dollars (\$450,000,000.00), plus accrued interest, if any; provided further, that the Eighth Series Bonds, or an portion thereof, may be sold at a premium so long as the aggregate principal amount of the Eighth Series Bonds does not exceed Four Hundred Fifty Million Dollars (\$450,000,000.00) .

The Ninth Supplemental Ordinance provides that the Eighth Series Bonds shall not pledge the City's credit or taxing power, create any debt or charge against the tax or general revenues of the City or create any lien against any property of the City other than the revenues pledged by the 1998 General Ordinance.

The Ninth Supplemental Ordinance provides that the Eighth Series Bonds shall be issued for the purpose of providing funds for any or all of the following purposes: (i) the refunding or redeeming of all or any portion of the outstanding City of Philadelphia, Pennsylvania, Gas Works Revenue Bonds, Sixth Series (1998 Ordinance), upon such terms and in such amounts as shall be determined by the Director of Finance (the "Sixth Series Bonds"); (ii) providing funds in order to make a payment (the "Termination Payment") to terminate, in whole or in part, the Qualified Swap (the "Sixth Series Swap") entered into with respect to the Sixth Series Bonds pursuant to a Qualified Swap Agreement (the "Sixth Series Swap Agreement"); (iii) paying the costs of issuing the Eighth Series Bonds and any required deposits to the Sinking Fund Reserve; and (iv) paying any other Project Costs (as defined in the Act).

The City covenants in the Ninth Supplemental Ordinance that the proceeds of the Eighth Series Bonds which remain available for the payment of the costs of refunding of the Sixth Series Bonds, after payment of the Termination Payment, the financing costs, and the required payment into the Sinking Fund Reserve, shall be deposited, held in and disbursed from a special

account of the Sinking Fund or the escrow fund to be established pursuant to the Escrow Agreement (defined below).

The City authorizes the redemption of the Sixth Series Bonds, in whole or in part, in accordance with the terms of the 1998 General Ordinance and the Sixth Series Bonds and further authorizes the Bond Committee or the Director of Finance, if it is determined to be necessary, to enter into an Escrow Deposit Agreement (the "Escrow Agreement") providing, among other things, for the deposit and investment of all or a portion of the Eighth Series Bond proceeds and any other available funds of the City in amounts sufficient, together with interest thereon, if any, to defease such Sixth Series Bonds so that such Sixth Series Bonds shall be deemed to be not outstanding under the 1998 General Ordinance and providing for payment of the Sixth Series Bonds at maturity or redemption, as applicable, including all interest payable on such Sixth Series Bonds to such maturity or redemption dates, as applicable. All interest and income earned, if any, on the investment of such proceeds (except for amounts to be rebated to the United States), which is not required for the refunding or redemption of the Sixth Series Bonds, pending expenditure for the aforesaid purposes may be transferred to and deposited in the operating funds of the Gas Works and applied as Gas Works Revenues in accordance with the 1998 General Ordinance.

Based on the report of the Director of Finance of the City required by the Act, the Ninth Supplemental Ordinance determined that the pledged Gas Works Revenues (as defined in the 1998 General Ordinance) will be sufficient to comply with the rate covenant contained in the 1998 General Ordinance and also to pay all costs, expenses and payments required to be paid therefrom in their order and priority stated in the 1998 General Ordinance.

The City covenants in the Ninth Supplemental Ordinance that, as long as any of the Eighth Series Bonds shall remain outstanding, all pledged Gas Works Revenues shall be deposited and held in and disbursed from one or more unsegregated accounts of the Gas Works which shall be separate from and not commingled with the consolidated cash account of the City or any other account of the City not held exclusively for Gas Works purposes. Such pledged Gas Works Revenues shall be held for the security and payment of the Eighth Series Bonds and all Bonds issued under the 1998 General Ordinance to the extent, and to be applied in the order of priority, set forth in the 1998 General Ordinance. This covenant shall not be construed to require the establishment of any Gas Works account segregated from any other Gas Works accounts except as provided in the Ninth Supplemental Ordinance or as otherwise required by the 1998 General Ordinance.

The City covenants that as long as any Eighth Series Bonds shall remain unpaid, it shall make payments or cause payments to be made out of its 1998 Gas Works Revenue Bond Sinking Fund created under the 1998 General Ordinance at such times and in such amounts as shall be sufficient for the payment of the interest thereon and the principal thereof when due; provided, however, that whenever the City shall be required to deposit moneys with the Fiscal Agent for the mandatory redemption of any of the Eighth Series Bonds, such obligation may be satisfied, in whole or in part, by the delivery by the City to the Fiscal Agent of a principal amount of Eighth Series Bonds of the maturity required to be redeemed for cancellation prior to the date specified for such redemption.

The Ninth Supplemental Ordinance authorizes the Director of Finance to make such elections under the Internal Revenue Code of 1986, as amended (the "Code"), and Treasury Regulations promulgated thereunder with respect to the Eighth Series Bonds and to take such actions on behalf of the City with respect to the investment of the proceeds of the Eighth Series Bonds as is deemed advisable, and the Director of Finance or any member of the Bond Committee is authorized to make such covenants as may be necessary or advisable in order that the Eighth Series Bonds shall not be "arbitrage bonds" as defined in the Code.

Subject to the determination by a majority of the Bond Committee and as required by the 1998 General Ordinance, the Ninth Supplemental Ordinance authorizes the Director of Finance to enter into an amendment to the Sixth Series Swap Agreement, provided that the Sixth Series Swap Agreement, as so amended, shall continue to constitute a Qualified Swap Agreement, as such term is defined in the 1998 General Ordinance, with respect to the Sixth Series Bonds under the Eighth Series Bonds and/or relate to all or a portion of the outstanding Gas Works Revenue Bonds Fifth Series A-2, as authorized and permitted pursuant to the 1998 General Ordinance.

Subject to the determination by a majority of the Bond Committee and as required by the 1998 General Ordinance, the Director of Finance is hereby authorized to enter into one or more interest rate swap transactions consisting of a Master Agreement, Schedule and one or more Confirmations (collectively, the "Eighth Series Swap"), collectively constituting a Qualified Swap Agreement, with respect to the Eighth Series Bonds, and/or the Sixth Series bonds and/or relate to all or a portion of the outstanding Gas Works Revenue Bonds Fifth Series A-2, as authorized and permitted pursuant to the 1998 General Ordinance.

In accordance with and as permitted by the 1998 General Ordinance, the pledge and grant of a lien on and security interest in, all Gas Works Revenues, all accounts, contract rights and general intangibles representing the Gas Works Revenues and all funds and accounts established under the 1998 General Ordinance (except for the Sinking Fund and the Sinking Fund Reserve), and in each case, the proceeds of the foregoing, shall be for the benefit of the provider of the Sixth Series Swap, the provider of the Eighth Series Swap and the provider of a Credit Facility securing any payments of the City to be made pursuant to the Sixth Series Swap and/or the Eighth Series Swap (collectively, "Swap Credit Facilities"), all to the extent and in the manner as provided therein.

All of the provisions of the 1998 General Ordinance relating to Qualified Swaps, except to the extent limited to the Ninth Supplemental Ordinance, with respect to the Sinking Fund and the Sinking Fund Reserve, shall apply to the Sixth Series Swap, as amended, the Eighth Series Reserve, and to payments due from the City to the providers of the Sixth Series Swap, as amended, the Eighth Series Swap and the Swap Credit Facilities.

APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

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APPENDIX E

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (“Disclosure Agreement”) is executed and delivered as of August 20, 2009 by and between The City of Philadelphia, Pennsylvania (“City”) and Digital Assurance Certification, L.L.C., as dissemination agent (the “Dissemination Agent”), in connection with the issuance by the City of four series (“Series”) of bonds to be designated: City of Philadelphia, Pennsylvania Gas Works Revenue Refunding Bonds, Eighth Series (1998 General Ordinance) in the aggregate principal amount of \$255,000,000 consisting of: \$105,000,000 Gas Works Revenue Refunding Bonds, Eighth Series B (1998 General Ordinance) (the “Eighth Series B Bonds”), \$50,000,000 Gas Works Revenue Refunding Bonds, Eighth Series C (1998 General Ordinance) (the “Eighth Series C Bonds”), \$50,000,000 Gas Works Revenue Refunding Bonds, Eighth Series D (1998 General Ordinance) (the “Eighth Series D Bonds”) and \$50,000,000 Gas Works Revenue Refunding Bonds, Eighth Series E (1998 General Ordinance) (the “Eighth Series E Bonds” and together with the Eighth Series B Bonds, the Eighth Series C Bonds and the Eighth Series D Bonds, the “Bonds”).

The Bonds are being issued by the City under the provisions of The First Class City Revenue Bond Act, Act No. 234 of the General Assembly of the Commonwealth of Pennsylvania approved October 18, 1972, P.L. 955, as amended (the “Act”), and the General Gas Works Revenue Bond Ordinance of 1998 (Bill No. 980232, approved May 30, 1998) (“1998 General Ordinance”), as amended and supplemented from time to time and, in particular, as supplemented by the Ninth Supplemental Ordinance (Bill No. 090322, approved June 3, 2009) (collectively, the “1998 General Ordinance”). Certain matters concerning the Bonds have been determined pursuant to the 1998 General Ordinance by the Bond Committee of the City, consisting of the Mayor, the City Controller and the City Solicitor (“Bond Committee”), and acting by at least a majority thereof, in an authorization dated August 13, 2009 (“Bond Authorization”).

In consideration of the mutual covenants, promises and agreements contained herein and intending to be legally bound hereby, the parties hereto agree as follows:

Section 1. Definitions

In this Disclosure Agreement and any agreement supplemental hereto (except as otherwise expressly provided or unless the context clearly requires otherwise) terms defined in the recitals hereto shall have such meanings throughout this Disclosure Agreement, and, in addition, the following terms shall have the meanings specified below:

“Annual Financial Information” shall mean the financial information or operating data with respect to the City and PGW delivered at least annually pursuant to Section 3 hereof, substantially similar to the type set forth in Appendix “A” attached hereto and in accordance with the Rule. The financial statements comprising the Annual Financial Information are prepared according to accounting methods and procedures which conform to generally accepted

accounting principles for governmental units as prescribed by the Government Accounting Standards Board.

“Business Day” or “Business Days” shall mean any day other than a Saturday or Sunday or, in the City, a legal holiday or a day on which banking institutions are authorized by law or contract to remain closed or a day on which the Dissemination Agent is closed.

“Disclosure Representative” shall mean the Director of Finance of the City, the City Treasurer or such other official or employee of the City as the Director of Finance or the City Treasurer shall designate in writing to the Dissemination Agent.

“EMMA” shall mean the Electronic Municipal Market Access System maintained by the MSRB.

“Fiscal Agent” shall mean US. Bank National Association, as Fiscal Agent for the Bonds.

“Material Event” shall mean any of the events listed in Section 4(a) of this Disclosure Agreement, if material within the meaning of the Rule.

“MSRB” shall mean the Municipal Securities Rulemaking Board.

“Official Statement” shall mean the Official Statement dated August 13, 2009, relating to the Bonds.

“Participating Underwriters” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with their purchase and reoffering of the Bonds.

“PGW” means the Philadelphia Gas Works of the City of Philadelphia.

“Registered Owner” or “Owners” shall mean the person or persons in whose name a Bond is registered on the books of the City maintained by the Fiscal Agent in accordance with the 1998 General Ordinance, the Ninth Supplemental Ordinance and the Bonds. For so long as the Bonds shall be registered in the name of the Securities Depository or its nominee, the term “Registered Owners” shall also mean and include, for the purposes of this Disclosure Agreement, the owners of book-entry credits in the Bonds evidencing an interest in the Bonds; provided, however, that the Dissemination Agent shall have no obligation to provide notice hereunder to owners of book entry credits in the Bonds, except those who have filed their names and addresses with the Dissemination Agent for the purposes of receiving notices or giving direction under this Disclosure Agreement.

“Repository” shall mean each nationally recognized municipal securities information repository under the Rule. The Securities and Exchange Commission has designated EMMA as the sole Repository effective as of July 1, 2009. Any information filed in connection with this Disclosure Agreement shall be filed with EMMA at <http://emma.msb.org/>, and any future Repository as may be required under the Rule.

“Rule” shall mean Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, as such rule may be amended from time to time.

“Securities Depository” shall mean The Depository Trust Company, New York, New York, or its nominee, Cede & Co., or any successor thereto appointed pursuant to the General Ordinances.

All words and terms used in the Disclosure Agreement and defined above or elsewhere herein shall have the same meanings as set forth in the Bond Authorization, if defined therein, or in the 1998 General Ordinance, if defined therein.

Section 2. Authorization and Purpose of Disclosure Agreement

This Disclosure Agreement is authorized to be executed and delivered by the City pursuant to Section 15 of the Bond Authorization in order to assist the Participating Underwriters in complying with the requirements of the Rule.

Section 3. Provision of Annual Financial Information

(a) Within 240 days of the close of each fiscal year of the City, commencing with the fiscal year ending June 30, 2009, the Disclosure Representative shall file with the Dissemination Agent, Annual Financial Information for such fiscal year. The Dissemination Agent shall promptly upon receipt thereof file the Annual Financial Information with each Repository. The Annual Financial Information will be in the form of the City’s Comprehensive Annual Financial Report and, to the extent such information is not included therein, will include the other information set forth on Appendix A, and will contain unaudited financial statements if audited financial statements are not available.

(b) As soon as audited financial statements for the City are available, commencing with the audited financial statements for the fiscal year ending June 30, 2009, the Disclosure Representative shall file the audited financial statements with the Dissemination Agent. The Dissemination Agent shall promptly upon receipt thereof file the audited financial statements with each Repository.

Section 4. Material Events

(a) The City agrees that it shall provide through the Dissemination Agent, in a timely manner, to each Repository, notice of any of the following events with respect to the Bonds if material within the meaning of the Rule (each a “Material Event”):

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;

- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers or their failure to perform;
- (6) Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (7) Modifications to the rights of the Holders of the Bond Holders;
- (8) Bond calls;
- (9) Defeasances;
- (10) Release, substitution or sale of property securing repayment of the Bonds; and
- (11) Rating changes.

The foregoing eleven (11) events are quoted from the Rule. No mandatory redemption shall be deemed a Material Event.

(b) Whenever the City concludes that a Material Event has occurred, the Disclosure Representative shall promptly notify the Dissemination Agent in writing of such occurrence, specifying the Material Event. Such notice shall instruct the Dissemination Agent to file a notice of such occurrence with each Repository. Upon receipt, the Dissemination Agent shall promptly file such notice with each Repository. In addition, the Dissemination Agent shall promptly file with each Repository notice of any failure by the City or the Dissemination Agent to timely file the Annual Financial Information as provided in Section 3 hereof, including, any failure by the City or the Dissemination Agent to provide the Annual Financial Information on or before the date specified in Section 3(a) hereof. Any filing with each Repository shall be accompanied by a form provided by the Disclosure Representative to the Dissemination Agent.

(c) Notwithstanding the foregoing, the Dissemination Agent shall, promptly after obtaining actual knowledge of an event listed in clauses (a) (1), (3), (4), (5), (8), or (9) notify the Disclosure Representative of the occurrence of such event and shall, within three (3) Business Days of giving notice to the Disclosure Representative, file notice of such occurrence with each Repository unless the Disclosure Representative gives the Dissemination Agent written instructions not to file such notice because the event has not occurred or the event is not material within the meaning of the Rule.

(d) The Dissemination Agent shall prepare an affidavit of mailing for each notice delivered pursuant to clauses (b) and (c) of this Section 4 and shall deliver such affidavit to the City no later than three (3) Business Days following the date of delivery of such notice.

(e) The Dissemination Agent shall request the return from each Repository, of written acknowledgment or receipt of any notice delivered to each Repository. Upon the return of all completed acknowledgments of a notice, the Dissemination Agent shall prepare an affidavit of

receipt specifying the date and hour of receipt of such notice by each recipient to the extent such information has been provided to the Dissemination Agent. Such affidavit of receipt shall be delivered to the City no later than three (3) Business Days following the date of receipt by the Dissemination Agent of the last completed acknowledgment.

Section 5. Amendment; Waiver

(a) Notwithstanding any other provision of this Disclosure Agreement, the City and the Dissemination Agent may amend the Disclosure Agreement or waive any of the provisions hereof, provided that no such amendment or waiver shall be executed by the parties hereto or effective unless:

(i) the amendment or waiver is made in writing and in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in identity, nature or status of the City or the governmental operations conducted by the City;

(ii) the Disclosure Agreement, as amended by the amendment or waiver, would have been the written undertaking contemplated by the Rule at the time of original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(iii) the amendment or waiver does not materially impair the interests of the Registered Owners of the Bonds.

(b) Evidence of compliance with the conditions set forth in clause (a) of this Section 5 shall be satisfied by the delivery to the Dissemination Agent of an opinion of counsel having recognized experience and skill in the issuance of municipal securities and federal securities law, acceptable to both the City and the Dissemination Agent, to the effect that the amendment or waiver satisfies the conditions set forth in clauses (a) (i), (ii), and (iii) of this Section 5.

(c) Notice of any amendment or waiver containing an explanation of the reasons therefor shall be given by the Disclosure Representative to the Dissemination Agent upon execution of the amendment or waiver and the Dissemination Agent shall promptly file such notice with each Repository. The Dissemination Agent shall also send notice of the amendment or waiver to each Registered Owner including owners of book-entry credits in the Bonds who have filed their names and addresses with the Fiscal Agent.

Section 6. Other Information; Duties Under the General Ordinances or the Bond Authorizations

(a) Nothing in this Disclosure Agreement shall preclude the City from disseminating any other information with respect to the City or the Bonds, using the means of communication provided in this Disclosure Agreement or otherwise, in addition to the Annual Financial Information and the notices of Material Events specifically provided for herein, nor shall the City be relieved of complying with any applicable law relating to the availability and inspection of public records. Any election by the City to furnish any information not specifically provided for herein in any notice given pursuant to this Disclosure Agreement or by the means of communication provided for herein shall not be deemed to be an additional contractual

undertaking and the City shall have no obligation to furnish such information in any subsequent notice or by the same means of communication.

(b) Nothing in this Disclosure Agreement shall relieve the Dissemination Agent of any of its duties and obligations under the 1998 General Ordinance, the Ninth Supplemental Ordinance or the Bond Authorization.

(c) Except as expressly set forth in this Disclosure Agreement, the Dissemination Agent shall have no responsibility for any continuing disclosure to the Registered Owners, the MSRB, or any Repository.

Section 7. Default

(a) In the event that the City or the Dissemination Agent fails to comply with any provision of this Disclosure Agreement, the Dissemination Agent or any Registered Owner of the Bonds shall have the right, by mandamus, suit, action or proceeding at law or in equity, to compel the City or the Dissemination Agent to perform each and every term, provision and covenant contained in this Disclosure Agreement. The Dissemination Agent shall be under no obligation to take any action in respect of any default hereunder unless it has received the direction in writing to do so by the Registered Owners of at least 25% of the outstanding principal amount of a series of the Bonds and if, in the Dissemination Agent's opinion, such action may tend to involve expense or liability, unless it is also furnished with indemnity and security for expenses satisfactory to it.

(b) A default under the Disclosure Agreement shall not be or be deemed to be an Event of Default under the Bonds, the 1998 General Ordinance, the Ninth Supplemental Ordinance, the Bond Authorization, the Act or any other agreement related thereto and the sole remedy in the event of a failure of the City or the Dissemination Agent to comply with the provisions hereof shall be the action to compel performance described in Section 7(a) above.

Section 8. Concerning the Dissemination Agent

(a) The Dissemination Agent accepts and agrees to perform the duties imposed on it by this Disclosure Agreement, but only upon the terms and conditions set forth herein. The Dissemination Agent shall have only such duties in its capacity as are specifically set forth in this Disclosure Agreement. The Dissemination Agent may execute any powers hereunder and perform any duties required of it through attorneys, agents, and other experts, officers, or employees, selected by it, and the written advice of such counsel or other experts shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon. The Dissemination Agent shall not be answerable for the default or misconduct of any attorney, agent, expert or employee selected by it with reasonable care. The Dissemination Agent shall not be answerable for the exercise of any discretion or power under this Disclosure Agreement or liable to the City or any other person for actions taken hereunder, except for its own willful misconduct or negligence.

(b) The City shall pay the Dissemination Agent reasonable compensation for its services hereunder, and also all its reasonable expenses and disbursements, including reasonable fees and expenses of its counsel or other experts, as shall be agreed upon by the Dissemination

Agent and the City. Nothing in this Section 8(b) shall be deemed to constitute a waiver of governmental immunity by the City. The provisions of this paragraph shall survive termination of this Disclosure Agreement.

(c) The Dissemination Agent may act on any resolution, notice, telegram, request, consent, waiver, certificate, statement, affidavit, or other paper or document which it in good faith believes to be genuine and to have been passed or signed by the proper persons or to have been prepared and furnished pursuant to any of the provisions of this Disclosure Agreement; and the Dissemination Agent shall be under no duty to make any investigation as to any statement contained in any such instrument, but may accept the same as conclusive evidence of the accuracy of such statement in the absence of actual notice to the contrary. The Dissemination Agent shall be under no obligation to institute any suit, or to take any proceeding under this Disclosure Agreement, or to enter any appearance or in any way defend in any suit in which it may be made a defendant, or to take any steps in the execution of the duties hereby created or in the enforcement of any rights and powers hereunder, until it shall be indemnified by the Registered Owners to its satisfaction against any and all costs and expenses, outlays and counsel fees and expenses and other reasonable disbursements, and against all liability; the Dissemination Agent may, nevertheless, begin suit or appear in and defend suit, or do anything else in its judgment proper to be done by it as Dissemination Agent, without indemnity.

(d) All documents, reports, notices, statements, information and other materials provided to the MSRB under this Section shall be provided in an electronic format and accompanied by identifying information as prescribed by the MSRB.

Section 9. Term of Disclosure Agreement

This Disclosure Agreement shall terminate upon (1) payment or provision for payment in full of the Bonds, or (2) repeal or rescission of Section (b)(5) of the Rule; or (3) a final determination that Section (b)(5) of the Rule is invalid or unenforceable.

Section 10. Beneficiaries

This Disclosure Agreement shall inure solely to the benefit of the City, the Dissemination Agent and the Registered Owners from time to time of the Bonds and nothing herein contained shall confer any right upon any other person.

Section 11. Notices

Any written notice to or demand may be served, presented or made to the persons named below and shall be sufficiently given or filed for all purposes of this Disclosure Agreement if deposited in the United States mail, first class postage prepaid or in a recognized form of overnight mail, or by telecopy with confirmation of receipt, addressed:

(a) To the Dissemination Agent at:

DAC, Digital Assurance Certification LLC
390 North Orange Avenue, Suite 1750
Orlando, FL 32801
Attention: Jenny Emami
Fax: (407) 515-6513

(b) To the City or the Disclosure Representative at:

City of Philadelphia
Office of the Director of Finance
Municipal Services Building
1401 J.F.K. Boulevard
Philadelphia, PA 19102
Attention: Director of Finance
Fax: (215) 568-1947; or

City of Philadelphia
Office of the City Treasurer
Municipal Services Building
1401 J.F.K. Boulevard
Philadelphia, PA 19102
Attention: City Treasurer
Fax: (215) 686-3815

(c) To the MSRB at:

Municipal Securities Rulemaking Board
1900 Duke Street, Suite 600
Alexandria, VA 22314
Attention: CDI
Fax: (703) 683-1930

(d) To the Repository at <http://emma.msrb.org/>

or such other addresses as may be designated in writing to all parties hereto.

Section 12. No Personal Recourse

No personal recourse shall be had for any claim based on this Disclosure Agreement against any member, officer, or employee, past, present or future, of the City (including without limitation, the Disclosure Representative), or of any successor body as such, either directly or through the City or any such successor body, under any constitutional provision, statute or rule of law or by the enforcement of any assessment or penalty or otherwise.

Section 13. Controlling Law

The laws of the Commonwealth of Pennsylvania shall govern the construction and interpretation of this Disclosure Agreement.

Section 14. Removal and Resignation of the Dissemination Agent

The City has appointed the Dissemination Agent as exclusive Dissemination Agent under this Disclosure Agreement. The City may, upon thirty days' written notice to the Dissemination Agent and the Fiscal Agent, replace or appoint a successor Dissemination Agent. Upon termination of the Dissemination Agent's services as Dissemination Agent, whether by notice of the City or the Dissemination Agent, the City agrees to appoint a successor Dissemination Agent or, alternately, agrees to assume all responsibilities of Dissemination Agent under this Disclosure Agreement for the benefit of the Holders of the Bonds. Notwithstanding any replacement or appointment of a successor, the City shall remain liable until payment in full for any and all sums owed and payable to the Dissemination Agent. The Dissemination Agent may resign at any time by providing thirty days' prior written notice to the City.

Section 15. Successors and Assigns

All of the covenants, promises and agreements contained in this Disclosure Agreement by or on behalf of the City or by or on behalf of the Dissemination Agent shall bind and inure to the benefit of their respective successors and assigns, whether so expressed or not.

Section 16. Headings for Convenience Only

The descriptive headings in this Disclosure Agreement are inserted for convenience of reference only and shall not control or affect the meaning or construction of any of the provisions hereof.

Section 17. Counterparts

This Disclosure Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be an original, but such counterparts shall together constitute but one and the same instrument.

Section 18. Entire Agreement

This Disclosure Agreement sets forth the entire understanding and agreement of the City and the Dissemination Agent with respect to the matters herein contemplated and no modification or amendment of or supplement to this Disclosure Agreement shall be valid or effective unless the same is in writing and signed by the parties hereto.

IN WITNESS WHEREOF, THE CITY OF PHILADELPHIA, PENNSYLVANIA, has caused this Disclosure Agreement to be executed by the Director of Finance and DIGITAL ASSURANCE CERTIFICATION, L.L.C., as Dissemination Agent, has caused this Disclosure Agreement to be executed by one of its duly authorized officers all as of the day and year first above written.

THE CITY OF PHILADELPHIA,
PENNSYLVANIA

By: _____
Rob Dubow
Director of Finance

DIGITAL ASSURANCE CERTIFICATION, L.L.C,
as Dissemination Agent

By: _____
Authorized Officer

APPENDIX "A"

1. Commencing with the fiscal year ending June 30, 2009, a copy of the Comprehensive Annual Financial Report ("CAFR") which contains the audited combined financial statements of the City prepared by the office of the Director of Finance of the City in conformance with guidelines adopted by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants' audit guide, Audits of State and Local Government Units, and

2. Commencing with the Fiscal Year of the Philadelphia Gas Works ending August 31, 2009, to the extent such information is not contained in the CAFR, an update of the information set forth in the financial statements of the Philadelphia Gas Works for the Fiscal Years ended August 31, 2007 and August 31, 2008, included in Appendix A to the Official Statement.

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APPENDIX F

FORMS OF OPINIONS OF CO-BOND COUNSEL

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APPENDIX F

PROPOSED FORM OF OPINIONS OF CO-BOND COUNSEL

_____, 2009

Re: \$ _____ City of Philadelphia, Pennsylvania
Gas Works Revenue Refunding Bonds, Eighth Series (1998 General Ordinance)

To The Purchasers of the Within-Described Bonds:

We have acted as Co-Bond Counsel to the City of Philadelphia, Pennsylvania (“City”) in connection with the authorization, issuance and sale by the City of its Gas Works Revenue Refunding Bonds, Eighth Series __ (1998 General Ordinance) (“Eighth Series __ Bonds”).

The Eighth Series __ Bonds are issued under and pursuant to provisions of: (i) the Constitution of the Commonwealth of Pennsylvania (“Commonwealth”); (ii) the First Class City Revenue Bond Act, approved October 18, 1972 (P.L. 955), Act No. 234 (“Act”); (iii) the City of Philadelphia General Gas Works Revenue Bond Ordinance of 1998, as amended (Bill No. 980232) (“1998 General Ordinance”); (iv) the Ninth Supplemental Ordinance to the General Ordinance (Bill No. 090322), enacted by the Council of the City (“City Council”) on May 21, 2009 and approved by the Mayor of the City on June 3, 2009 (“Ninth Supplemental Ordinance”); and (v) a Bond Authorization of the Bond Committee of the City, comprised of the Mayor, the City Controller and the City Solicitor, acting by a majority thereof (“Bond Committee”), dated _____, 2009 (“Bond Authorization”). This opinion is being rendered pursuant to Section 4.06 of the 1998 General Ordinance. Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the 1998 General Ordinance or the Ninth Supplemental Ordinance.

Concurrently with the issuance of the Eighth Series __ Bonds, the City is issuing its \$58,285,000 Gas Works Revenue Refunding Bonds, Eighth Series A (1998 General Ordinance) (“Eighth Series A Bonds”), \$ _____ Gas Works Revenue Refunding Bonds, Eighth Series __ (1998 General Ordinance) (“Eighth Series __ Bonds”), \$ _____ Gas Works Revenue Refunding Bonds, Eighth Series __ (1998 General Ordinance) (“Eighth Series __ Bonds”) and \$ _____ Gas Works Revenue Refunding Bonds, Eighth Series __ (1998 General Ordinance) (“Eighth Series __ Bonds” and, together with the Eighth Series __ Bonds, the Eighth Series __ Bonds, the Eighth Series __ Bonds and the Eighth Series __ Bonds, the “Eighth Series Bonds”).

The Eighth Series Bonds are being issued by the City to provide funds for any or all of the following purposes: (i) redeeming all or any portion of the outstanding City of Philadelphia, Pennsylvania, Gas Works Revenue Bonds, Sixth Series (1998 Ordinance), upon such terms and in such amounts as shall be determined by the Director of Finance (the "Sixth Series Bonds"); (ii) providing the funds in order to make a payment (the "Termination Payment") to terminate, in whole or in part, the Qualified Swap (the "Sixth Series Swap") entered into with respect to the Sixth Series Bonds pursuant to a Qualified Swap Agreement (the "Sixth Series Swap Agreement"); and (iii) paying the costs of issuing the Eighth Series Bonds and any required deposits to the Sinking Fund Reserve.

The Eighth Series __ Bonds, together with all Senior Bonds presently Outstanding under the 1998 General Ordinance and any parity obligations hereafter issued under the 1998 General Ordinance (collectively, "1998 Ordinance Senior Bonds"), are equally and ratably payable solely from and secured solely by a lien on and security interest in, all Gas Works Revenues, all accounts, contract rights and general intangibles representing Gas Works Revenues and all funds and accounts established under the 1998 General Ordinance. Pursuant to the 1998 General Ordinance, all 1998 Ordinance Senior Bonds are subordinate in right of payment and security to bonds issued under the City's General Gas Works Revenue Bond Ordinance of 1975.

As Co-Bond Counsel, we have examined: (a) the relevant provisions of the Constitution of the Commonwealth; (b) the Act; (c) the 1998 General Ordinance; (d) the Ninth Supplemental Ordinance; (e) the Bond Authorization; and (f) certain statements, certifications, affidavits and other documents and matters of law as we have deemed necessary to enable us to render the opinion set forth below, including, without limitation, a certification of officials of the City and of the Philadelphia Gas Works having responsibility for issuing the Eighth Series __ Bonds ("Tax Compliance Certificate"), intended to satisfy certain provisions of the Internal Revenue Code of 1986, as amended ("Code"), and applicable Treasury Regulations, and the other documents and instruments listed on the Closing Index filed with U.S. Bank National Association, as Fiscal Agent, on the date of delivery of the Eighth Series __ Bonds. We have also examined a fully executed and authenticated Eighth Series __ Bond.

In rendering the opinion set forth below, we have relied upon the genuineness, accuracy and completeness of all documents, records, certifications and other instruments examined including, without limitation, the authenticity of all signatures appearing thereon. We have also relied, in the opinion set forth below, upon the opinion of the City Solicitor as to all matters of fact and law set forth therein. We have not made any independent examination in rendering this opinion other than the examination referred to above. Our opinion is therefore qualified in all respects by the scope of that examination.

Except with respect to Paragraph 5 below, our opinion is given only with respect to the laws of the Commonwealth of Pennsylvania as enacted and construed on the date hereof.

Based upon and subject to the foregoing and subject to the qualifications hereinafter set forth, we are of the opinion that:

1. The City is authorized under the provisions of the Constitution and laws of the Commonwealth to perform its obligations under the 1998 General Ordinance, the Ninth Supplemental Ordinance and the Eighth Series __ Bonds and to issue the Eighth Series __ Bonds for the purposes set forth in the Ninth Supplemental Ordinance.

2. The City has duly and properly authorized the issuance of the Eighth Series __ Bonds.

3. The Eighth Series __ Bonds have been duly executed, authenticated, issued and delivered, and are the legal, valid and binding obligations of the City, enforceable in accordance with the terms thereof, except as enforcement may be affected by bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other similar laws or legal or equitable principles affecting the enforcement of creditors' rights.

4. Under the laws of the Commonwealth as presently enacted and construed, interest on the Eighth Series __ Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax and the Eighth Series __ Bonds are exempt from personal property taxes in Pennsylvania; however, any profits, gains or income derived from the sale, exchange or other disposition of the Eighth Series __ Bonds will be subject to Commonwealth taxes and local taxes within the Commonwealth.

5. Under existing statutes, regulations, rulings and court decisions, assuming that the City complies with its covenants relating to certain requirements of the Code, interest on the Eighth Series __ Bonds will not be includible in the gross income of the holders thereof for federal income tax purposes, is exempt from individual and corporate federal alternative minimum tax ("AMT"), and is not includible in adjusted current earnings for purposes of corporate AMT.

In rendering this opinion, we have assumed compliance by the City with its covenants contained in the 1998 General Ordinance, the Ninth Supplemental Ordinance, the Bond Authorization and the Tax Compliance Certificate that are intended to comply with the provisions of the Code relating to actions to be taken by the City in respect of the Eighth Series __ Bonds after the issuance thereof to the extent necessary to effect or maintain the exclusion of interest on the Eighth Series __ Bonds from gross income for federal income tax purposes. These covenants relate to, *inter alia*, the use and investment of proceeds of the Eighth Series __ Bonds and the rebate to the United States Treasury of specified arbitrage earnings, if required.

To The Purchasers of the Within-Described Bonds
_____, 2009

Page 4

Failure to comply with such representations and covenants could result in the interest on the Eighth Series __ Bonds becoming includible in gross income for federal income tax purposes from the date of issuance of the Eighth Series __ Bonds.

We call to your attention that the Eighth Series __ Bonds are special obligations of the City payable solely from and secured solely by the Gas Works Revenues and amounts in the Sinking Fund, including the Sinking Fund Reserve established under the 1998 General Ordinance. The Eighth Series __ Bonds are not general obligations of the City and do not pledge the full faith, credit or taxing power of the City or create any debt or charge against the general revenues of the City or create a lien against property of the City other than Gas Works Revenues.

We express no opinion as to any matter not set forth in the numbered paragraphs herein. This opinion is given as of the date hereof and we assume no obligation to supplement this opinion to reflect changes in law that may hereafter occur or changes in facts or circumstances that may hereafter come to our attention. Without limiting the generality of the foregoing, we express no opinion herein with respect to, and assume no responsibility for, the accuracy, adequacy or completeness of the Preliminary Official Statement or the Official Statement prepared in respect of the Eighth Series __ Bonds, and make no representation that we have independently verified the contents thereof.

Very truly yours,

