

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION	:	
	:	
	:	
v.	:	Docket No. R-2009-2139884
	:	
PHILADELPHIA GAS WORKS	:	
	:	
PENNSYLVANIA PUBLIC UTILITY COMMISSION	:	
	:	
	:	
v.	:	Docket No. P-2009-2097639
	:	
	:	
PHILADELPHIA GAS WORKS	:	

JOINT PETITION FOR SETTLEMENT

May 12, 2010

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Statement H	Statement in Support of Joint Petition for Settlement of Retail Energy Supply Association
Statement I	Statement in Support of Joint Petition for Settlement of Philadelphia Housing Authority

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**TO THE HONORABLE CHARLES E. RAINEY, JR., ADMINISTRATIVE LAW
JUDGE:**

Philadelphia Gas Works (“PGW” or the “Company”), Office of Trial Staff (“OTS”), Office of Consumer Advocate (“OCA”), Office of Small Business Advocate (“OSBA”), Philadelphia Housing Authority (“PHA”), Philadelphia Industrial and Commercial Gas Users Group (“PICGUG”), Tenant Union Representative Network and Action Alliance of Senior Citizens of Greater Philadelphia (“TURN, *et al.*”), Clean Air Council (“CAC” or “Council”), and Retail Energy Supply Association (“RESA”) (collectively, the “Joint Petitioners”), by their respective counsel, submit this Joint Petition For Settlement (“Settlement”) of all of the issues, between and among all of the active parties, in the above-captioned proceeding and request that

the Administrative Law Judge Charles E. Rainey, Jr. (the “ALJ”) and the Pennsylvania Public Utility Commission (“Commission” or “PUC”) approve the Settlement without modification.

In support of this Settlement, the Joint Petitioners state as follows:

I. BACKGROUND

1. On December 18, 2009, PGW filed a proposed revision to its tariff, Supplement No. 36 to Tariff Gas - Pa. P.U.C. No. 2, that would implement a base rate increase designed to produce \$42.5 million in additional annual revenues to provide funding for PGW’s Other-Post Employment Benefits (“OPEB”) liability on an accrual basis.

2. This rate filing was made in compliance with the Commission’s Order of December 19, 2008 in Docket No. R-2009-2139884. *PUC v. PGW*, Docket No. R-2008-2073938, 2008 Pa. PUC LEXIS 32 (Order entered December 19, 2008) (“2008 Extraordinary Rate Order”). In that Order the Commission awarded PGW an extraordinary rate increase of \$60 million annually and, *inter alia*, directed PGW to file a section 1308(d) base rate case no later than December 31, 2009.

3. On December 18, 2009, as part of its section 1308(d) filing, PGW filed its revised five-year gas demand-side management (“DSM”) program. The DSM program was filed pursuant to the Commission’s 2008 Extraordinary Rate Order. The DSM program was previously filed in April 2009 at Docket No. P-2009-2097639.

4. On December 18, 2009, PGW filed direct testimony and accompanying exhibits to support the general rate increase filing and the proposed DSM program.

5. By Order entered February 11, 2010, the Commission instituted an investigation into the lawfulness, justness and reasonableness of the proposed rate increase. Pursuant to section 1308(d) of the Public Utility Code, 66 Pa. C.S. § 1308(d), Supplement No. 36 to Tariff Gas – Pa. P.U.C. No. 2 was suspended by operation of law on February 16, 2010, until

September 16, 2010, unless voluntarily extended or otherwise directed by Order of the Commission. In addition, the Commission ordered that the investigation include consideration of the lawfulness, justness and reasonableness of PGW's existing rates.

6. The Suspension Order, entered February 11, 2010, also consolidated PGW's DSM program, Docket No. P-2009-2097639, with the investigation into the proposed Supplement No. 36 to Tariff Gas-Pa. P.U.C. No. 2 (at Docket No. R-2009-2139884). This consolidation was done in response to PGW's previously filed Motion to Consolidate said proceedings.

7. On March 2, 2010, a prehearing conference was held before Administrative Law Judge Charles E. Rainey, Jr. (the "ALJ") and a schedule was established for the submission of testimony and the conduct of hearings. Specifically, evidentiary hearings were scheduled for May 10 through 14, 2010. On March 11, 2010, Judge Rainey issued a Prehearing Order formally establishing this schedule.

8. Eight formal complaints and/or interventions were filed by the OTS, OCA, OSBA, PHA, PICGUG, TURN, et al., CAC and RESA. Several formal complaints were filed by various individuals to the proposed increase in base rates. With one exception,¹ none of these individuals has been active or has participated in this proceeding.

9. The active parties conducted extensive formal and informal discovery throughout the proceeding.

10. On March 26, 2010, direct testimony and accompanying exhibits were submitted by OTS, OCA, OSBA, TURN, et al., RESA, CAC and PHA.

11. Public input hearings were held at the Community College of Philadelphia on

¹ Ms. Linda Montgomery presented testimony at the hearing on Monday, May 10, 2010.

April 6, 2010 (at 1:00 p.m. and 7:00 p.m.), at the Community Academy of Philadelphia on April 7, 2010 (at 1:00 p.m.), at George Washington High School on April 7, 2010 (at 7:00 p.m.) and at Dorothy Emanuel Recreation Center on April 8, 2010 (at 6:00 p.m.).

12. On April 23, 2009, rebuttal testimony and accompanying exhibits were submitted by PGW, OTS, OCA, OSBA, CAC and PICGUG. Surrebuttal testimony and accompanying exhibits were submitted by PGW, OTS, OCA, OSBA, RESA, TURN, *et al.*, and PHA on May 4, 2010.

13. The active parties engaged in extensive discussions to try to achieve a settlement of some or all of the issues in this case. As a result of those negotiations, the Joint Petitioners were able to reach the Settlement set forth herein.

14. Before the commencement of the scheduled hearings on May 10 through 14, 2010, the active parties advised the ALJ that they were working towards a settlement of all of the issues. On Monday, May 10, 2010, the parties further advised the ALJ on the procedural status of their settlement discussions. The hearing on Tuesday, May 11, 2010 was cancelled, at the request of the active parties, to allow them more time to pursue settlement discussions. On May 11, 2010, the active parties advised the ALJ that a settlement of all of the issues had been achieved among the Company and all active parties.

II. TERMS AND CONDITIONS OF SETTLEMENT

15. The Joint Petitioners hereby respectfully request that, except as provided below, PGW's base rate increase filing and DSM program be approved as filed:

A. REVENUE REQUIREMENT

16. PGW will be permitted to maintain the \$60 million revenue increase that was authorized as part of the extraordinary rate proceeding, and will further be permitted to increase its level of annual distribution revenues by \$16 million. The amounts necessary to fund PGW's

OPEB obligations as set forth in paragraph 19 of this Settlement are reflected here. Conversely, DSM program cost recovery as outlined in this document is not included as part of this increase, but rather is in addition to this distribution rate increase.

17. PGW agrees:

- (a) to make principal debt repayments on a monthly basis as set forth in JRB-2A, p. 2 (Uses of Funds, Funded Debt Reduction & Equity Bond Contribution/Debt Reduction through FY 15) in the amount of \$276.6M; and agrees that it will not sell new money bonds (after the issuance currently scheduled for July, 2010) for at least 3 years;
- (b) during the Stay Out described in paragraph 18 to provide quarterly reports to the Commission and the active parties to this case listing its monthly debt repayments with the amounts of principal and interest for each clearly set out; and
- (c) PGW may suspend its discretionary debt repayment obligation (now scheduled for FY 2015 in the amount of \$15 million) on the date the Company files a Petition for Extraordinary/Emergency Rate Relief. The suspension of the debt repayment obligation will continue until the Commission, by Order, sets forth the date that the payment may resume.

18. PGW shall not file a distribution rate case any sooner than 24 months after the PUC approval of this Settlement (“Stay Out”). Provided, however, that this Stay Out shall not preclude PGW from seeking extraordinary or emergency rate relief from the Commission.

19. On a monthly basis, PGW shall deposit into an irrevocable trust fund the amounts necessary to fund its OPEB obligation as follows: \$15 million annually for an initial five year

period to fund the Unfunded Actuarial Accrued Liability (“UAAL”) and \$3.503 million annually, which represents a 30-year amortization period for the Net OPEB Obligation of \$105.1 million as of FYE 2010. In addition, PGW agrees to:

- (a) Provide to the Commission and the active parties to this proceeding, a complete copy of the Irrevocable Trust Agreement in a subsequent submission filed with the Commission to inform them that the Trust Agreement has been finalized. The Irrevocable Trust shall be established prior to any effective date for the rate increase to fund OPEBs;
- (b) Begin monthly OPEB deposits into the Irrevocable Trust in the first full month following Commission approval of this Settlement and the filing of the Trust Agreement, whichever is later; and
- (c) Maintain an accurate account of all monthly OPEB deposits and, during the initial five year period, provide a quarterly report and a yearly summary to the Commission and the active parties to this case.
- (d) PGW may suspend the monthly OPEB funding obligation on the date the Company files a Petition for Extraordinary/Emergency Rate Relief. The suspension of the monthly OPEB funding obligation will continue until the Commission, by Order, sets forth the date that monthly funding must resume.

20. PGW shall recover the amount of its OPEB funding through a Rider from all customer classes. The funding amount contained in the Rider shall be \$16 million annually and (except for over/undercollection true-ups) this amount shall not change until reviewed and updated in PGW’s next distribution base rate proceeding or after the initial 5-year period. If it is

not filed as part of a distribution rate case, PGW shall file the proposed revision at least 6 months prior to the time when the change is scheduled to go into effect. At those times, PGW shall provide a current actuarial study to determine the level needed to fund any remaining Unfunded Actuarial Accrued Liability and OPEB obligation funding, and shall change the Rider accordingly. The Rider shall be collected on a volumetric basis from each class and will be adjusted to account for over or under collections of the \$16 million on an annual basis. The clause will be offset by other rate changes such that the net impact of the rate change will be to effectuate the rate allocations agreed to in paragraph 22 of this Settlement.

21. To the extent that PGW decides to maintain currently-in-force interest rate swap agreements (“Swap Arrangement”), and later decides to terminate the Swap Arrangement, PGW agrees that:

- (a) no one-time termination/cancellation/unwinding or exit fee(s) will be included in any request for future rate relief. The prior sentence shall not apply to the costs (including debt service, debt service coverage and issuance costs) of the financing of any associated swap termination fee;
- (b) Consistent with its ongoing commitment to provide utility service at the lowest reasonable cost, PGW shall continue to monitor its options with regard to the Swap Arrangement, and shall, in conjunction with the City of Philadelphia, consider terminating the Swap Arrangement when doing so would prudently reduce the total cost of the financing to ratepayers;
- (c) During the Stay Out PGW shall provide to the OTS and the OCA monthly reports of the status of the Swap Arrangement which shall include: 1) the latest available cost of terminating the swap made available from the

City’s independent swap advisor; 2) the interest cost differential that PGW would have had to incur if it had terminated the swap during the reporting month and replaced variable rate with fixed rate securities; and 3) an update of PGW’s current view of its plans relative to terminating the Swap Arrangement. PGW shall make knowledgeable experts and consultants available to provide additional explanations or data as reasonably requested; and

- (d) For three years after the approval of this Settlement, PGW agrees not to enter into a new swap agreement (i.e., an interest rate hedge) without providing at least sixty (60) days notice to the Commission and to the active parties to this proceeding.

B. REVENUE ALLOCATION AND RATE DESIGN

22. The settlement increase in revenues, including the collection of the OPEB funding, shall be allocated to the classes such that the Residential rates will be increased by \$20 million. The Commercial, Municipal, Industrial, Public Housing Authority, Interruptible and GTS/IT classes will receive rate decreases as follows:

Commercial	(\$3,055,000)
Industrial	(\$357,000)
Municipal	(\$148,000)
PHA	(\$440,000)
Interruptible	\$0
GTS/IT	\$0

- 23. Exhibit 1 shows that allocation described in Paragraph 22 of this Settlement.

C. OTHER ISSUES

DSM Program

24. PGW shall be permitted to implement its Proposed Demand Side Management (“DSM”) Program (“Program”) with the following modifications:

- (a) PGW shall be permitted to implement a five year DSM program in accordance with the process set forth herein. After PUC approval of the Program and approval of the initial implementation plans through the end of PGW fiscal year (FY) 2011, PGW shall make a filing with the parties and the Commission four months prior to the end of the initial implementation period, and four months prior to the end of each subsequent year. Such filing shall report on the progress of its plan to date and describe its operational plans and budget for the next year. Parties shall have the right to submit comments to PGW’s future plans and proposed budget for the upcoming year to which PGW shall respond, indicating whether it agrees with the comments or, if it disagrees setting forth its reasons for disagreement. In their comments to the annual filing, all parties shall have the right to propose modifications to, or to propose the termination -- in whole or in part -- of any part of, the implementation plan or any specific program, including proposed modifications to the filed budgets. Any party may request the Commission to resolve any issue raised by the annual filing that was not resolved through the comment process.

- (b) The yearly DSM spending budget for the plan for the first two years (FY 2011 and FY 2012) shall not exceed 1% of PGW's total projected gross intrastate operating revenues. PGW agrees that for the first two years (FY 2011 and FY 2012), it will fully fund the Enhanced Low Income Retrofit Program at the budget levels originally proposed for this Program by the Company in this proceeding.² The annual budgets for the remaining years (FY 2013, FY 2014 and FY 2015) shall be determined in the annual reporting process described in paragraph 24(a) above, but in no event shall exceed the original level for that year proposed by the Company in this proceeding.
- (c) The Premium Appliances and Heating Equipment rebate program and the Commercial and Industrial Retrofit program shall be rolled out earlier (at least 3 months earlier) than in the Company's filed Plan, and the Comprehensive Residential Heating Retrofit Program (CRHRP) shall be rolled out later (at least 6 months later) than PGW's proposed roll-out.
- (d) The Plan shall include the delivery of CFLs only in instances in which PECO agrees to provide the devices or pay for them.
- (e) PGW shall seek to coordinate its DSM programs with those of other programs being deployed in its service territory. PGW shall provide a report of its efforts and a matrix of all linkages to other programs with its compliance filing and each annual program filing.

² The Enhanced Low Income Retrofit Program Budget for FY 2011 is \$6,783,440 (which is the budget level originally proposed for year 2) and for FY 2012 is \$6,708,440 (which is the budget level originally proposed for year 3).

- (f) For the CRHRP, PGW will impose a modest fee for the initial energy audit. PGW will propose the specific fee as part of the initial, CRHRP Implementation Plan, after attempting to reach a consensus on the proposed level with the active parties. In formulating the level of the charge, PGW shall consider making the modest fee affordable for lower income customers, in balance with any operational and implementation requirements.
- (g) PGW shall be permitted to establish a section 1307-type automatic adjustment clause for the recovery of DSM costs. PGW agrees not to make a claim for lost revenues during the Stay Out.

CRP

25. Pursuant to a separate settlement at Docket No. M-00072021 (Order entered October 23, 2009), PGW will be filing a proposal to implement further changes to PGW's CRP. Under this Settlement, PGW agrees to include in that filing a proposal to create a positive incentive to encourage conservation by CRP participants.

Bad Debt Offset

26. PGW shall implement a Bad Debt Expense Offset ("Offset") which will offset CRP credit amounts and pre-program arrearages by 7.1% on a monthly basis. The Offset shall be applied to the CRP credit associated with incremental CRP participants over 84,000 participants, with the level reset in each distribution base rate case.

Employee Benefit Expenses

27. At the time of filing its next distribution base rate case, the Company will report on its efforts to control the claimed employee benefit expenses so as to continue providing employee benefits that do not unduly burden the Company and its ratepayers. Such report must include documentary evidence of the Company's efforts including the measures investigated.

Tariff Issues

28. Meter relocation proposal:

PGW will amend its tariff language so that if PGW discovers that the meter has been tampered with, interfered with or bypassed two times within a twelve month period, PGW may, in its sole judgment and where physically feasible, elect to move the meter from inside the building to an outside, above ground meter location and may charge the Customer being supplied through such equipment the labor costs of moving the meter. Nothing herein waives the right of the Customer to file a complaint with the Commission disputing the PGW determination.

29. Establishing Prior Occupancy:

When the Applicant is a person who resided at the same premises for which application for service is requested, the Company may require payment of the portion of the outstanding balances which accrued during the time that the Applicant resided at those premises.

The Company may establish that an Applicant previously resided at those premises through the use of any of the following:

Mortgage, Deed or Lease Information

Commercially Available Consumer Credit Reporting Service

Driver's License or PennDOT Identification Card

Nothing herein waives the right of the Customer or Applicant to file a complaint with the Commission disputing the PGW determination.

Collection Issues

30. PGW agrees to waive the collection of a security deposit from a Level 1 income non-CRP Applicant.

31. PGW agrees that an applicant or customer who is no longer eligible for CRP will be offered one additional Payment Arrangement by PGW, regardless of the customer's or applicant's prior payment agreement history.

Competitive Issues

32. PGW shall convene a collaborative with the purpose of identifying the systems (e.g., EDI) and billing improvements (e.g., utility consolidated billing) it needs to make in order to implement a Purchase of Receivables Program, as well as a time line for implementing the necessary systems and billing changes. The collaborative shall be initiated within 60 days after a Final Commission Order in this proceeding. If a consensus cannot be reached on these matters within 180 days after initiation of the collaborative, or if a consensus cannot be reached on the timing by which PGW will move forward to implement the necessary systems and billing changes, PGW agrees to put the matter(s) to the PUC for resolution, absent an agreement by all collaborative parties to continue with the collaborative process.

33. PGW shall make the changes in the imbalance management rules as per attached tariff page (Exhibit 2).

Compliance Tariff

34. By Wednesday, May 19, 2010, PGW will provide proposed tariff modifications (as Exhibit 3 hereto) and a proof of revenues (as Exhibit 4 hereto), for approval by the ALJ and the Commission and to effectuate the provisions of the Settlement.

III. THE SETTLEMENT IS IN THE PUBLIC INTEREST

35. PGW, OTS, OCA, OSBA, PHA, PICGUG, TURN, *et al.*, CAC, and RESA will prepare and file Statements in Support of this Joint Petition by Wednesday, May 19, 2010. Once prepared and filed, these Statements in Support will be attached to this Joint Petition, as Statements A through I, respectively, and will set forth the bases on which the Joint Petitioners believe the Settlement is in the public interest.

36. The Joint Petitioners submit that the Settlement is in the public interest for the following additional reasons:

- (a) ***Substantial Litigation And Associated Costs Will Be Avoided.*** The Settlement amicably and expeditiously resolves a number of important and potentially contentious issues. The administrative burden and costs to litigate these matters to conclusion would be significant.
- (b) ***The Settlement Is Consistent With Commission Policies Promoting Negotiated Settlements.*** The Joint Petitioners arrived at the Settlement terms after conducting discovery, preparing and submitting extensive testimony, and engaging in in-depth discussions. The Settlement terms and conditions constitute a carefully crafted package representing reasonable negotiated compromises on the issues addressed herein. Thus, the Settlement is consistent with the Commission's rules and practices

encouraging negotiated settlements (see 52 Pa. Code §§ 5.231, 69.391, 69.401), and is supported by a substantial record.

- (c) ***The Settlement Is A Reasonable Resolution.*** The Settlement represents a reasonable resolution of PGW's claims for increased rates, OPEB funding and a Demand Side Management Program for ratepayers while balancing the interests of ratepayers and the public.

IV. ADDITIONAL TERMS AND CONDITIONS

37. It is understood and agreed among the Joint Petitioners that the Settlement is the result of compromise and does not necessarily represent the position(s) that would be advanced by any party in this or any other proceeding, if it were fully litigated.

38. This Settlement is being presented only in the context of this proceeding in an effort to resolve the proceeding in a manner that is fair and reasonable. The Settlement is the product of compromise. This Settlement is presented without prejudice to any position which any of the Joint Petitioners may have advanced and without prejudice to the position any of the Joint Petitioners may advance in the future on the merits of the issues in future proceedings, except to the extent necessary to effectuate the terms and conditions of this Settlement.

39. This Settlement is conditioned upon the Commission's approval of the terms and conditions contained herein without modification. If the Commission should disapprove the Settlement or modify any terms and conditions herein, this Settlement may be withdrawn upon written notice to the Commission and all parties within five (5) business days following entry of the Commission's Order by any of the Joint Petitioners and, in such event, shall be of no force and effect. In the event that the Commission disapproves the Settlement or the Company or any other Joint Petitioner elects to withdraw from the Settlement as provided above, the Joint Petitioners reserve their respective rights to fully litigate this case, including, but not limited to,

presentation of witnesses, cross-examination and legal argument through submission of Briefs, Exceptions and Replies to Exceptions.

40. If the ALJ, in his Recommended Decision, recommends that the Commission adopt the Settlement as herein proposed without modification, the Joint Petitioners agree to waive the filing of Exceptions with respect to any issues addressed by the Settlement. However, the Joint Petitioners do not waive their rights to file Exceptions with respect to any modifications to the terms and conditions of this Settlement, or any additional matters proposed by the ALJ in his Recommended Decision . The Joint Petitioners also reserve the right to file Replies to any Exceptions that may be filed.

41. This Settlement may be executed in multiple counterparts, each of which shall be regarded for all purposes as an original; and such counterparts shall constitute but one and the same instrument.

WHEREFORE, the Joint Petitioners, by their respective counsel, respectfully request as follows:

1. That Administrative Law Judge Rainey and the Commission approve the Settlement as set forth herein, including all terms and conditions thereof;
2. That the Commission proceeding at Docket Nos. R-2009-2139884 and P-2009-2097639 be marked closed following a Commission decision; and
3. That the Commission enter an Order, following a Commission decision evidencing its approval of the Settlement and terminating the proceeding.

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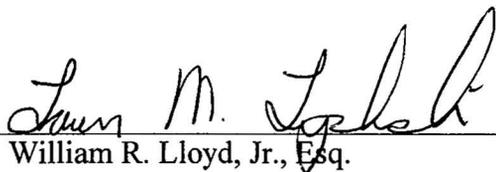
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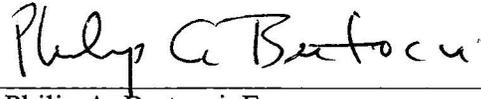
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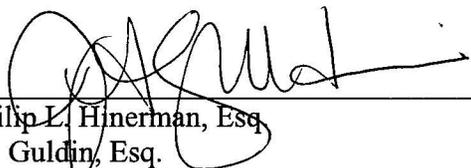


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Exhibit 1

Philadelphia Gas Works
 Allocated Class COS Study - 2009 Settlement
 REVENUE ALLOCATION- SETTLEMENT

Source	Total	Residential	Commercial	Industrial	Municipal	PHA	Interr. Sales	GTS / IT	
COST OF SERVICE AT CURRENT RATES (a)									
1									
c	Dist. Tariff Revenue	519,080	397,102	82,172	7,735	7,877	6,336	9,844	
3	Income bef. Int. & Surplus	96,516	58,478	24,798	2,618	2,346	1,969	3,854	
4	Rate Base	1,205,020	947,754	163,140	13,733	18,669	12,193	43,979	
5	Return on Rate Base	Line 3 / line 4	8.0%	6.2%	15.2%	19.1%	12.6%	20.1%	35.5%
6	Relative Rate of Return	Relative to Total on Line 5	1.00	0.77	1.90	2.38	1.57	2.51	4.43
7									
8									
SETTLEMENT AT \$16 MILLION									
9	Company (Settlement)	16,000	20,000	(3,055)	(357)	(148)	(440)	0	
10	Company (Original)	42,500	45,010	(2,400)	(350)	(250)	(300)	790	
11	Percent of Original proposal	37.6%	44.4%	127.3%	102.0%	59.2%	146.7%		
12		<u>Wtd Avg Comm. Indu. Muni. PHA</u>							
13	Company (Settlement)	(3.84%)	3.1%	5.0%	(3.7%)	(4.6%)	(1.9%)	(6.9%)	0.0%
14									
15	RELATIVE RATES OF RETURN BASED ON COMPANY SETTLEMENT COS STUDY (b)								
16	Company (Settlement)	Line 6	Present rates	0.77	1.90	2.38	1.57	2.51	4.43
17									
18	Company (Settlement)	Line 16: Class / Total	Settlement	0.89	1.43	1.76	1.26	1.77	3.80
19	Income bef. Int. & Surplus, Current rates		96,516	58,478	24,798	2,618	2,346	1,969	3,854
20	Proposed increase (decrease)		16,000	20,000	(3,055)	(357)	(148)	(440)	0
21	Income bef. Int. & Surplus, Proposed		112,516	78,478	21,743	2,261	2,198	2,014	1,969
22	Return on Rate base, Proposed		9.3%	8.3%	13.3%	16.5%	11.8%	16.5%	35.5%
23									
24	SETTLEMENT INCREASE MEASURED FROM BEFORE \$60M EMERGENCY RATE RELIEF								
25	Company (Settlement)		75,996	67,749	6,110	514	640	257	20
26		<u>Wtd Avg Comm. Indu. Muni. PHA</u>							
27	Company (Settlement)	8.12%	16.55%	19.39%	8.37%	7.49%	9.03%	4.56%	0.25%
28									
29	(a) PGW's March 17, 2010 Cost of Service Study (accompanying PGW St. 8A)								
30	(b) PGW's March 17, 2010 Cost of Service Study, reflecting Settlement of \$16 million								

Exhibit 2

6. BALANCING LIMITS AND CHARGES

Daily balancing, and the reconciliation of end-of-month imbalances, shall be governed by the definitions, limits and charges set forth below:

- (a) Daily Receipt Quantity. The supplier's confirmed pipeline nomination quantity, adjusted for unaccounted for Gas, for the Gas day.
- (b) Daily Usage Quantity. Gas used by the Rate IT Customer(s) in a supply pool during the 24-hour Gas day as recorded by the Company's meter(s) at the Rate IT Customer location(s).

(c) Allowable Daily Variation. The daily usage quantity must be within plus or minus ~~ten~~five percent (+/- 10~~5~~%) of the daily receipt quantity.

(d) Daily Imbalance Surcharge. Supplier shall be charged \$0.50 for each Dth outside the applicable allowable daily variation

(e) Daily Market Index Price. The prices published each day in Gas Daily (or successor publication or where none exists a publication selected by the Company) under the heading "Citygate Prices" for deliveries at "Texas Eastern M-3" and "Transco Z6 [non-NY]" (or applicable headings of a successor publication.) Whenever a price is published as a range, the value used for that day would be the midpoint of the range.

(f) Monthly Imbalance Reconciliation. Imbalances remaining at the end of a month in each supply pool shall be reconciled to zero in accordance with the following schedule. All cost calculations shall reflect the appropriate adjustment for unaccounted for Gas, and for average heating value where applicable.

1. Monthly usage quantities that exceed monthly receipts by up to 2.5% shall be purchased by the Supplier at the monthly average of the Daily Market Index Price carried forward to the Supplier's monthly usage quantities for the subsequent month of service for the purpose of calculating Supplier's monthly imbalance in the subsequent month; provided, however, that if Supplier shall cease to be a Supplier pursuant to this Rate Schedule, then, usage quantities that exceed monthly receipts by up to 2.5% during the Supplier's last month on PGW's system shall be purchased by the Supplier at the higher of: (a) 100% of the average of the two highest Daily Market Index Prices for the monthly period beginning on the first day of the month; or (b) 100% of the Company's highest incremental supply cost for the month.

2. Monthly usage quantities that exceed monthly receipts by more than 2.5% shall be purchased by the supplier at the higher of: (a) 150% of the average of the ~~five (5)~~two highest Daily Market Index Prices for the monthly period beginning on the first day of the month; or (b) 150% of the Company's highest incremental supply cost for the month.

3. Monthly receipt quantities that exceed monthly usage by up to 2.5% shall be purchased by the Company at the Daily Market Index Price carried forward to the Supplier's monthly receipt quantities for the subsequent month of service for the purpose of calculating Supplier's monthly imbalance in the subsequent month; provided, however, that if Supplier shall cease to be a Supplier pursuant to this Rate Schedule, then, receipt quantities that exceed monthly usage by up to 2.5% during the Supplier's last month on PGW's system shall be purchased by Company at the lower of: (a) 100% of the average of the two (2) lowest Daily Market Index Price for the monthly period beginning on the first day of the month; or (b) 100% of the Company's lowest incremental supply cost for the month..

4. Monthly receipt quantities that exceed monthly usage by more than 2.5% shall be purchased by the Company at the lower of: (a) 75% of the average of the ~~five (5)~~two (5~~2~~) lowest Daily Market Index Price for the monthly period beginning on the first day of the month; or (b) 75% of the Company's lowest incremental supply cost for the month.

5. In the event that erroneous or inaccurate data is posted to PGW's EBB or changes occur to the data following the initial posting, PGW and the Suppliers agree to exercise good faith effort in attempting to resolve imbalances before the month's end. If the monthly imbalance can not be brought into the monthly +/- 2.5% cashout band, the erroneous, inaccurate or changed data will be excluded from the Monthly

Imbalance Reconciliation calculation and that volume shall be cashed out at the monthly average of the Daily Market Index Price.

Exhibit 3

**Exhibit 3 To Be Provided by May 19, 2010
(Paragraph 34 of Settlement)**

PHILADELPHIA GAS WORKS

GAS SERVICE TARIFF



**Issued by: Thomas Knudsen
President and CEO**

**PHILADELPHIA GAS WORKS
800 West Montgomery Avenue
Philadelphia, PA 19122**

List of Changes Made by this Tariff Supplement

Rules and Regulations For Residential and Non-Residential Gas Service – 2. Application and Contract for Gas Service – (Third Revised Pg. No. 17) – The revision of Section 2.1.A.

Rules and Regulations For Residential and Non-Residential Gas Service – 9. Conditions of Service, Point of Delivery, and Application of Rates – (Second Revised Pg. No. 47) – The revision of Section 9.5.

Efficiency Cost Recovery Surcharge (Third Revised Pg. No. 80) – Implementation of the Efficiency Cost Recovery Surcharge.

Other Post Employment Benefit Rider (First Revised Pg. No. 82) – Implementation of the Other Post Employment Benefit Rider Surcharge.

General Service – Rate GS

(Thirty Fifth Revised Pg. No. 83) – The removal of an erroneous reference to municipal customers in the commercial rate class and the addition of the Efficiency Cost Recovery Surcharge to applicable surcharges. The following Delivery Charges change on the effective date: 1) Increase from \$0.61840 to \$0.63863 per Ccf for Residential Customers; 2) Decrease from \$0.52817 to \$0.49820 per Ccf for Public Housing Customers; 3) Decrease from \$0.52449 to \$0.46530 per Ccf for Commercial Customers; and 4) Increase from \$0.52465 to \$0.45859 per Ccf for Industrial Customers.

(First Revised Pg. No. 84) – The addition of the Other Post Employment Benefit Rider.

Municipal Service – Rate MS

(Thirty Fifth Revised Pg. No. 87) – The addition of the Efficiency Cost Recovery Surcharge to applicable surcharges. The Delivery Charge for Municipal Service decreases from \$0.38178 to \$0.34040 per Ccf on the effective date.

(First Revised Pg. No. 88) – The addition of the Other Post Employment Benefit Rider.

Philadelphia Housing Authority Service – Rate PHA

(Thirty Fifth Revised Pg. No. 90) – The addition of the Efficiency Cost Recovery Surcharge to applicable surcharges. The Delivery Charge for Philadelphia Housing Authority Service decreases from \$0.51889 to \$0.41480 per Ccf on the effective date.

(First Revised Pg. No. 91) – The addition of the Other Post Employment Benefit Rider.

Balancing

(First Revised Pg. No. 104) – The revision of imbalance management rules.

(Second Revised Pg. No. 105) – Change in paragraph numbering.

Weather Normalization Adjustment Clause (First Revised Pg. Nos. 149-150) – The correction of the definition for the normal heating degree day thirty year period.

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2. Application and Contract for Gas Service

2.1. APPLICATION FOR GAS SERVICE.

2.1.A. How to Apply. Application for Gas Service shall be made by telephone, mail, on-line and/or by personal visit to one of PGW's Customer Service Centers, provided however that, an in-person application interview may be required for any Applicant at the discretion of the Company. Gas Service will be provided as soon as possible upon completion of an application. Applications will be considered completed only upon compliance with all PGW requirements. When the Applicant is a person who resided at the same premises for which application for service is requested, the Company may require payment of the portion of the outstanding balances which accrued during the time that the Applicant resided at those premises. The Company may establish that an Applicant previously resided at those premises through the use of any of the following:

(i) mortgage, deed or lease information

(ii) a commercially available consumer credit reporting service

(iii) a driver's license or Pennsylvania Department of Transportation issued Identification Card

Nothing herein waives the right of the Customer or Applicant to file a complaint with the Commission disputing the PGW determination.

2.1.B. Documentation Required.

2.1.B.1. Application. An Applicant applying for Residential Gas Service shall identify the Applicant's name, and the names of all occupants who appear on the mortgage, deed or lease of the property and the names of all occupants who are tenants in the premises pursuant to an oral agreement, for which Gas Service is to be provided. All Applicants applying for Residential Gas Service shall provide identification, information, and documentation as required by the Company. All applications shall be subject to credit history investigation by PGW.

2.1.B.2. Identification of the Applications. Applicants for Gas Service shall provide for properties occupied pursuant to an oral or written agreement for such dwelling unit, the name and mailing address of the Landlord and the Landlord's agent, if any.

2.1.B.3. In-person Application Interviews. An in-person application interview may be required for any Applicant who (1) is a former Customer whose Gas Service was terminated for unauthorized usage and/or tampering with the meter or other utility equipment, or (2) is applying for service at a service address at which service was terminated for non-payment within the preceding 120 days or where the home telephone number supplied by the Applicant is the same as the home telephone number for a previously terminated account at the same address.

2.1.B.4. Designation by Landlord Applicants as Tenant-Occupied. Each Applicant for Gas Service who is a Landlord for the property for which Gas Service has been requested shall designate, in written form to PGW, whether the application is for Residential service to a Tenant-occupied property. If the property is Tenant-occupied, a written list of all occupants residing at the location, regardless of whether their name(s) appear on a lease, shall, at the request of PGW, be submitted by the Landlord-Customer to PGW on an annual basis.

2.2. STANDARD SERVICE CONTRACT. Any application for Gas Service, upon acceptance by the Company, constitutes a contract between the Company and the Customer.

9. Conditions of Service, Point of Delivery, and Application of Rates

9.1. TYPE OF SERVICE. The gas delivered will be Natural Gas with a heating value and other characteristics as provided for in the Tariffs covering the Company's purchases of Natural Gas from its suppliers. The Company may, however, where and when it deems necessary, supplement and/or substitute the Natural Gas with some other compatible gas. Such gas shall have a heating value and other characteristics satisfactory for the proper operation of gas-burning appliances that have been approved for Customer's use, except for certain special Industrial or Commercial gas applications where little or no leeway in gas characteristics may be tolerated. It is the Company's policy to notify Customers who request such notice of any change in the burning characteristics of the gas to be supplied, but failure by the Company to give such notification shall not subject the Company to liability for any damages resulting from a change in the characteristics of the gas furnished. The supply pressures will be in accordance with Section 11.

9.2. INFORMATION FROM APPLICANT. Anyone desiring to equip his/her premises for the use of Gas should communicate with the Company directly, or through his/her contractor, preferably in writing, giving the exact location of the premises and the quantity and type of all gas-consuming devices which are to be installed. Where the conditions of the use of any of the gas-consuming devices would not be readily apparent to the Company, a description of such use, as it affects the delivery of gas to it, should be included.

9.3. POINT OF DELIVERY. Upon request, subsequent to compliance with Section 9.1, the Company will designate a point at which the Applicant shall terminate his/her piping for connection to the meter, but such information does not constitute an agreement or obligation on the part of the Company to furnish Gas Service.

9.4. DIVISION OF RESPONSIBILITY. As used herein, the term "Gas Delivery Facilities" includes all equipment, piping, meters, regulators, connections, or other equipment required to deliver gas to the Company designated point of delivery. Such equipment will be provided, installed, owned and maintained by Company, subject to such contributions to cost by Customer as set forth in this Tariff. All piping, fixtures and appliances on the Customer's side of such delivery point must be installed and maintained by and at the expense of the Customer or Owner of the property, unless in the Company's judgment the Customers generally would benefit from some other arrangement.

9.5. LOCATION OF METER AND ACCESSIBILITY OF COMPANY OWNED GAS DELIVERY FACILITIES. The meter(s) or other equipment of the Company which may be necessary for the fulfillment of contracts for Gas should normally be installed at an outside, above ground meter location when suitable protection from outside forces, availability of space and other conditions permit. A meter cover or housing is required if, in PGW's judgment, conditions require physical protection for the meter installation. Where, in PGW's judgment, it is physically and economically unfeasible to do so, PGW may choose to install the meter inside a building in a dry, well-ventilated location not subject to excessive heat and not less than three feet from any source of ignition and/or otherwise suitable place ~~which~~ and shall be conveniently accessible; the Gas Service entrance shall also be accessible to PGW. The meter shall also be as near as possible to the point where the service supply pipe enters the Customer's premises: except when, in PGW's judgment, this is not practical or desirable. If PGW discovers that the meter has been tampered with, interfered with, or bypassed two or more times within a twelve month time period, PGW may, in its sole judgment and where physically feasible, elect to move the meter from inside a building to an outside, above ground meter location and may charge the Customer being supplied through such equipment the labor costs of moving the meter. Nothing herein waives the right of the Customer to file a complaint with the Commission disputing the PGW determination.

EFFICIENCY COST RECOVERY SURCHARGE

The cost of the energy efficiency programs (i.e. the demand side management programs) for the firm customer rate classes listed below will be recovered by an Efficiency Cost Recovery Surcharge applicable to all volumes of Gas delivered.

- 1) The Surcharge will recover the program costs and the administrative costs of the energy efficiency program.
- 2) Computation of the Efficiency Cost Recovery Surcharge factors will be in accordance with the automatic adjustment procedures utilized under Section 1307(f) of the Public Utility Code and will be filed and approved in conjunction with the Company's annual Section 1307(f)-GCR filing.
- 3) Once the surcharge is in place, it will be automatically adjusted effective March 1, June 1, September 1, and December 1 of each year in accordance with Section 1307(f) quarterly adjustment procedures. No interest will be included in such surcharge computations. The basic component of the surcharge will be determined by dividing the total energy efficiency program costs approved for annual recovery by the estimated applicable throughput in Mcfs. The costs related to customers other than low income residential customers are tracked and recovered separately from each of the following firm customer rate classes served by the energy efficiency program:
 - a) Residential and Public Housing Customers on Rate GS;
 - b) Commercial on Rate GS;
 - c) Industrial Customers on Rate GS;
 - d) Municipal Customers on Rate MS; and
 - e) The Philadelphia Housing Authority on Rate PHA.

The surcharge shall be a cents per Ccf charge calculated to the nearest one-thousandth of a cent (0.00001) which shall be added to the distribution rates for billing purposes for all customers in each of the above rate classes. The rate shall be calculated separately for each rate class.

The energy efficiency program costs related to low income customers shall be incorporated into the Conservation Works Program and recovered through the Universal Services Surcharge.

The Efficiency Cost Recovery Surcharge shall take effect on September 1, 2010.

OTHER POST EMPLOYMENT BENEFIT (“OPEB”) RIDER

The amounts necessary to fund PGW’s Other Post Employment Benefit obligations will be recovered by an Other Post Employment Benefit Rider Surcharge applicable to all volumes of Gas delivered.

1. Computation of the Other Post Employment Benefit Rider Surcharge factors will be in accordance with the automatic adjustment procedures utilized under Section 1307(f) of the Public Utility Code and will be filed and approved in conjunction with the Company's annual Section 1307(f)-GCR filing.
2. Once the surcharge is in place it will be automatically adjusted effective September 1 of each year to account for over (under) recoveries in accordance with Section 1307(f) adjustment procedures. No interest will be included in such surcharge computations. The basic component of the surcharge will be determined by dividing the total OPEB funding amounts approved for annual recovery by the estimated applicable throughput in Mcfs.
3. The Other Post Employment Benefit Rider Surcharge shall take effect upon the effective date of this Tariff.

Current Other Post Employment Benefit Rider Surcharge = \$0.02997/Ccf

GENERAL SERVICE - RATE GS

Rate: Applicable to all Retail Sales Service or Transportation Service rendered pursuant to this Rate Schedule on or after March 1, 2010

AVAILABILITY

Available for any purpose where the Company's distribution mains adjacent to the proposed Gas Service location are, or can economically be made, suitable to supply the quantities of Gas or Transportation Services required.

RATES

CUSTOMER CHARGE (per Meter (except parallel meters)):

\$ 12.00 per month for Residential and Public Housing Authority Customers.
\$ 18.00 per month for Commercial and Municipal Customers
\$ 50.00 per month for Industrial Customers

Plus,

GCR (not applicable to GS Customers who transport gas through a qualified NGS):

\$ 0.73455 per Ccf for Residential and Public Housing
\$ 0.73455 per Ccf for Commercial and Municipal Customers
\$ 0.73455 per Ccf for Industrial Customers

Plus,

DISTRIBUTION CHARGE (consisting of items (A) and (B), below):

(A) Delivery Charge:

\$0.618400.63863	per Ccf for Residential	(I)
\$0.528170.49820	per Ccf for Public Housing	(D)
\$0.524490.46530	per Ccf for Commercial and Municipal Customers	(D)
\$0.524650.45859	per Ccf for Industrial Customers	(D)

(B) Surcharges:

Universal Service and Energy Conservation Surcharge; and Restructuring and Consumer Education Surcharge; and Efficiency Cost Recovery Surcharge.

(I) – Increase; (D) – Decrease

PHILADELPHIA GAS WORKS

Also,

The following may apply:

MIGRATION RIDER

REVERSE MIGRATION RIDER

SPECIAL PROVISION – Air Conditioning Rider

SPECIAL PROVISION – Compressed Natural Gas (CNG) Rider

EXIT FEE

SENIOR CITIZEN DISCOUNT – to the extent authorized by this Gas Service Tariff.

OTHER POST EMPLOYMENT BENEFIT RIDER

MUNICIPAL SERVICE - RATE MS

Rate: Applicable to all Retail Sales Service or Transportation Service rendered pursuant to this Rate Schedule on or after March 1, 2010.

AVAILABILITY

Available to properties owned or occupied by the City of Philadelphia or the Board of Education, or any of their respective agencies or instrumentalities, for any type of Gas Service, unless purchased for resale to others, and where the Company's distribution mains adjacent to the proposed Gas Service locations are, or can economically be made, suitable to supply the quantities of Gas required; provided, however, that the rate shall not be available to Commercial Tenants of any such property.

RATES

CUSTOMER

CHARGE (per Meter (except parallel meters):

\$ 18.00 per month

Plus,

GCR (not applicable to MS Customers who transport Gas through a qualified NGS):

\$0.73455 per Ccf

Plus,

DISTRIBUTION CHARGE (consisting of items (A) and (B), below):

(A) Delivery Charge:

| \$0.381780.34040 per Ccf (D)

(B) Surcharges:

| Universal Service and Energy Conservation Surcharge; and The Restructuring and Consumer Education Surcharge; and the Efficiency Cost Recovery Surcharge.

Also,

The following Riders may apply:

(D) - Decrease

PHILADELPHIA GAS WORKS

MIGRATION RIDER
REVERSE MIGRATION RIDER
SPECIAL PROVISION – Air Conditioning Rider
SPECIAL PROVISION – Compressed Natural Gas (CNG) Rider
EXIT FEE
| OTHER POST EMPLOYMENT BENEFIT RIDER

CONTRACT

Standard service agreements are for a one year period.

COMPANY RULES

The provisions of this Tariff shall govern the supply of services under this Rate Schedule.

PHILADELPHIA HOUSING AUTHORITY SERVICE - RATE PHA

Rate: Applicable to all Retail Sales Service or Transportation Services rendered pursuant to this Rate Schedule on or after March 1, 2010

AVAILABILITY

Available for all Gas usage in multiple dwelling Residential buildings containing 10 or more dwelling units, owned and operated by the Philadelphia Housing Authority, where cooking shall be performed exclusively with Gas and where Gas Service shall be supplied through one or more single point metering arrangements at locations where the Company's distribution mains adjacent to the proposed Gas Service locations are, or can economically be made, suitable to supply the quantities of Gas required.

This rate is also available for all Gas usage in single and multiple dwelling Residential buildings, containing less than 10 dwelling units, provided, and only so long as, Gas is used exclusively for cooking, water heating and space heating for all such Residential buildings owned and operated by the Philadelphia Housing Authority, except (a) buildings operated by the Philadelphia Housing Authority, prior to the original effective date of this rate (January 1, 1969), and (b) buildings for which, in the judgment of the Company, such Gas Service cannot be provided economically.

RATES

CUSTOMER

CHARGE (per Meter (except parallel meters);

\$18.00 per month

Plus,

GCR (not applicable to PHA customers who transport gas through a qualified NGS):

\$ 0.73455 per Ccf

Plus

DISTRIBUTION CHARGE:

DISTRIBUTION CHARGE (consisting of item (A) and (B), below):

(A) Delivery Charge:

\$0.518890.41480 per Ccf

(D)

(B) Surcharges:

Universal Service and Energy Conversation Surcharge; ~~and~~ The Restructuring and Consumer Education Surcharge; and the Efficiency Cost Recovery Surcharge.

(D) - Decrease

PHILADELPHIA GAS WORKS

Also,

The following Riders may apply:

MIGRATION RIDER
REVERSE MIGRATION RIDER
SPECIAL PROVISION – Air Conditioning Rider
EXIT FEE
OTHER POST EMPLOYMENT BENEFIT RIDER

CONTRACT

Standard service agreements are for a one year period.

COMPANY RULES

The provisions of this Tariff shall govern the supply of Gas under this classification.

PHILADELPHIA GAS WORKS

6. BALANCING LIMITS AND CHARGES

Daily balancing, and the reconciliation of end-of-month imbalances, shall be governed by the definitions, limits and charges set forth below:

- (a) Daily Receipt Quantity. The supplier's confirmed pipeline nomination quantity, adjusted for unaccounted for Gas, for the Gas day.
- (b) Daily Usage Quantity. Gas used by the Rate IT Customer(s) in a supply pool during the 24-hour Gas day as recorded by the Company's meter(s) at the Rate IT Customer location(s).
- (c) Allowable Daily Variation. The daily usage quantity must be within plus or minus ten five percent (+/-105%) of the daily receipt quantity.
- (d) Daily Imbalance Surcharge. Supplier shall be charged \$0.50 for each Dth outside the applicable allowable daily variation
- (e) Daily Market Index Price. The prices published each day in Gas Daily (or successor publication or where none exists a publication selected by the Company) under the heading "Citygate Prices" for deliveries at "Texas Eastern M-3" and "Transco Z6 [non-NY]" (or applicable headings of a successor publication.) Whenever a price is published as a range, the value used for that day would be the midpoint of the range.
- (f) Monthly Imbalance Reconciliation. Imbalances remaining at the end of a month in each supply pool shall be reconciled to zero in accordance with the following schedule. All cost calculations shall reflect the appropriate adjustment for unaccounted for Gas, and for average heating value where applicable.

1. Monthly usage quantities that exceed monthly receipts by up to 2.5% shall be purchased by the Supplier at the monthly average of the Daily Market Index Price carried forward to the Supplier's monthly usage quantities for the subsequent month of service for the purpose of calculating Supplier's monthly imbalance in the subsequent month; provided, however, that if Supplier shall cease to be a Supplier pursuant to this Rate Schedule, then, usage quantities that exceed monthly receipts by up to 2.5% during the Supplier's last month on PGW's system shall be purchased by the Supplier at the higher of: (a) 100% of the average of the two highest Daily Market Index Prices for the monthly period beginning on the first day of the month; or (b) 100% of the Company's highest incremental supply cost for the month.

2. Monthly usage quantities that exceed monthly receipts by more than 2.5% shall be purchased by the supplier at the higher of: (a) 150% of the average of the five (5) two highest Daily Market Index Prices for the monthly period beginning on the first day of the month; or (b) 150% of the Company's highest incremental supply cost for the month.

3. Monthly receipt quantities that exceed monthly usage by up to 2.5% shall be purchased by the Company at the Daily Market Index Price carried forward to the Supplier's monthly receipt quantities for the subsequent month of service for the purpose of calculating Supplier's monthly imbalance in the subsequent month; provided, however, that if Supplier shall cease to be a Supplier pursuant to this Rate Schedule, then, receipt quantities that exceed monthly usage by up to 2.5% during the Supplier's last month on PGW's system shall be purchased by Company at the lower of: (a) 100% of the average of the two (2) lowest Daily Market Index Price for the monthly period beginning on the first day of the month; or (b) 100% of the Company's lowest incremental supply cost for the month..

4. Monthly receipt quantities that exceed monthly usage by more than 2.5% shall be purchased by the Company at the lower of: (a) 75% of the average of the five (5) two (2) lowest Daily Market Index Price for the monthly period beginning on the first day of the month; or (b) 75% of the Company's lowest incremental supply cost for the month.

5. In the event that erroneous or inaccurate data is posted to PGW's EBB or changes occur to the data following the initial posting, PGW and the Suppliers agree to exercise good faith effort in attempting to resolve imbalances before the month's end. If the monthly imbalance can not be brought into the monthly +/- 2.5% cashout band, the erroneous, inaccurate or changed data will be excluded from the Monthly Imbalance Reconciliation calculation and that volume shall be cashed out at the monthly average of the Daily Market Index Price.

65. To facilitate this management and to avoid or correct imbalances, Rate IT Customer may modify the quantities it intends to have delivered to Company's City Gate in accordance with the nomination procedure of the delivering pipeline. All delivery arrangements must be coordinated with Company's representative in a manner deemed acceptable by Company. The Company may decline a revised nomination for specific operating reasons, where granting such would threaten the reliability of firm supply.

76. For the purpose of this section, the term "supplier" shall refer to both directly transporting Customers and supplier pools. To facilitate this management and to avoid or correct imbalances, a Rate IT supplier may reduce its imbalance by arranging a trade of quantities with another Rate IT supplier. Suppliers shall be permitted to trade IT imbalances on both a daily and monthly basis in accordance with the provisions below in order to reduce an imbalance to zero. Such trade will be arranged separately from PGW's electronic bulletin board systems. Within five (5) business days after month end, the Company shall provide by e-mail to each supplier who has previously agreed to have its data shared, a spreadsheet listing each supplier and whether the supplier had positive or negative daily imbalances (supplier imbalance data). Verification of any trade shall be provided to PGW via e-mail by both suppliers involved in the trade and submitted within five (5) business days of receipt from the Company of the supplier imbalance data. A supplier may offset daily or monthly imbalances in its FT service pool imposed pursuant to section 9.12 of PGW's Supplier Tariff. Such pool-to-pool netting of imbalances between a supplier's FT and IT pools are permitted only to the extent that the offset reduces to zero any positive imbalance in the supplier's IT pool. Any such pool-to-pool imbalance netting shall be communicated via e-mail to the Company within seven (7) business days from the end of the billing month.

Any misconduct by a supplier may terminate or suspend imbalance trading rights. In such event, PGW shall provide written notice of such proposed action to the affected supplier. The supplier or the Company may elect to address the alleged misconduct through the Company's informal dispute resolution procedures, 52 Pa. Code Section § 62.142(b). Either the supplier or the Company may file a complaint with the Commission regarding the alleged misconduct at any time. No action to suspend or terminate a supplier's imbalance trading rights shall occur prior to commission authorization.

WEATHER NORMALIZATION ADJUSTMENT CLAUSE

Provision For Adjustment

The Weather Normalization Adjustment shall be applied to each Mcf (1,000 cubic feet) used for heating purposes under Rate Schedules GS, MS, and PHA ("heating" and "heating only" customers), except for Gas usage under the Special Provisions – Air Conditioning of those rates. The Weather Normalization Adjustment will be applied to customer usage during the period of October 1 through May 31 of each year for each billing cycle (except for the 2002-2003 heating season when the Weather Normalization Adjustment will be applied to customer invoices rendered during the period of December 1 through May 31 of each year for each billing cycle).

Computation of Weather Normalization Adjustment

The Weather Normalization Adjustment surcharge or credit shall be computed to the nearest one-hundredth cent (0.01cent) in accordance with the formulas set forth below:

$$HL = TU - (BL * BC)$$

$$WNA = DC * [(HL * \frac{NHDD +/- (NHDD * 1\%)}{AHDD}) - HL]$$

Definitions

TU – Total Usage for the billing cycle. TU measured in Mcf.

BL – base load Mcf per billing day is the number of Mcf per Customer used per day for non-heating purposes based on usage by Customers to which this adjustment applies. It is determined separately for each individual customer and will be revised annually to reflect the non-temperature sensitive usage of Customers to which the adjustment applies reflected in the prior heating season's sales. If an individual customer base load is not available, the base load for the related customer class will be applied.

BC – billing cycle is the actual number of days shown on the bill that the Customer receives for service.

DC – Delivery Charge.

NHDD – normal heating degree days for any given calendar day within a month are based on the thirty year average for the given calendar day based on the thirty year period ~~ended August 31, 2001~~ applied in the Company's most recent base rate case. The NHDD provided for in the formula are the total number of NHDD for the billing cycle. The degree day data is provided by the National Weather Service and measured at the Philadelphia International Airport.

AHDD – actual experienced heating degree days for the billing cycle. The degree day data is provided by the National Weather Service and measured at the Philadelphia International Airport.

Operation of Weather Normalization Adjustment

The Weather Normalization Adjustment will be applied to a Customer's bill on a cents per Mcf basis when actual heating degree days vary from normal heating degree days during the period for which the Customer is billed. The Weather Normalization Adjustment will be applied to the Customer's space heating consumption except for air conditioning usage billed under the air conditioning rate. The Weather

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Normalization Adjustment for a billing cycle will apply only if the actual heating degree days (AHDD) for the billing cycle are lower than 99 percent or higher than 101 percent of the normal heating degree days (NHDD) for the billing cycle and will only apply to the extent that the variation is lower than 99 percent or higher than 101 percent of the normal heating degree days for that billing cycle. A new weather adjustment will be calculated for each billing cycle.

Under the formulas, the Weather Normalization Adjustment surcharge or credit is calculated by:

- 1) Normal HDD are calculated for each day of the fiscal year based upon the thirty year average for the thirty year period ~~ended August 31, 2004~~ applied in the Company's most recent base rate case.
- 2) At the start of the fiscal year, an average daily base load (non-heating) usage is calculated for each individual customer based upon actual base load usage.
- 3) The average daily base load (non-heating) amount is multiplied by the number of days in the billing cycle.
- 4) The total billing cycle base load amount is subtracted from the actual cycle usage of the customer in order to derive the usage applicable to heating.
- 5) The WNA factor is multiplied times the heating usage in order to derive the normalized heating usage.
 - a) The WNA factor is calculated by first adjusting the Normal HDD (NHDD) for the billing cycle by the deadband percentage (1 %). The deadband percentage is multiplied by the NHDD and then added to NHDD for the billing period when the weather is colder than normal (i.e., AHDD > NHDD) or subtracted from NHDD for the billing period when the weather is warmer than normal (i.e., AHDD < NHDD).
 - b) The adjusted NHDD are then divided by the AHDD.
- 6) The actual heating usage is subtracted from the normalized heating usage and then multiplied by the delivery charge. The result is a surcharge or credit.

Reporting Requirements

The Company will file all Weather Normalization Adjustments with the Commission on an annual basis.

Exhibit 4

Exhibit 5